

VENTAS INC
Form 10-K
February 14, 2017

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, 2016

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 1-10989

VENTAS, INC.
(Exact Name of Registrant as Specified in Its Charter)
Delaware 61-1055020
(State or Other Jurisdiction of (IRS Employer
Incorporation or Organization) Identification No.)
353 N. Clark Street, Suite 3300, Chicago, Illinois 60654
(Address of Principal Executive Offices) (Zip Code)
(877) 483-6827

(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 \$0.25 per share | New York Stock Exchange |

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

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

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

Non-accelerated filer

Large accelerated filer Accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of shares of the Registrant’s common stock held by non-affiliates of the Registrant on June 30, 2016, based on a closing price of the common stock of \$72.82 as reported on the New York Stock Exchange, was \$21.1 billion. For purposes of the foregoing calculation only, all directors, executive officers and 10% beneficial owners of the Registrant have been deemed affiliates.

As of February 9, 2017, 354,623,008 shares of the Registrant’s 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 18, 2017 are incorporated by reference into Part III, Items 10 through 14 of this Annual Report on Form 10-K.

CAUTIONARY STATEMENTS

Unless otherwise indicated or except where the context otherwise requires, the terms “we,” “us” and “our” and other similar terms in this Annual Report on Form 10-K refer to Ventas, Inc. and its consolidated subsidiaries.

Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements regarding our or our tenants’, operators’, borrowers’ or managers’ expected future financial condition, results of operations, cash flows, funds from operations, dividends and dividend plans, financing opportunities and plans, capital markets transactions, business strategy, budgets, projected costs, operating metrics, capital expenditures, competitive positions, acquisitions, investment opportunities, dispositions, merger integration, growth opportunities, expected lease income, continued qualification as a real estate investment trust (“REIT”), plans and objectives of management for future operations, and statements that include words such as “anticipate,” “if,” “believe,” “plan,” “estimate,” “expect,” “intend,” “may,” “could,” “should,” “will,” and other similar expressions are forward-looking statements. These forward-looking statements are inherently uncertain, and actual results may differ from our expectations. We do not undertake a duty to update these forward-looking statements, which speak only as of the date on which they are made.

Our actual future results and trends may differ materially from expectations depending on a variety of factors discussed in our filings with the Securities and Exchange Commission (the “SEC”). These factors include without limitation:

The ability and willingness of our tenants, operators, borrowers, managers and other third parties to satisfy their obligations under their respective contractual arrangements with us, including, in some cases, their obligations to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities;

The ability of our tenants, operators, borrowers and managers to maintain the financial strength and liquidity necessary to satisfy their respective obligations and liabilities to third parties, including without limitation obligations under their existing credit facilities and other indebtedness;

Our success in implementing our business strategy and our ability to identify, underwrite, finance, consummate and integrate diversifying acquisitions and investments;

Macroeconomic conditions such as a disruption of or lack of access to the capital markets, changes in the debt rating on U.S. government securities, default or delay in payment by the United States of its obligations, and changes in the federal or state budgets resulting in the reduction or nonpayment of Medicare or Medicaid reimbursement rates;

The nature and extent of future competition, including new construction in the markets in which our seniors housing communities and office buildings are located;

The extent and effect of future or pending healthcare reform and regulation, including cost containment measures and changes in reimbursement policies, procedures and rates;

Increases in our borrowing costs as a result of changes in interest rates and other factors;

The ability of our tenants, operators and managers, as applicable, to comply with laws, rules and regulations in the operation of our properties, to deliver high-quality services, to attract and retain qualified personnel and to attract residents and patients;

Changes in general economic conditions or economic conditions in the markets in which we may, from time to time, compete, and the effect of those changes on our revenues, earnings and funding sources;

Our ability to pay down, refinance, restructure or extend our indebtedness as it becomes due;

Our ability and willingness to maintain our qualification as a REIT in light of economic, market, legal, tax and other considerations;

Final determination of our taxable net income for the year ended December 31, 2016 and for the year ending December 31, 2017;

The ability and willingness of our tenants to renew their leases with us upon expiration of the leases, our ability to reposition our properties on the same or better terms in the event of nonrenewal or in the event we exercise our right to replace an existing tenant, and obligations, including indemnification obligations, we may incur in connection with the replacement of an existing tenant;

Risks associated with our senior living operating portfolio, such as factors that can cause volatility in our operating income and earnings generated by those properties, including without limitation national and regional economic conditions, development of new competing properties, costs of food, materials, energy, labor and services, employee benefit costs, insurance costs and professional and general liability claims, and the timely delivery of accurate property-level financial results for those properties;

• Changes in exchange rates for any foreign currency in which we may, from time to time, conduct business;

• Year-over-year changes in the Consumer Price Index (“CPI”) or the U.K. Retail Price Index and the effect of those changes on the rent escalators contained in our leases and on our earnings;

• Our ability and the ability of our tenants, operators, borrowers and managers to obtain and maintain adequate property, liability and other insurance from reputable, financially stable providers;

The impact of increased operating costs and uninsured professional liability claims on our liquidity, financial condition and results of operations or that of our tenants, operators, borrowers and managers and our ability and the ability of our tenants, operators, borrowers and managers to accurately estimate the magnitude of those claims;

• Risks associated with our office building portfolio and operations, including our ability to successfully design, develop and manage office buildings and to retain key personnel;

• The ability of the hospitals on or near whose campuses our medical office buildings (“MOBs”) are located and their affiliated health systems to remain competitive and financially viable and to attract physicians and physician groups;

• Risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision-making authority and our reliance on our joint venture partners’ financial condition;

• Our ability to obtain the financial results expected from our development and redevelopment projects, including projects undertaken through our joint ventures;

• The impact of market or issuer events on the liquidity or value of our investments in marketable securities;

Consolidation in the seniors housing and healthcare industries resulting in a change of control of, or a competitor’s investment in, one or more of our tenants, operators, borrowers or managers or significant changes in the senior management of our tenants, operators, borrowers or managers;

• The impact of litigation or any financial, accounting, legal or regulatory issues that may affect us or our tenants, operators, borrowers or managers; and

• Changes in accounting principles, or their application or interpretation, and our ability to make estimates and the assumptions underlying the estimates, which could have an effect on our earnings.

Many of these factors, some of which are described in greater detail under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K, are beyond our control and the control of our management.

Brookdale Senior Living, Kindred, Atria, Sunrise and Ardent Information

Each of Brookdale Senior Living Inc. (together with its subsidiaries, “Brookdale Senior Living”) and Kindred Healthcare, Inc. (together with its subsidiaries, “Kindred”) is subject to the reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Brookdale Senior Living and Kindred contained or referred to in this Annual Report on Form 10-K has been derived from SEC filings made by Brookdale Senior Living or Kindred, as the case may be, or other publicly available information or was provided to us by Brookdale Senior Living or Kindred, and we have not verified this information through an independent investigation or otherwise. We have no reason to believe that this information is inaccurate in any material respect, but we cannot assure you of its accuracy. We are providing this data for informational purposes only, and you are encouraged to obtain Brookdale Senior Living’s and Kindred’s publicly available filings, which can be found on the SEC’s website at www.sec.gov. Atria Senior Living, Inc. (“Atria”), Sunrise Senior Living, LLC (together with its subsidiaries, “Sunrise”) and Ardent Health Partners, LLC (together with its subsidiaries, “Ardent”) are not currently subject to the reporting requirements of the SEC. The information related to Atria, Sunrise and Ardent contained or referred to in this Annual Report on Form 10-K has been derived from publicly available information or was provided to us by Atria, Sunrise or Ardent, as the case may be, and we have not verified this information through an independent investigation or otherwise. We have no reason to believe that this information is inaccurate in any material respect, but we cannot assure you of its accuracy.

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PART I

ITEM 1. Business

BUSINESS

Overview

Ventas, Inc., an S&P 500 company, is a REIT with a highly diversified portfolio of seniors housing and healthcare properties located throughout the United States, Canada and the United Kingdom. As of December 31, 2016, we owned approximately 1,300 properties (including properties owned through investments in unconsolidated entities and properties classified as held for sale), consisting of seniors housing communities, MOBs, life science and innovation centers, skilled nursing facilities, specialty hospitals and general acute care hospitals, and we had six properties under development, including one property that is owned by an unconsolidated real estate entity. Our company was originally founded in 1983 and is currently headquartered in Chicago, Illinois.

We primarily invest in seniors housing and healthcare properties through acquisitions and lease our properties to unaffiliated tenants or operate them through independent third-party managers. As of December 31, 2016, we leased a total of 549 properties (excluding MOBs and 33 properties owned through investments in unconsolidated entities) to various healthcare operating companies under “triple-net” or “absolute-net” leases that obligate the tenants to pay all property-related expenses, including maintenance, utilities, repairs, taxes, insurance and capital expenditures, and we engaged independent operators, such as Atria and Sunrise, to manage 298 seniors housing communities (excluding one property owned through investments in unconsolidated entities) for us pursuant to long-term management agreements.

Our three largest tenants, Brookdale Senior Living, Kindred and Ardent leased from us 140 properties (excluding six properties owned through investments in unconsolidated entities and excluding one property managed by Brookdale Senior Living pursuant to a long-term management agreement), 68 properties (excluding one MOB) and ten properties, respectively, as of December 31, 2016.

Through our Lillibridge Healthcare Services, Inc. (“Lillibridge”) subsidiary and our ownership interest in PMB Real Estate Services LLC (“PMBRES”), we also provide MOB management, leasing, marketing, facility development and advisory services to highly rated hospitals and health systems throughout the United States. In addition, from time to time, we make secured and other loans and investments relating to seniors housing and healthcare operators or properties.

In September 2016, we completed the acquisition of substantially all of the university affiliated life science and innovation real estate assets of Wexford Science & Technology, LLC (“Wexford”) from affiliates of Blackstone Real Estate Partners VIII, L.P. (together with its affiliates, “Blackstone”) (the “Life Sciences Acquisition”). As a result, we renamed our MOB operations reportable business segment “office operations,” which now includes both MOBs and life science assets.

We operate through three reportable business segments: triple-net leased properties, senior living operations and office operations. See our Consolidated Financial Statements and the related notes, including “NOTE 2—ACCOUNTING POLICIES,” included in Part II, Item 8 of this Annual Report on Form 10-K.

Business Strategy

We aim to enhance shareholder value by delivering consistent, superior total returns through a strategy of: (1) generating reliable and growing cash flows; (2) maintaining a balanced, diversified portfolio of high-quality assets; and (3) preserving our financial strength, flexibility and liquidity.

Generating Reliable and Growing Cash Flows

Generating reliable and growing cash flows from our seniors housing and healthcare assets enables us to pay regular cash dividends to stockholders and creates opportunities to increase stockholder value through profitable investments. The combination of steady contractual growth from our long-term triple-net leases, steady, reliable cash flows from our loan investments and stable cash flows from our office buildings with the higher growth potential inherent in our seniors housing operating communities drives our ability to generate sustainable, growing cash flows that are resilient to economic downturns.

Maintaining a Balanced, Diversified Portfolio

We believe that maintaining a balanced portfolio of high-quality assets diversified by investment type, geographic location, asset type, tenant/operator, revenue source and operating model diminishes the risk that any single factor or event could materially harm our business. Portfolio diversification also enhances the reliability of our cash flows by reducing our exposure to any individual tenant, operator or manager and making us less susceptible to single-state regulatory or reimbursement changes, regional climate events and local economic downturns.

Preserving Our Financial Strength, Flexibility and Liquidity

A strong, flexible balance sheet and excellent liquidity position us favorably to capitalize on strategic growth opportunities in the seniors housing and healthcare industries through acquisitions, investments and development and redevelopment projects. We maintain our financial strength to pursue profitable investment opportunities by actively managing our leverage, improving our cost of capital and preserving our access to multiple sources of liquidity, including unsecured bank debt, mortgage financings and public debt and equity markets.

2016 Highlights and Other Recent Developments

Investments and Dispositions

In September 2016, we completed the acquisition of substantially all of the university affiliated life science and innovation real estate assets of Wexford from Blackstone for total consideration of \$1.5 billion. The Life Sciences Acquisition added to our portfolio 23 operating properties, two development assets and nine future development sites.

In October 2016, we committed to provide secured debt financing in the amount of \$700.0 million to a subsidiary of Ardent to facilitate Ardent's acquisition of LHP Hospital Group, Inc. ("LHP"). The loan (the "Loan") has a five-year term and is LIBOR-based with an initial interest rate of approximately 8.0% and is guaranteed by Ardent's parent company. Ardent will also receive an equity contribution from its majority owner, an affiliate of Equity Group Investments. The Loan is subject to the satisfaction of customary closing conditions. Ardent's acquisition of LHP is expected to close in the first quarter of 2017, but there can be no assurance as to whether, when or on what terms Ardent's acquisition of LHP or the Loan will be completed.

During 2016, we made a \$140.0 million secured mezzanine loan investment relating to Class A life sciences properties in California and Massachusetts, that has an annual interest rate of 9.95%, and we acquired two MOBs, one triple-net leased seniors housing asset and other investments for approximately \$42.3 million.

During the year ended December 31, 2016, we sold 29 triple-net leased properties, one seniors housing community included in our senior living operations reportable business segment and six MOBs for aggregate consideration of \$300.8 million. We recognized a gain on the sales of these assets of \$98.2 million (net of taxes).

During 2016, we received aggregate proceeds of \$309.0 million in final repayment of three secured loans receivable and partial repayment of one secured loan receivable and recognized gains of \$9.6 million on the repayment of these loans receivable.

Capital and Dividends

During 2016, we issued and sold 18.9 million shares of common stock under our "at-the-market" ("ATM") equity offering program and public offerings. Aggregate net proceeds for these activities were \$1.3 billion, after sales agent commissions.

In May 2016, we repaid \$100.0 million outstanding on our unsecured term loan due 2019 using cash on hand.

In May 2016, we issued and sold \$400.0 million aggregate principal amount of 3.125% senior notes due 2023 at a public offering price equal to 99.343% of par, for total proceeds of \$397.4 million before the underwriting discount and expenses.

In June 2016, we redeemed \$455.5 million aggregate principal amount then outstanding of our 1.55% senior notes due September 2016 at a public offering price of 100.335% of par, plus accrued and unpaid interest to the redemption date. In July 2016, we repaid the remaining balance then outstanding of our 1.55% senior notes due September 2016.

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In September 2016, we issued and sold \$450.0 million aggregate principal amount of 3.25% senior notes due 2026 at a public offering price equal to 99.811% of par, for total proceeds of \$449.1 million before the underwriting discount and expenses.

In 2016, we paid an annual cash dividend on our common stock of \$2.965 per share. In December 2016, our fourth quarter 2016 dividend grew by 6% over third quarter 2016 to \$0.775.

Portfolio

In April 2016, we entered into several agreements with Kindred to improve the quality and productivity of the long term acute care hospital (“LTAC”) portfolio leased by Ventas to Kindred. Certain of the agreements consist of lease amendments to the Kindred master leases, for which we received a \$3.5 million fee. Under these lease amendments, annual rent on seven identified LTACs (the “7 LTACs”), which was approximately \$8 million, was immediately re-allocated to other more productive post-acute assets subject to the Kindred master leases. Separately, in October 2016, we sold the 7 LTACs to an unrelated third party for \$3.0 million, and recognized a gain of \$2.9 million.

In September 2016, we modified existing agreements with Sunrise related to the management of certain of the seniors housing communities owned by us and operated by Sunrise to reduce management fees payable to Sunrise under such agreements, maintain the existing term of such agreements and provide Sunrise with incentives for future outperformance. We also entered into a new multi-year development pipeline agreement with Sunrise that gives us the option to fund certain future Sunrise developments.

In November 2016, we entered into agreements with Kindred providing that (i) Kindred will either acquire all 36 SNFs owned by us and operated by Kindred for \$700 million, in connection with Kindred’s previously announced plan to exit its SNF business, or renew the current lease on all unpurchased SNFs through 2025 at the current rent level; and (ii) Kindred has extended the lease term to 2025 for all of our LTACs operated by Kindred that were scheduled to mature in 2018 and 2020, at the current rent level.

Portfolio Summary

The following table summarizes our consolidated portfolio of properties and other investments (including properties classified as held for sale and excluding properties owned through investments in unconsolidated entities) as of and for the year ended December 31, 2016:

| Asset Type | # of Properties ⁽¹⁾ | # of Units/ Sq. Ft./Beds ⁽²⁾ | Real Estate Property Investments | | | Revenues | | | |
|-----------------------------------------------|--------------------------------|--------------------------------------------|------------------------------------------|---------------------------------------------------|------------------------------------------------------|----------|---------------------------|------|---|
| | | | Real Estate Property Investment, at Cost | Percent of Total Real Estate Property Investments | Real Estate Property Investment Per Unit/Bed/Sq. Ft. | Revenue | Percent of Total Revenues | | |
| (Dollars in thousands) | | | | | | | | | |
| Seniors housing communities | 744 | 65,175 | \$16,074,611 | 61.8 | % | \$ 246.6 | \$2,351,473 | 68.4 | % |
| MOBs ⁽³⁾ | 365 | 20,443,999 | 5,393,841 | 20.7 | | 0.3 | 599,058 | 17.4 | |
| Life science and innovation centers | 23 | 4,272,185 | 1,587,915 | 6.1 | | 0.4 | 52,354 | 1.5 | |
| Skilled nursing facilities | 53 | 6,279 | 358,329 | 1.4 | | 57.1 | 75,985 | 2.2 | |
| Specialty hospitals | 38 | 3,282 | 453,166 | 1.7 | | 138.1 | 160,009 | 4.6 | |
| General acute care hospitals | 12 | 2,064 | 1,459,353 | 5.6 | | 707.1 | 105,673 | 3.1 | |
| Total properties | 1,235 | | 25,327,215 | 97.3 | | | 3,344,552 | 97.2 | |
| Secured loans receivable and investments, net | | | 702,021 | 2.7 | | | 98,094 | 2.8 | |

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| | | | | | |
|---------------------------|--------------|-------|---|-------------|---------|
| Interest and other income | — | — | | 876 | 0.0 |
| Total | \$26,029,236 | 100.0 | % | \$3,443,522 | 100.0 % |

As of December 31, 2016, we also owned 21 seniors housing communities, 13 skilled nursing facilities and five MOBs through investments in unconsolidated entities. Our consolidated properties were located in 46 states, the District of Columbia, seven Canadian provinces and the United Kingdom and, excluding MOBs, were operated or managed by 94 unaffiliated healthcare operating companies, including the following publicly traded companies or their subsidiaries: Brookdale Senior Living (140 properties) (excluding six properties owned through investments in unconsolidated entities and one property managed by Brookdale Senior Living pursuant to a long-term management agreement); Kindred (68 properties) (excluding one MOB); 21st Century Oncology Holdings, Inc. (12 properties); Capital Senior Living Corporation (12 properties); Spire Healthcare plc (three properties); and HealthSouth Corp. (four properties).

Seniors housing communities are measured in units; MOB's and life science and innovation centers are measured (2) by square footage; and skilled nursing facilities, specialty hospitals and general acute care hospitals are measured by bed count.

As of December 31, 2016, we leased 67 of our consolidated MOB's pursuant to triple-net leases, Lillibridge or (3) PMBRES managed 279 of our consolidated MOB's and 19 of our consolidated MOB's were managed by eight unaffiliated managers. Through Lillibridge and PMBRES, we also provided management and leasing services for 90 MOB's owned by third parties as of December 31, 2016.

Seniors Housing and Healthcare Properties

As of December 31, 2016, we owned a total of 1,274 seniors housing and healthcare properties (including properties owned through investments in unconsolidated entities and properties classified as held for sale) as follows:

| | Consolidated (100% interest) | Consolidated (<100% interest) | Unconsolidated (5-25% interest) | Total |
|-------------------------------------|------------------------------------|-------------------------------------|---------------------------------------|-------|
| Seniors housing communities | 731 | 13 | 21 | 765 |
| MOB's | 332 | 33 | 5 | 370 |
| Life science and innovation centers | 15 | 8 | — | 23 |
| Skilled nursing facilities | 53 | — | 13 | 66 |
| Specialty hospitals | 37 | 1 | — | 38 |
| General acute care hospitals | 12 | — | — | 12 |
| Total | 1,180 | 55 | 39 | 1,274 |

Seniors Housing Communities

Our seniors housing communities include independent and assisted living communities, continuing care retirement communities and communities providing care for individuals with Alzheimer's disease and other forms of dementia or memory loss. These communities offer studio, one bedroom and two bedroom residential units on a month-to-month basis primarily to elderly individuals requiring various levels of assistance. Basic services for residents of these communities include housekeeping, meals in a central dining area and group activities organized by the staff with input from the residents. More extensive care and personal supervision, at additional fees, are also available for such needs as eating, bathing, grooming, transportation, limited therapeutic programs and medication administration, which allow residents certain conveniences and enable them to live as independently as possible according to their abilities. These services are often met by home health providers, close coordination with the resident's physician and skilled nursing facilities. Charges for room, board and services are generally paid from private sources.

Medical Office Buildings

Typically, our MOB's are multi-tenant properties leased to several unrelated medical practices, although in many cases they may be associated with a large single specialty or multi-specialty group. Tenants include physicians, dentists, psychologists, therapists and other healthcare providers, who require space devoted to patient examination and treatment, diagnostic imaging, outpatient surgery and other outpatient services. MOB's are similar to commercial office buildings, although they require greater plumbing, electrical and mechanical systems to accommodate physicians' requirements such as sinks in every room, brighter lights and specialized medical equipment. As of December 31, 2016, we owned or managed for third parties approximately 24 million square feet of MOB's that are predominantly located on or near an acute care hospital campus.

Life Science and Innovation Centers

Our life science and innovation centers contain laboratory and office space primarily for scientific research for universities, academic medical centers, technology, biotechnology, medical device and pharmaceutical companies and other organizations involved in the life science industry. While these properties have characteristics similar to commercial office buildings, they generally contain more advanced electrical, mechanical, and heating, ventilating and air conditioning systems. The facilities generally have specialty equipment including emergency generators, fume hoods, lab bench tops and related amenities. In many instances, life science tenants make significant investments to improve their leased space, in addition to landlord improvements, to accommodate biology, chemistry or medical

device research initiatives. Our life science and innovation centers are primarily located on or contiguous to university and academic medical campuses. The campus settings allow us the opportunity to provide flexible, contiguous/adjacent expansion to accommodate the growth of existing tenants.

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Skilled Nursing Facilities

Our skilled nursing facilities provide rehabilitative, restorative, skilled nursing and medical treatment for patients and residents who do not require the high technology, care-intensive, high cost setting of an acute care or rehabilitation hospital. Treatment programs include physical, occupational, speech, respiratory and other therapies, including sub-acute clinical protocols such as wound care and intravenous drug treatment. Charges for these services are generally paid from a combination of government reimbursement and private sources.

Long-Term Acute Care Hospitals

30 of our properties are operated as LTACs. LTACs have a Medicare average length of stay of greater than 25 days and serve medically complex, chronically ill patients who require a high level of monitoring and specialized care, but whose conditions do not necessitate the continued services of an intensive care unit. The operators of these LTACs have the capability to treat patients who suffer from multiple systemic failures or conditions such as neurological disorders, head injuries, brain stem and spinal cord trauma, cerebral vascular accidents, chemical brain injuries, central nervous system disorders, developmental anomalies and cardiopulmonary disorders. Chronic patients often depend on technology for continued life support, such as mechanical ventilators, total parenteral nutrition, respiration or cardiac monitors and dialysis machines, and, due to their severe medical conditions, generally are not clinically appropriate for admission to a nursing facility or rehabilitation hospital. All of our LTACs are freestanding facilities, and we do not own any “hospitals within hospitals.” We also own eight inpatient rehabilitation hospitals devoted to the rehabilitation of patients with various neurological, musculoskeletal, orthopedic and other medical conditions following stabilization of their acute medical issues.

General Acute Care Hospitals

12 of our properties are operated as general acute care hospitals. General acute care hospitals provide medical and surgical services, including inpatient care, intensive care, cardiac care, diagnostic services and emergency services. These hospitals also provide outpatient services such as outpatient surgery, laboratory, radiology, respiratory therapy, cardiology and physical therapy. In the United States, these hospitals receive payments for patient services from the federal government primarily under the Medicare program, state governments under their respective Medicaid or similar programs, health maintenance organizations, preferred provider organizations, other private insurers and directly from patients.

Geographic Diversification of Properties

Our portfolio of seniors housing and healthcare properties is broadly diversified by geographic location throughout the United States, Canada and the United Kingdom, with properties in only one state (California) accounting for more than 10% of our total revenues and total net operating income (“NOI,” which is defined as total revenues, excluding interest and other income, less property-level operating expenses and office building services costs), in each case excluding amounts in discontinued operations, for the year ended December 31, 2016.

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The following table shows our rental income and resident fees and services by geographic location for the year ended December 31, 2016:

| Geographic Location | Rental Income and Resident Fees and Services ⁽¹⁾ | Percent of Total Revenues ⁽¹⁾ | |
|------------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------|------------------|
| | (Dollars in thousands) | | |
| California | \$526,388 | 15.3 | % |
| New York | 302,348 | 8.8 | |
| Texas | 215,370 | 6.3 | |
| Illinois | 167,907 | 4.9 | |
| Florida | 153,566 | 4.5 | |
| Pennsylvania | 128,937 | 3.7 | |
| Georgia | 121,372 | 3.5 | |
| Arizona | 107,160 | 3.1 | |
| New Jersey | 94,678 | 2.7 | |
| Connecticut | 91,712 | 2.7 | |
| Other (36 states and the District of Columbia) | 1,212,893 | 35.1 | |
| Total U.S | 3,122,331 | 90.6 | % |
| Canada (7 provinces) | 174,813 | 5.1 | |
| United Kingdom | 26,338 | 0.8 | |
| Total | \$3,323,482 | 96.5 | % ⁽²⁾ |

(1) This presentation excludes revenues from properties included in discontinued operations during 2016.

(2) The remainder of our total revenues is office building and other services revenue, income from loans and investments and interest and other income.

The following table shows our NOI by geographic location for the year ended December 31, 2016:

| Geographic Location | NOI ⁽¹⁾⁽²⁾ | Percent of Total NOI ⁽¹⁾ | |
|------------------------------------------------|------------------------|-------------------------------------------|---|
| | (Dollars in thousands) | | |
| California | \$276,147 | 13.8 | % |
| New York | 117,120 | 5.9 | |
| Texas | 140,898 | 7.0 | |
| Illinois | 106,831 | 5.3 | |
| Florida | 90,742 | 4.5 | |
| Pennsylvania | 69,155 | 3.5 | |
| Indiana | 58,181 | 2.9 | |
| Arizona | 57,519 | 2.9 | |
| North Carolina | 54,755 | 2.7 | |
| New Mexico | 51,744 | 2.6 | |
| Other (36 states and the District of Columbia) | 867,261 | 43.4 | |
| Total U.S | 1,890,353 | 94.5 | % |
| Canada (7 provinces) | 83,882 | 4.2 | |
| United Kingdom | 26,338 | 1.3 | |
| Total | \$2,000,573 | 100.0 | % |

- (1) This presentation excludes NOI from properties included in discontinued operations during 2016. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures—NOI” included in Item 7 of this Annual Report on Form 10-K for a reconciliation of NOI to our GAAP earnings.
- (2) For a reconciliation of NOI to its most directly comparable GAAP measure, income from continuing operations, see “Non-GAAP Financial Measures.”

See “NOTE 19—SEGMENT INFORMATION” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for more information regarding the geographic diversification of our portfolio.

Loans and Investments

As of December 31, 2016, we had \$754.6 million of net loans receivable and investments relating to seniors housing and healthcare operators or properties. Our loans receivable and investments provide us with interest income, principal amortization and transaction fees and are typically secured by mortgage liens or leasehold mortgages on the underlying properties and corporate or personal guarantees by affiliates of the borrowing entity. In some cases, the loans are secured by a pledge of ownership interests in the entity or entities that own the related seniors housing or healthcare properties. From time to time, we also make investments in mezzanine loans, which are subordinated to senior secured loans held by other investors that encumber the same real estate. See “NOTE 6—LOANS RECEIVABLE AND INVESTMENTS” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Development and Redevelopment Projects

We are party to certain agreements that obligate us to develop seniors housing or healthcare properties funded through capital that we and, in certain circumstances, our joint venture partners provide. As of December 31, 2016, we had six properties under development pursuant to these agreements, including one property that is owned by an unconsolidated real estate entity. In addition, from time to time, we engage in redevelopment projects with respect to our existing seniors housing communities to maximize the value, increase NOI, maintain a market-competitive position, achieve property stabilization or change the primary use of the property.

Segment Information

We evaluate our operating performance and allocate resources based on three reportable business segments: triple-net leased properties; senior living operations; and office operations. Non-segment assets, classified as “all other,” consist primarily of corporate assets, including cash, restricted cash, deferred financing costs, loans receivable and investments, and miscellaneous accounts receivable. We evaluate performance of the combined properties in each reportable business segment based on segment NOI and related measures. For further information regarding our business segments and a discussion of our definition of segment NOI, see “NOTE 19—SEGMENT INFORMATION” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Significant Tenants, Operators and Managers

The following table summarizes certain information regarding our tenant, operator and manager concentration as of and for the year ended December 31, 2016 (excluding properties classified as held for sale as of December 31, 2016):

| | Number of Properties Leased or Managed | Percent of Total Real Estate Investments (1) | | Percent of Total Revenues | | Percent of NOI |
|------------------------------|-------------------------------------------------------|----------------------------------------------------------|---|---------------------------------|---|-------------------|
| Senior living operations (2) | 298 | 33.9 | % | 53.6 | % | 30.2 % |
| Brookdale Senior Living (3) | 140 | 8.1 | | 4.8 | | 8.3 |
| Kindred | 69 | 1.8 | | 5.4 | | 9.2 |
| Ardent | 10 | 5.1 | | 3.1 | | 5.3 |

(1) Based on gross book value.

(2) Excludes one property owned through investments in unconsolidated entities.

(3) Excludes six properties owned through investments in unconsolidated entities and one property managed by Brookdale Senior Living pursuant to a long-term management agreement.

Triple-Net Leased Properties

Each of our leases with Brookdale Senior Living, Kindred and Ardent is a triple-net lease that obligates the tenant to pay all property-related expenses, including maintenance, utilities, repairs, taxes, insurance and capital expenditures, and to comply with the terms of the mortgage financing documents, if any, affecting the properties. In addition, each

of our Brookdale Senior Living, Kindred and Ardent leases has a corporate guaranty. Brookdale Senior Living and Kindred have multiple leases with us and those leases contain cross-default provisions tied to each other, as well as lease renewals by lease agreement or by pool of assets.

The properties we lease to Brookdale Senior Living, Kindred and Ardent accounted for a significant portion of our triple-net leased properties segment revenues and NOI for the year ended December 31, 2016. If any of Brookdale Senior Living, Kindred or Ardent becomes unable or unwilling to satisfy its obligations to us or to renew its leases with us upon

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expiration of the terms thereof, our financial condition and results of operations could decline and our ability to service our indebtedness and to make distributions to our stockholders could be impaired. We cannot assure you that Brookdale Senior Living, Kindred and Ardent will have sufficient assets, income and access to financing to enable them to satisfy their respective obligations to us, and any failure, inability or unwillingness by Brookdale Senior Living, Kindred or Ardent to do so could have a material adverse effect on our business, financial condition, results of operations or liquidity and our ability to service our indebtedness and other obligations and to make distributions to our stockholders, as required for us to continue to qualify as a REIT (a “Material Adverse Effect”). We also cannot assure you that Brookdale Senior Living, Kindred and Ardent will elect to renew their respective leases with us upon expiration of the leases or that we will be able to reposition any non-renewed properties on a timely basis or on the same or better economic terms, if at all. See “Risks Factors—Risks Arising from Our Business—Our leases with Brookdale Senior Living, Kindred and Ardent account for a significant portion of our triple-net leased properties segment revenues and operating income; Any failure, inability or unwillingness by Brookdale Senior Living, Kindred or Ardent to satisfy its obligations under our agreements could have a Material Adverse Effect on us” included in Item 1A of this Annual Report on Form 10-K.

Brookdale Senior Living Leases

As of December 31, 2016, we leased 140 properties (excluding six properties owned through investments in unconsolidated entities and one property managed by Brookdale Senior Living pursuant to a long-term management agreement) to Brookdale Senior Living pursuant to multiple lease agreements.

Pursuant to our lease agreements, Brookdale Senior Living is obligated to pay base rent, which escalates annually at a specified rate over the prior period base rent. As of December 31, 2016, the aggregate 2017 contractual cash rent due to us from Brookdale Senior Living, excluding variable interest that Brookdale Senior Living is obligated to pay as additional rent based on certain floating rate mortgage debt, was approximately \$178.8 million, and the current aggregate contractual base rent (computed in accordance with U.S. generally accepted accounting principles (“GAAP”)) due to us from Brookdale Senior Living, excluding the variable interest, was approximately \$162.6 million (in each case, excluding six properties owned through investments in unconsolidated entities as of December 31, 2016). See “NOTE 3—CONCENTRATION OF CREDIT RISK” and “NOTE 14—COMMITMENTS AND CONTINGENCIES” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Kindred Leases

As of December 31, 2016, we leased 68 properties (excluding one MOB) to Kindred pursuant to multiple lease agreements. The properties leased pursuant to our Kindred master leases are grouped into bundles, or “renewal groups,” with each renewal group containing a varying number of geographically diversified properties. All properties within a single renewal group have the same current lease term of five to 12 years, and each renewal group is currently subject to one or more successive five-year renewal terms at Kindred’s option, provided certain conditions are satisfied. Kindred’s renewal option is “all or nothing” with respect to the properties contained in each renewal group. In November 2016, Kindred extended the lease term to 2025 for all of our LTACs operated by Kindred that were scheduled to mature in 2018 and 2020, at the current rent level.

The aggregate annual rent we receive under each Kindred master lease is referred to as “base rent.” Base rent escalates annually at a specified rate over the prior period base rent, contingent, in the case of the remaining three original Kindred master leases, upon the satisfaction of specified facility revenue parameters. The annual rent escalator under two Kindred master leases is 2.7%, and the annual rent escalator under the other two Kindred master leases is based on year-over-year changes in CPI, subject to floors and caps. As of December 31, 2016, the aggregate 2017 contractual cash rent due to us from Kindred was approximately \$170.1 million, and the current aggregate contractual base rent (computed in accordance with GAAP) due to us from Kindred was approximately \$187.7 million.

Ardent Lease

As of December 31, 2016, we leased ten hospital campuses to Ardent pursuant to a single, triple-net master lease agreement. Pursuant to our master lease agreement, Ardent is obligated to pay base rent, which escalates annually by the lesser of four times the increase in the consumer price index for the relevant period and 2.5%. The initial term of the master lease expires on August 31, 2035 and Ardent has one ten-year renewal option.

As of December 31, 2016, the aggregate 2017 contractual cash rent due to us from Ardent was approximately \$109.2 million, and the current aggregate contractual base rent (computed in accordance with GAAP) due to us from Ardent

was also approximately \$109.2 million.

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Senior Living Operations

As of December 31, 2016, Atria and Sunrise, collectively, provided comprehensive property management and accounting services with respect to 266 seniors housing communities included in our senior living operations reportable business segment, for which we pay annual management fees pursuant to long-term management agreements. Most of our management agreements with Atria have initial terms expiring either July 31, 2024 or December 31, 2027, with successive automatic ten-year renewal periods. The management fees payable to Atria under most of the Atria management agreements range from 4.5% to 5% of revenues generated by the applicable properties, and Atria can earn up to an additional 1% of revenues based on the achievement of specified performance targets. Most of our management agreements with Sunrise have terms ranging from 25 to 30 years (which commenced as early as 2004 and as recently as 2012). The management fees payable to Sunrise under the Sunrise management agreements generally range from 5% to 7% of revenues generated by the applicable properties. See “NOTE 3—CONCENTRATION OF CREDIT RISK” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Because Atria and Sunrise manage our properties in exchange for the receipt of a management fee from us, we are not directly exposed to the credit risk of our managers in the same manner or to the same extent as our triple-net tenants. However, we rely on our managers’ personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior living operations efficiently and effectively. We also rely on our managers to set appropriate resident fees and to otherwise operate our seniors housing communities in compliance with the terms of our management agreements and all applicable laws and regulations. Although we have various rights as the property owner under our management agreements, including various rights to terminate and exercise remedies under those agreements as provided therein, Atria’s or Sunrise’s failure, inability or unwillingness to satisfy its respective obligations under those agreements, to efficiently and effectively manage our properties or to provide timely and accurate accounting information with respect thereto could have a Material Adverse Effect on us. In addition, significant changes in Atria’s or Sunrise’s senior management or equity ownership or any adverse developments in their businesses and affairs or financial condition could have a Material Adverse Effect on us. See “Risk Factors—Risks Arising from Our Business—The properties managed by Atria and Sunrise account for a significant portion of our revenues and operating income; Adverse developments in Atria’s or Sunrise’s business and affairs or financial condition could have a Material Adverse Effect on us” and “—We have rights to terminate our management agreements with Atria and Sunrise in whole or with respect to certain properties under certain circumstances, and we may be unable to replace Atria or Sunrise if our management agreements are terminated or not renewed” included in Item 1A of this Annual Report on Form 10-K.

Our 34% ownership interest in Atria entitles us to certain rights and minority protections, as well as the right to appoint two of six members on the Atria Board of Directors.

Competition

We generally compete for investments in seniors housing and healthcare assets with publicly traded, private and non-listed healthcare REITs, real estate partnerships, healthcare providers, healthcare lenders and other investors, including developers, banks, insurance companies, pension funds, government-sponsored entities and private equity firms, some of whom may have greater financial resources and lower costs of capital than we do. Increased competition challenges our ability to identify and successfully capitalize on opportunities that meet our objectives, which is affected by, among other factors, the availability of suitable acquisition or investment targets, our ability to negotiate acceptable transaction terms and our access to and cost of capital. See “Risk Factors—Risks Arising from Our Business—Our pursuit of investments in and acquisitions of, or our development or redevelopment of, seniors housing and healthcare assets may be unsuccessful or fail to meet our expectations” included in Item 1A of this Annual Report on Form 10-K and “NOTE 10—SENIOR NOTES PAYABLE AND OTHER DEBT” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Our tenants, operators and managers also compete on a local and regional basis with other healthcare operating companies that provide comparable services. Seniors housing community, skilled nursing facility and hospital operators compete to attract and retain residents and patients to our properties based on scope and quality of care, reputation and financial condition, price, location and physical appearance of the properties, services offered, qualified personnel, physician referrals and family preferences. With respect to MOBs, we and our third-party managers

compete to attract and retain tenants based on many of the same factors, in addition to quality of the affiliated health system, physician preferences and proximity to hospital campuses. The ability of our tenants, operators and managers to compete successfully could be affected by private, federal and state reimbursement programs and other laws and regulations. See “Risk Factors—Risks Arising from Our Business—Our tenants, operators and managers may be adversely affected by healthcare regulation and enforcement” and “—Changes in the reimbursement rates or methods of payment from third-party payors, including the Medicare and Medicaid programs, could have a material adverse effect on certain of our tenants and operators and on us” included in Item 1A of this Annual Report on Form 10-K.

Employees

As of December 31, 2016, we had 493 employees, including 263 employees associated with our office operations reportable business segment, but excluding 1,384 employees at our Canadian seniors housing communities under the supervision and control of our independent managers. Although the applicable manager is responsible for hiring and maintaining the labor force at each of our Canadian seniors housing communities, we bear many of the costs and risks generally borne by employers, particularly with respect to those properties with unionized labor. None of our employees is subject to a collective bargaining agreement, other than those employees in the Canadian seniors housing communities managed by Sunrise or Atria. We believe that relations with our employees are positive. See “Risk Factors—Risks Arising from Our Business—Our operating assets expose us to various operational risks, liabilities and claims that could adversely affect our ability to generate revenues or increase our costs and could have a Material Adverse Effect on us” included in Item 1A of this Annual Report on Form 10-K.

Insurance

We maintain or require in our lease, management and other agreements that our tenants, operators and managers maintain all applicable lines of insurance on our properties and their operations. We believe that the amount and scope of insurance coverage provided by our policies and the policies required to be maintained by our tenants, operators and managers are customary for similarly situated companies in our industry. Although we regularly monitor our tenants’, operators’ and managers’ compliance with their respective insurance requirements, we cannot assure you that they will maintain the required insurance coverages, and any failure, inability or unwillingness by our tenants, operators and managers to do so could have a Material Adverse Effect on us. We also cannot assure you that we will continue to require the same levels of insurance coverage under our lease, management and other agreements, that such insurance coverage will be available at a reasonable cost in the future or that the policies maintained will fully cover all losses related to our properties upon the occurrence of a catastrophic event, nor can we assure you of the future financial viability of the insurers.

We maintain the property insurance for all of our senior living operations, as well as the general and professional liability insurance for our seniors housing communities and related operations managed by Atria. However, Sunrise maintains the general and professional liability insurance for our seniors housing communities and related operations that it manages in accordance with the terms of our management agreements. Under our management agreements with Sunrise, we may elect, on an annual basis, whether we or Sunrise will bear responsibility for maintaining the required insurance coverage for the applicable properties, but the costs of such insurance are facility expenses paid from the revenues of those properties, regardless of who maintains the insurance.

Through our office operations, we provide engineering, construction and architectural services in connection with new development projects, and any design, construction or systems failures related to the properties we develop could result in substantial injury or damage to our clients or third parties. Any such injury or damage claims may arise in the ordinary course and may be asserted with respect to ongoing or completed projects. Although we maintain liability insurance to protect us against these claims, if any claim results in a loss, we cannot assure you that our policy limits would be adequate to cover the loss in full. If we sustain losses in excess of our insurance coverage, we may be required to pay the difference and we could lose our investment in, or experience reduced profits and cash flows from, the affected MOB, which could have a Material Adverse Effect on us.

For various reasons, including to reduce and manage costs, many healthcare companies utilize different organizational and corporate structures coupled with self-insurance trusts or captive programs that may provide less coverage than a traditional insurance policy. As a result, companies that self-insure could incur large funded and unfunded general and professional liability expenses, which could have a material adverse effect on their liquidity, financial condition and results of operations. The implementation of a trust or captive by any of our tenants, operators or managers could adversely affect such person’s ability to satisfy its obligations under, or otherwise comply with the terms of, its respective lease, management and other agreements with us, which could have a Material Adverse Effect on us. Likewise, if we decide to implement a captive or self-insurance program, any large funded and unfunded general and professional liability expenses that we incur could have a Material Adverse Effect on us.

Additional Information

We maintain a website at www.ventasreit.com. The information on our website is not incorporated by reference in this Annual Report on Form 10-K, and our web address is included as an inactive textual reference only.

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We make available, free of charge, through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition, our Guidelines on Governance, our Global Code of Ethics and Business Conduct (including waivers from and

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amendments to that document) and the charters for each of our Audit and Compliance, Nominating and Corporate Governance and Executive Compensation Committees are available on our website, and we will mail copies of the foregoing documents to stockholders, free of charge, upon request to our Corporate Secretary at Ventas, Inc., 353 North Clark Street, Suite 3300, Chicago, Illinois 60654.

GOVERNMENTAL REGULATION

Healthcare Regulation

Overview

Healthcare is a highly regulated industry and we expect that trend will, in general, continue in the future. Our tenants, operators and managers are typically subject to extensive and complex federal, state and local laws and regulations relating to quality of care, licensure and certificate of need, government reimbursement, fraud and abuse practices, qualifications of personnel, adequacy of plant and equipment, and other laws and regulations governing the operation of healthcare facilities. The applicable rules are wide-ranging and can subject our tenants, operators and managers to civil, criminal, and administrative sanctions, including: the possible loss of accreditation or license; denial of reimbursement; imposition of fines; suspension, decertification, or exclusion from federal and state healthcare programs; or facility closure. Changes in laws or regulations, reimbursement policies, enforcement activity and regulatory non-compliance by tenants, operators and managers can all have a significant effect on their operations and financial condition, which in turn may adversely impact us, as detailed below and set forth under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

The recent U.S. presidential election, coupled with a Republican-controlled Congress, makes the repeal of the Affordable Care Act (“ACA”) a possibility. Beyond this, significant changes to commercial health insurance, Medicare and Medicaid are all possible. Government payors, such as the federal Medicare program and state Medicaid programs, as well as private insurance carriers (including health maintenance organizations and other health plans), are likely to impose greater discounts and more stringent cost controls upon operators (through changes in reimbursement rates and methodologies, discounted fee structures, the assumption by healthcare providers of all or a portion of the financial risk or otherwise). A shift toward less comprehensive health insurance coverage and increased consumer cost-sharing on health expenditures could have a material adverse effect on certain of our operators’ liquidity, financial condition and results of operations and, in turn, their ability to satisfy their contractual obligations, including making rental payments under and otherwise complying with the terms of our leases.

Licensure, Certification and CONs

In general, the operators of our hospitals and skilled nursing facilities must be licensed and periodically certified through various regulatory agencies that determine compliance with federal, state and local laws to participate in the Medicare and Medicaid programs. Legal requirements pertaining to such licensure and certification relate to the quality of medical care provided by the operator, qualifications of the operator’s administrative personnel and clinical staff, adequacy of the physical plant and equipment and continuing compliance with applicable laws and regulations. A loss of licensure or certification could adversely affect a hospital or skilled nursing facility operator’s ability to receive payments from the Medicare and Medicaid programs, which, in turn, could adversely affect its ability to satisfy its obligations to us.

In addition, many of our skilled nursing facilities are subject to state CON laws that require governmental approval prior to the development or expansion of healthcare facilities and services. The approval process in these states generally requires a facility to demonstrate the need for additional or expanded healthcare facilities or services. CONs, where applicable, are also sometimes necessary for changes in ownership or control of licensed facilities, addition of beds, investment in major capital equipment, introduction of new services or termination of services previously approved through the CON process. CON laws and regulations may restrict an operator’s ability to expand our properties and grow its business in certain circumstances, which could have an adverse effect on the operator’s revenues and, in turn, its ability to make rental payments under and otherwise comply with the terms of our leases. See “Risk Factors-Risks Arising from Our Business-If we must replace any of our tenants or operators, we might be unable to reposition the properties on as favorable terms, or at all, and we could be subject to delays, limitations and expenses, which could have a Material Adverse Effect on us” included in Part I, Item 1A of this Annual Report on Form 10-K.

State CON laws remained largely unchanged in 2016, with the exceptions of New Hampshire and Tennessee. New Hampshire repealed its CON laws, effective June 30, 2016. Tennessee, on the other hand, deleted or liberalized several services from its CON requirements while adding others. Among the additions to CON requirements, hospitals in Tennessee are now required to obtain a CON when seeking to create a satellite emergency department, as well as prior to starting an organ donation/organ transplant service.

Compared to hospitals and skilled nursing facilities, seniors housing communities (other than those that receive

Medicaid payments) do not receive significant funding from governmental healthcare programs and are subject to relatively few, if any, federal regulations. Instead, to the extent they are regulated, such regulation consists primarily of state and local laws governing licensure, provision of services, staffing requirements and other operational matters, which vary greatly from one jurisdiction to another. Although recent growth in the U.S. seniors housing industry has attracted the attention of various federal agencies that believe more federal regulation of these properties is necessary, Congress thus far has deferred to state regulation of seniors housing communities. However, as a result of this growth and increased federal scrutiny, some states have revised and strengthened their regulation of seniors housing communities, and more states are expected to do the same in the future.

As discussed in greater detail below, a number of states have instituted Medicaid waiver programs that blend the functions of healthcare and custodial care providers, and expand the scope of services that can be provided under certain licenses. The trend toward this kind of experimentation is likely to continue, and even hasten, under current political leadership. The temporary and experimental nature of these programs means that states will also continue to adjust their licensing and certification processes, which may result in some of our operators facing increased competition and others facing new requirements.

Fraud and Abuse Enforcement

Skilled nursing facilities, hospitals and senior housing communities that receive Medicaid payments are subject to various complex federal, state and local laws and regulations that govern healthcare providers' relationships and arrangements and prohibit fraudulent and abusive business practices. These laws and regulations include, among others:

- Federal and state false claims acts, which, among other things, prohibit healthcare providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other governmental healthcare programs;
- Federal and state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit the payment, receipt or solicitation of any remuneration to induce referrals of patients for items or services covered by a governmental healthcare program, including Medicare and Medicaid;
- Federal and state physician self-referral laws, including the federal Stark Law, which generally prohibits physicians from referring patients enrolled in certain governmental healthcare programs to providers of certain designated health services in which the referring physician or an immediate family member of the referring physician has an ownership or other financial interest;
- The federal Civil Monetary Penalties Law, which authorizes the U.S. Department of Health and Human Services ("HHS") to impose civil penalties administratively for fraudulent acts; and
- State and federal data privacy and security laws, including the privacy and security rules of the Health Insurance Portability and Accountability Act of 1996, which provide for the privacy and security of certain individually identifiable health information.

Violating these healthcare fraud and abuse laws and regulations may result in criminal and civil penalties, such as punitive sanctions, damage assessments, monetary penalties, imprisonment, denial of Medicare and Medicaid payments, and exclusion from the Medicare and Medicaid programs. The responsibility for enforcing these laws and regulations lies with a variety of federal, state and local governmental agencies, however they can also be enforced by private litigants through federal and state false claims acts and other laws that allow private individuals to bring whistleblower suits known as qui tam actions.

Congress has significantly increased funding to the governmental agencies charged with enforcing the healthcare fraud and abuse laws to facilitate increased audits, investigations and prosecutions of providers suspected of healthcare fraud. As a result, government investigations and enforcement actions brought against healthcare providers have increased significantly in recent years and are expected to continue. A violation of federal or state anti-fraud and abuse laws or regulations by an operator of our properties could have a material adverse effect on the operator's liquidity, financial condition or results of operations, which could adversely affect its ability to satisfy its contractual obligations, including making rental payments under and otherwise complying with the terms of our leases.

It is too early to know whether the new presidential administration will expand on these efforts, but it is likely that states will devote additional resources to Medicaid fraud, waste, and abuse initiatives. Medicaid reform plans may include lowering the growth rate of Medicaid spending, which will put pressure on states to exert greater scrutiny over

the utilization of services.

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Medicare's fraud, waste, and abuse initiatives will also likely be retooled during the new presidential administration. A backlog of provider appeals in response to Medicare audits may require the Centers for Medicare and Medicaid Services ("CMS") to consider more expedited and conservative methods for determining recovery amounts. The Recovery Audit Contractor program, which has recovered more than \$2 billion for the Medicare program, continues to be controversial and may be modified under the new administration. Finally, the growth of value-based reimbursement models in Medicare may result in new rules regarding physician ownership of other providers, provider referrals, and provider affiliated charities buying down the cost of care for certain consumers. In total, Medicare program integrity might be less of a focus of the new administration, but there will be policy changes and as yet unknown pockets of increased oversight that are expected to create new risks for operators of healthcare facilities.

Reimbursement

The majority of skilled nursing facilities reimbursement, and a significant percentage of hospital reimbursement, is through Medicare and Medicaid. Medical buildings and other healthcare related properties have provider tenants that participate in Medicare and Medicaid. These programs are often their largest source of funding. Seniors housing communities generally do not receive funding from Medicare or Medicaid, but their ability to retain their residents is impacted by policy decisions and initiatives established by the administrators of Medicare and Medicaid. The passage of the ACA in 2010 allowed formerly uninsured Americans to acquire coverage and utilize additional health care services. In addition, the ACA gave the Centers for Medicare and Medicaid Services new authorities to implement Medicaid waiver and pilot programs that impact healthcare and long term custodial care reimbursement by Medicare and Medicaid. These activities promote "aging in place", allowing senior citizens to stay longer in seniors housing communities, and diverting or delaying their admission into skilled nursing facilities. The potential risks that accompany these regulatory and market changes are discussed below.

As a result of the ACA, and specifically Medicaid expansion and establishment of health insurance exchanges providing subsidized health insurance, an estimated seventeen million more Americans have health insurance than in 2010. These newly-insured Americans utilize services delivered by providers at medical buildings and other healthcare facilities. The new presidential administration and Republican-controlled Congress are committed to repealing the ACA and replacing it with a less federalized model for providing health insurance to individuals and families unable to purchase health insurance on their own. The details of the replacement model are not yet known, but potential end results could be fewer insured individuals and families or individuals and families maintaining less comprehensive insurance coverage. Either outcome could adversely impact the resources of our operators.

Enabled by the Medicare Modernization Act (2003) and subsequent laws, Medicare and Medicaid have implemented pilot programs (officially termed demonstrations or models) to "divert" elderly from skilled nursing facilities and promote "aging in place" in "the least restrictive environment." Several states have implemented home and community-based Medicaid waiver programs that increase the support services available to senior citizens in senior housing, lengthening the time that many seniors can live outside of a skilled nursing facility. These Medicaid waiver programs are subject to re-approval and pilots are time-limited. The new presidential administration may be generally supportive of these programs, but it is nonetheless likely that particular initiatives will gain or lose favor, and certain current initiatives might come to an end or be modified.

CMS is currently in the midst of transitioning Medicare from a traditional fee for service reimbursement model to capitated, value-based, and bundled payment approaches in which the government pays a set amount for each beneficiary for a defined period of time, based on that person's underlying medical needs, rather than the actual services provided. The result is increasing use of management tools to oversee individual providers and coordinate their services. This puts downward pressure on the number and expense of services provided. Roughly eight million Medicare beneficiaries now receive care via accountable care organizations, and another 18 million are enrolled in Medicare Advantage health plans. The continued trend toward capitated, value-based, and bundled payment approaches has the potential diminish the market for certain healthcare providers, particularly specialist physicians and providers of particular diagnostic technologies such medical resonance imaging services. This could adversely impact the medical properties that house these physicians and medical technology providers.

The majority of Medicare payments continue to be made through traditional Medicare Part A and Part B fee-for-service schedules. Medicare's payment regulations, particularly with respect to certain hospitals, skilled nursing care, and home health services have resulted in lower net pay increases than providers of those services often desire. In addition, the Medicare and CHIP Reauthorization Act of 2015 establishes a multi-year transition into pay-for-quality approaches for Medicare physicians and other providers. This will include payment reductions for providers who do not meet government quality standards. The implementation of pay-for-quality models is

expected to produce funding disparities that could adversely impact some provider tenants in medical buildings and other health care properties.

For the year ended December 31, 2016, approximately 9.2% of our total revenues and 15.0% of our total NOI (in each case excluding amounts in discontinued operations) were attributable to skilled nursing facilities and hospitals in which our third-party tenants receive reimbursement for their services under governmental healthcare programs, such as Medicare and Medicaid. We are neither a participant in, nor a direct recipient of, any reimbursement under these programs with respect to those leased facilities.

Life Science and Innovation Centers

In 2016, we entered the life science and innovation sector (“life science”) through the Life Sciences Acquisition. The life science tenants of these assets are largely university-affiliated organizations. These university-affiliated life science tenants are dependent on government funding to varying degrees. Creating a new pharmaceutical product or medical device requires substantial investments of time and capital, in part because of the extensive regulation of the healthcare industry; it also entails considerable risk of failure in demonstrating that the product is safe and effective and in gaining regulatory approval and market acceptance. Therefore, our tenants in the life science industry face high levels of regulation, expense and uncertainty.

Environmental Regulation

As an owner of real property, we are subject to various federal, state and local laws and regulations regarding environmental, health and safety matters.

These laws and regulations address, among other things, asbestos, polychlorinated biphenyls, fuel oil management, wastewater discharges, air emissions, radioactive materials, medical wastes, and hazardous wastes, and, in certain cases, the costs of complying with these laws and regulations and the penalties for non-compliance can be substantial. With respect to our properties that are operated or managed by third parties, we may be held primarily or jointly and severally liable for costs relating to the investigation and clean-up of any property from which there is or has been an actual or threatened release of a regulated material and any other affected properties, regardless of whether we knew of or caused the release. Such costs typically are not limited by law or regulation and could exceed the property’s value. In addition, we may be liable for certain other costs, such as governmental fines and injuries to persons, property or natural resources, as a result of any such actual or threatened release. See “Risk Factors-Risks Arising from Our Business-We could incur substantial liabilities and costs if any of our properties are found to be contaminated with hazardous substances or we become involved in any environmental disputes” included in Item 1A of this Annual Report on Form 10-K.

Under the terms of our lease, management and other agreements, we generally have a right to indemnification by the tenants, operators and managers of our properties for any contamination caused by them. However, we cannot assure you that our tenants, operators and managers will have the financial capability or willingness to satisfy their respective indemnification obligations to us, and any failure, inability or unwillingness to do so may require us to satisfy the underlying environmental claims.

In general, we have also agreed to indemnify our tenants and operators against any environmental claims (including penalties and clean-up costs) resulting from any condition arising in, on or under, or relating to, the leased properties at any time before the applicable lease commencement date. With respect to our senior living operating portfolio, we have agreed to indemnify our managers against any environmental claims (including penalties and clean-up costs) resulting from any condition on those properties, unless the manager caused or contributed to that condition.

We did not make any material capital expenditures in connection with environmental, health, and safety laws, ordinances and regulations in 2016 and do not expect that we will be required to make any such material capital expenditures during 2017.

Canada

In Canada, seniors housing communities are currently generally subject to significantly less regulation than skilled nursing facilities and hospitals, and the regulation of such facilities is principally a matter of provincial and municipal jurisdiction. As a result, the regulatory regimes that apply to seniors housing communities vary depending on the province (and in certain circumstances, the city) in which a facility is located. Recently, certain Canadian provinces have taken steps to implement regulatory measures that could result in enhanced regulation for seniors housing

communities in such provinces.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to you as a holder of our stock. It is not tax advice, nor does it purport to address all aspects of U.S. federal income taxation that may be important to particular stockholders in light of their personal circumstances or to certain types of stockholders, such as insurance companies, tax-exempt organizations (except to the extent discussed below under “Treatment of Tax-Exempt Stockholders”), financial institutions, pass-through entities (or investors in such entities) or broker-dealers, and non-U.S. individuals and entities (except to the extent discussed below under “Special Tax Considerations for Non-U.S. Stockholders”), that may be subject to special rules.

The statements in this section are based on the Internal Revenue Code of 1986, as amended (the “Code”), U.S. Treasury Regulations, Internal Revenue Service (“IRS”) rulings, administrative interpretations and judicial decisions now in effect, all of which are subject to change or different interpretation, possibly with retroactive effect. The laws governing the U.S. federal income tax treatment of REITs and their stockholders are highly technical and complex, and this discussion is qualified in its entirety by the authorities listed above. We cannot assure you that new laws, interpretations of law or court decisions will not cause any statement herein to be inaccurate.

Federal Income Taxation of Ventas

We elected REIT status beginning with the year ended December 31, 1999. We believe that we have satisfied the requirements to qualify as a REIT for federal income tax purposes for all tax years starting in 1999, and we intend to continue to do so. By qualifying for taxation as a REIT, we generally are not subject to federal income tax on net income that we currently distribute to stockholders, which substantially eliminates the “double taxation” (i.e., taxation at both the corporate and stockholder levels) that results from investment in a C corporation (i.e., a corporation generally subject to full corporate-level tax). Our qualification and taxation as a REIT depend upon our ability to meet the various qualification tests imposed under the Code, which are discussed below, including through actual operating results, asset composition, distribution levels and diversity of stock ownership.

Notwithstanding such qualification, we are subject to federal income tax on any undistributed taxable income, including undistributed net capital gains, at regular corporate rates. In addition, we are subject to a 4% excise tax if we do not satisfy specific REIT distribution requirements. See “Requirements for Qualification as a REIT-Annual Distribution Requirements.” Under certain circumstances, we may be subject to the “alternative minimum tax” on our undistributed items of tax preference. If we have net income from the sale or other disposition of “foreclosure property” (as described below) held primarily for sale to customers in the ordinary course of business or certain other non-qualifying income from foreclosure property, we are subject to tax at the highest corporate rate on that income. See “Requirements for Qualification as a REIT-Foreclosure Property.” In addition, if we have net income from “prohibited transactions” (which are, in general, certain sales or other dispositions of property (other than foreclosure property) held primarily for sale to customers in the ordinary course of business), that income is subject to a 100% tax. We also may be subject to “Built-in Gains Tax” on any appreciated asset that we own or acquire that was previously owned by a C corporation. If we dispose of any such asset and recognize gain on the disposition during the five-year period immediately after the asset was owned by a C corporation (either prior to our REIT election, or through stock acquisition or merger), then we generally are subject to regular corporate income tax on the gain equal to the lesser of the recognized gain at the time of disposition or the built-in gain in that asset as of the date it became a REIT asset. Certain exceptions may apply if the C corporation makes an election to receive different treatment or if we acquired the asset in an exchange under Section 1031 (a like-kind exchange) or 1033 (an involuntary conversion) of the Code. If we fail to satisfy either of the gross income tests for qualification as a REIT (as discussed below), but maintain such qualification under the relief provisions of the Code, we will be subject to a 100% tax on the gross income attributable to the amount by which we failed the applicable test, multiplied by a fraction intended to reflect our profitability. In addition, if we violate one or more of the REIT asset tests (as discussed below), we may avoid a loss of our REIT status if we qualify under certain relief provisions and, among other things, pay a tax equal to the greater of \$50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying asset during a specified period. If we fail to satisfy any requirement for REIT qualification, other than the gross income or assets tests mentioned above, but maintain such qualification by meeting certain other requirements, we may be subject to a

\$50,000 penalty for each failure. Finally, we will incur a 100% excise tax on the income derived from certain transactions with a taxable REIT subsidiary (including rental income derived from leasing properties to a taxable REIT subsidiary) that are not conducted on an arm's-length basis.

See “Requirements for Qualification as a REIT” below for other circumstances in which we may be required to pay federal taxes.

Requirements for Qualification as a REIT

To qualify as a REIT, we must meet the requirements discussed below relating to our organization, sources of income, nature of assets and distributions of income to our stockholders.

Organizational Requirements

The Code defines a REIT as a corporation, trust or association: (i) that is managed by one or more directors or trustees; (ii) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest; (iii) that would be taxable as a domestic corporation but for Sections 856 through 859 of the Code; (iv) that is neither a financial institution nor an insurance company subject to certain provisions of the Code; (v) the beneficial ownership of which is held by 100 or more persons during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year (the “100 Shareholder Rule”); (vi) not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of each taxable year (the “5/50 Rule”); (vii) that makes an election to be a REIT (or has made such election for a prior taxable year) and satisfies all relevant filing and other administrative requirements established by the IRS that must be met in order to elect and to maintain REIT status; (viii) that uses a calendar year for federal income tax purposes; and (ix) that meets certain other tests, described below, regarding the nature of its income and assets and the amount of its distributions.

We believe, but cannot assure you, that we have satisfied and will continue to satisfy the organizational requirements for qualification as a REIT. Although our certificate of incorporation contains certain limits on the ownership of our stock that are intended to prevent us from failing the 5/50 Rule or the 100 Shareholder Rule, we cannot assure you as to the effectiveness of those limits.

To qualify as a REIT, a corporation also may not have (as of the end of the taxable year) any earnings and profits that were accumulated in periods before it elected REIT status or that are from acquired non-REIT corporations. We believe that we have not had any accumulated earnings and profits that are attributable to non-REIT periods or from acquired corporations that were not REITs, although the IRS is entitled to challenge that determination.

Gross Income Tests

We must satisfy two annual gross income requirements to qualify as a REIT:

At least 75% of our gross income (excluding gross income from prohibited transactions, certain hedging transactions and certain foreign currency gains) for each taxable year must consist of defined types of income derived directly or indirectly from investments relating to real property or mortgages on real property (including pledges of equity interest in certain entities holding real property and also including “rents from real property” (as defined in the Code)) and, in certain circumstances, interest on certain types of temporary investment income; and

At least 95% of our gross income (excluding gross income from prohibited transactions, certain hedging transactions and certain foreign currency gains) for each taxable year must be derived from such real property or temporary investments, dividends, interest and gains from the sale or disposition of stock or securities, or from any combination of the foregoing.

We believe, but cannot assure you, that we have been and will continue to be in compliance with these gross income tests. If we fail to satisfy one or both tests for any taxable year, we nevertheless may qualify as a REIT for that year if we qualify under certain relief provisions of the Code, in which case we would be subject to a 100% tax on the gross income attributable to the amount by which we failed the applicable test, multiplied by a percentage intended to reflect our profitability. If we fail to satisfy one or both tests and do not qualify under the relief provisions for any taxable year, we will not qualify as a REIT for that year, which would have a Material Adverse Effect on us.

Rents we receive from a tenant will qualify as “rents from real property” for the purpose of satisfying the gross income requirements for a REIT described above only if all of the following conditions are met:

The amount of rent is not based in whole or in part on the income or profits of any person. However, an amount we receive or accrue generally will not be excluded from the term “rents from real property” solely because it is based on a fixed percentage or percentages of receipts or sales;

Neither we nor an actual or constructive owner of 10% or more of our stock actually or constructively owns 10% or more of the interests in the assets or net profits of a non-corporate tenant, or, if the tenant is a corporation, 10% or more of the total combined voting power of all classes of stock entitled to vote or 10% or more of the total value of all classes of stock of the tenant, subject to limited exceptions for a tenant that is a taxable REIT subsidiary, or “TRS”;

Rent attributable to personal property, leased in connection with a lease of real property, is not greater than 15% of the total rent received under the lease. If this condition is not met, then the portion of the rent attributable to personal property will not qualify as “rents from real property”; and

We generally may not operate or manage the property or furnish or render services to our tenants, subject to a 1% de minimis exception and certain other exceptions.

Asset Tests

At the close of each quarter of our taxable year, we must satisfy the following tests relating to the nature of our assets: At least 75% of the value of our total assets must be represented by cash or cash items (including certain receivables), government securities, “real estate assets” (including interests in real property and in mortgages on real property and shares in other qualifying REITs) (for taxable years beginning after December 31, 2015, the term “real estate assets” also includes (i) unsecured debt instruments of REITs that are required to file annual and periodic reports with the SEC under the Exchange Act (“Publicly Offered REITs”) (ii) personal property securing a mortgage secured by both real property and personal property if the fair market value of such personal property does not exceed 15% of the combined fair market value of all such personal and real property and (iii) personal property leased in connection with a lease of real property for which the rent attributable to personal property is not greater than 15% of the total rent received under the lease) or, in cases where we raise new capital through stock or long-term (i.e., having a maturity of at least five years) public debt offerings, temporary investments in stock or debt instruments during the one-year period following our receipt of such capital (the “75% asset test”); and

Of the investments not meeting the requirements of the 75% asset test, the value of any single issuer’s debt and equity securities that we own (other than our equity interests in any entity classified as a partnership for federal income tax purposes, the stock or debt of a taxable REIT subsidiary or the stock or debt of a qualified REIT subsidiary or other disregarded entity subsidiary) may not exceed 5% of the value of our total assets (the “5% asset test”), and we may not own more than 10% of any single issuer’s outstanding voting securities (the “10% voting securities test”) or more than 10% of the value of any single issuer’s outstanding securities (the “10% value test”), subject to limited “safe harbor” exceptions.

No more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets can be represented by securities of taxable REIT subsidiaries (the “25% TRS Test” or after December 31, 2017, the “20% TRS Test”).

For taxable years beginning after December 31, 2015, the aggregate value of all unsecured debt instruments of Publicly Offered REITs that we hold may not exceed 25% of the value of our total assets.”

We believe, but cannot assure you, that we have been and will continue to be in compliance with the asset tests described above. If we fail to satisfy one or more asset tests at the end of any quarter, we nevertheless may continue to qualify as a REIT if we satisfied all of the asset tests at the close of the preceding calendar quarter and the discrepancy between the value of our assets and the asset test requirements is due to changes in the market values and not caused in any part by our acquisition of non-qualifying assets.

Furthermore, if we fail to satisfy any of the asset tests at the end of any calendar quarter without curing that failure within 30 days after quarter end, we would fail to qualify as a REIT unless we qualified under certain relief provisions enacted as part of the American Jobs Creation Act of 2004. Under one relief provision, we would continue to qualify as a REIT if our failure to satisfy the 5% asset test, the 10% voting securities test or the 10% value test is due to our ownership of assets having a total value not exceeding the lesser of 1% of our assets at the end of the relevant quarter or \$10 million and we disposed of those assets (or otherwise met such asset tests) within six months after the end of the quarter in which the failure was identified. If we fail to satisfy any of the asset tests for a particular quarter but do not qualify under the relief provision described in the preceding sentence, then we would be deemed to have satisfied the relevant asset test if: (i) following identification of the failure, we filed a schedule containing a description of each asset that caused the failure; (ii) the failure was due to reasonable cause and not willful neglect; (iii) we disposed of the non-qualifying asset (or otherwise met the relevant asset test) within six months after the end of the quarter in which the failure was identified; and (iv) we paid a penalty tax equal to the greater of \$50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying asset during the period beginning on the first date of the failure and ending on the date we disposed of the asset (or otherwise cured the asset test failure). We cannot predict whether in all circumstances we would be entitled to the benefit of these relief provisions, and if we fail to satisfy any of the asset tests and do not qualify for the relief provisions, we will lose our REIT status, which would have a Material Adverse Effect on us.

Foreclosure Property

The foreclosure property rules permit us (by our election) to foreclose or repossess properties without being disqualified as a REIT as a result of receiving income that does not qualify under the gross income tests. However, in such a case, we would be subject to a corporate tax on the net non-qualifying income from “foreclosure property,” and the after-tax amount would increase the dividends we would be required to distribute to stockholders. See “Annual Distribution Requirements”. This corporate tax would not apply to income that qualifies under the REIT 75% income test.

Foreclosure property treatment will end on the first day on which we enter into a lease of the applicable property that will give rise to income that does not constitute “good REIT income” under Section 856(c)(3) of the Code, but will not end if the lease will give rise only to good REIT income. Foreclosure property treatment also will end if any construction takes place on the property (other than completion of a building or other improvement that was more than 10% complete before default became imminent). Foreclosure property treatment (other than for qualified healthcare property) is available for an initial period of three years and may, in certain circumstances, be extended for an additional three years. Foreclosure property treatment for qualified healthcare property is available for an initial period of two years and may, in certain circumstances, be extended for an additional four years.

Taxable REIT Subsidiaries

A TRS is a corporation subject to tax as a regular C corporation. Generally, a TRS can own assets that cannot be owned by a REIT directly and can perform tenant services (excluding the direct or indirect operation or management of a lodging or healthcare facility) that would otherwise disqualify the REIT’s rental income under the gross income tests. Notwithstanding general restrictions on related party rent, a REIT can lease healthcare properties to a TRS if the TRS does not manage or operate the properties and instead engages an eligible independent contractor to manage them. We are permitted to own up to 100% of a TRS, subject to the 25% TRS Test (or 20% TRS Test, as applicable) but the Code imposes certain limits on the ability of the TRS to deduct interest payments made to us. In addition, we are subject to a 100% penalty tax on any excess payments received by us or any excess expenses deducted by the TRS if the economic arrangements between the REIT, the REIT’s tenants and the TRS are not comparable to similar arrangements among unrelated parties.

Annual Distribution Requirements

In order to be taxed as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to the sum of (i) 90% of our “REIT taxable income” (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the net income (after tax), if any, from

foreclosure property, minus the sum of certain items of non-cash income. These dividends must be paid in the taxable year to which they relate, but may be paid in the following taxable year if (i) they are declared in October, November or December, payable to stockholders of record on a specified date in one of those months and actually paid during January of such following year or (ii) they are declared before we timely file our tax return for such year and paid on or before the first regular dividend payment after such declaration, and we elect on our federal income tax return for the prior year to have a specified amount of the subsequent dividend treated as paid in the prior year. To the extent we do not distribute all of our net capital gain or at least 90%, but less than 100%, of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed amount at regular capital gains and ordinary corporate tax rates, except to the extent of our net operating loss or capital loss carryforwards. If we pay any

Built-in Gains Taxes, those taxes will be deductible in computing REIT taxable income. Moreover, if we fail to distribute during each calendar year (or, in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January following such year) at least the sum of 85% of our REIT ordinary income for such year, 95% of our REIT capital gain net income for such year (other than long-term capital gain we elect to retain and treat as having been distributed to stockholders), and any undistributed taxable income from prior periods, we will be subject to a 4% nondeductible excise tax on the excess of such required distribution over the amounts actually distributed.

We believe, but cannot assure you, that we have satisfied the annual distribution requirements for the year of our initial REIT election and each subsequent year through the year ended December 31, 2016. Although we intend to satisfy the annual distribution requirements to continue to qualify as a REIT for the year ending December 31, 2017 and thereafter, economic, market, legal, tax or other considerations could limit our ability to meet those requirements.

We have net operating loss carryforwards that we may use to reduce our annual distribution requirements. See “NOTE 13—INCOME TAXES” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Failure to Continue to Qualify

If we fail to satisfy one or more requirements for REIT qualification, other than by violating a gross income or asset test for which relief is available under the circumstances described above, we would retain our REIT qualification if the failure is due to reasonable cause and not willful neglect and if we pay a penalty of \$50,000 for each such failure. We cannot predict whether in all circumstances we would be entitled to the benefit of this relief provision.

If our election to be taxed as a REIT is revoked or terminated in any taxable year (e.g., due to a failure to meet the REIT qualification tests without qualifying for any applicable relief provisions), we would be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates (for all open tax years beginning with the year our REIT election is revoked or terminated), and we would not be required to make distributions to stockholders, nor would we be entitled to deduct any such distributions. All distributions to stockholders (to the extent of our current and accumulated earnings and profits) would be taxable as ordinary income, except to the extent such dividends are eligible for the qualified dividends rate generally available to non-corporate holders, and, subject to certain limitations, corporate stockholders would be eligible for the dividends received deduction. In addition, we would be prohibited from re-electing REIT status for the four taxable years following the year during which we ceased to qualify as a REIT, unless certain relief provisions of the Code applied. We cannot predict whether we would be entitled to such relief.

New Partnership Audit Rules

The recently enacted Bipartisan Budget Act of 2015 changes the rules applicable to U.S. federal income tax audits of partnerships. Under the new rules (which are generally effective for taxable years beginning after December 31, 2017), among other changes and subject to certain exceptions, any audit adjustment to items of income, gain, loss, deduction, or credit of a partnership (and any partner’s distributive share thereof) is determined, and taxes, interest, or penalties attributable thereto are assessed and collected, at the partnership level. Although it is uncertain how these new rules will be implemented, it is possible that they could result in partnerships in which we directly or indirect invest being required to pay additional taxes, interest and penalties as a result of an audit adjustment, and we, as a direct or indirect partner of these partnerships, could be required to bear the economic burden of those taxes, interest, and penalties even though we, as a REIT, may not otherwise have been required to pay additional corporate-level taxes had we owned the assets of the partnership directly. The changes created by these new rules are sweeping and in many respects dependent on the promulgation of future regulations or other guidance by the U.S. Treasury. You should consult with your tax advisors with respect to these changes and their potential impact on your investment in our common stock.

Federal Income Taxation of U.S. Stockholders

As used in this discussion, the term “U.S. Stockholder” refers to any beneficial owner of our stock that is, for U.S. federal income tax purposes, an individual who is a citizen or resident of the United States, a corporation created or

organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which must be included in gross income for U.S. federal income tax purposes regardless of its source, or a trust if (i) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have authority to control all substantial decisions of the trust or (ii) the trust has elected under applicable U.S. Treasury Regulations to retain its pre-August 20, 1996 classification as a U.S. person. If an entity treated as a partnership for U.S. federal income tax purposes holds our stock, the tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of

the partnership. Partners in partnerships holding our stock should consult their tax advisors. This section assumes the U.S. Stockholder holds our stock as a capital asset (that is, for investment).

Provided we qualify as a REIT, distributions made to our taxable U.S. Stockholders out of current or accumulated earnings and profits (and not designated as capital gain dividends) generally will be taxable to such U.S. Stockholders as ordinary income and will not be eligible for the qualified dividends rate generally available to non-corporate holders or for the dividends received deduction generally available to corporations. Distributions that are designated as capital gain dividends will be taxed as a long-term capital gain (to the extent such distributions do not exceed our actual net capital gain for the taxable year) without regard to the period for which the stockholder has held our stock. The distributions we designate as capital gain dividends may not exceed our dividends paid for the taxable year, including dividends paid the following year that we treated as paid in the current year. Distributions in excess of current and accumulated earnings and profits will not be taxable to a U.S. Stockholder to the extent they do not exceed the U.S. Stockholder's adjusted basis of our stock (determined on a share-by-share basis), but rather will reduce the U.S. Stockholder's adjusted basis of our stock. To the extent that distributions in excess of current and accumulated earnings and profits exceed the U.S. Stockholder's adjusted basis of our stock, such distributions will be included in income as capital gains and taxable at a rate that will depend on the U.S. Stockholder's holding period for our stock. Any distribution declared by us and payable to a stockholder of record on a specified date in October, November or December of any year will be treated as both paid by us and received by the stockholder on December 31 of that year, provided that we actually pay the distribution during January of the following calendar year. Distributions of amounts previously subject to corporate-level tax (such as dividends we received from TRSs or other corporations, and income that we retained and paid taxes on) are subject to a 20% maximum rate if certain holding period requirements are met. We may elect to treat all or a part of our undistributed net capital gain as if it had been distributed to our stockholders. If we so elect, our U.S. Stockholders would be required to include in their income as long-term capital gain their proportionate share of our undistributed net capital gain, as designated by us. Each U.S. Stockholder would be deemed to have paid its proportionate share of the income tax imposed on us with respect to such undistributed net capital gain, and this amount would be credited or refunded to the U.S. Stockholder. In addition, the U.S. Stockholder's tax basis of our stock would be increased by its proportionate share of undistributed net capital gains included in its income, less its proportionate share of the income tax imposed on us with respect to such gains.

U.S. Stockholders may not include in their individual income tax returns any of our net operating losses or net capital losses. Instead, we may carry over those losses for potential offset against our future income, subject to certain limitations. Taxable distributions from us and gain from the disposition of our stock will not be treated as passive activity income, and, therefore, U.S. Stockholders generally will not be able to apply any "passive activity losses" (such as losses from certain types of limited partnerships in which the U.S. Stockholder is a limited partner) against such income. In addition, taxable distributions from us generally will be treated as investment income for purposes of the investment interest limitations.

We will notify stockholders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital and capital gain. To the extent that a portion of the distribution is designated as a capital gain dividend, we will notify stockholders as to the portion that is a "20% rate gain distribution" and the portion that is an unrecaptured Section 1250 distribution. A 20% rate gain distribution is a capital gain distribution to U.S. Stockholders that are individuals, estates or trusts that is taxable at a maximum rate of 20%. An unrecaptured Section 1250 gain distribution is taxable to U.S. Stockholders that are individuals, estates or trusts at a maximum rate of 25%.

Taxation of U.S. Stockholders on the Disposition of Shares of Stock

In general, a U.S. Stockholder must treat any gain or loss realized upon a taxable disposition of our stock as long-term capital gain or loss if the U.S. Stockholder has held the stock for more than one year, and otherwise as short-term capital gain or loss. However, a U.S. Stockholder must treat any loss upon a sale or exchange of shares of our stock held for six months or less as a long-term capital loss to the extent of capital gain dividends and any other actual or deemed distributions from us which the U.S. Stockholder treats as long-term capital gain. All or a portion of any loss that a U.S. Stockholder realizes upon a taxable disposition of our stock may be disallowed if the U.S. Stockholder purchases other shares of our stock (or certain options to acquire our stock) within 30 days before or after the

disposition.

Medicare Tax on Investment Income

Certain U.S. Stockholders who are individuals, estates or trusts and whose income exceeds certain thresholds are required to pay a 3.8% Medicare tax on dividends and certain other investment income, including capital gains from the sale or other disposition of our stock.

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Treatment of Tax-Exempt Stockholders

Tax-exempt organizations, including qualified employee pension and profit sharing trusts and individual retirement accounts (collectively, “Exempt Organizations”), generally are exempt from U.S. federal income taxation but are subject to taxation on their unrelated business taxable income (“UBTI”). While many investments in real estate generate UBTI, a ruling published by the IRS states that dividend distributions by a REIT to an exempt employee pension trust do not constitute UBTI. Based on that ruling, and subject to the exceptions discussed below, amounts distributed by us to Exempt Organizations generally should not constitute UBTI. However, if an Exempt Organization finances its acquisition of our stock with debt, a portion of its income from us will constitute UBTI pursuant to the “debt-financed property” rules. Social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans that are exempt from taxation under paragraphs (7), (9), (17) and (20), respectively, of Section 501(c) of the Code are subject to different UBTI rules, which generally require them to characterize distributions from us as UBTI, and in certain circumstances, a pension trust that owns more than 10% of our stock is required to treat a percentage of the dividends from us as UBTI.

Special Tax Considerations for Non-U.S. Stockholders

As used herein, the term “Non-U.S. Stockholder” refers to any beneficial owner of our stock that is, for U.S. federal income tax purposes, a nonresident alien individual, foreign corporation, foreign estate or foreign trust, but does not include any foreign stockholder whose investment in our stock is “effectively connected” with the conduct of a trade or business in the United States. Such a foreign stockholder, in general, is subject to U.S. federal income tax with respect to its investment in our stock in the same manner as a U.S. Stockholder (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals), provided that, if required by an applicable income tax treaty, the foreign stockholder maintains a permanent establishment in the United States to which such income is attributable. In addition, a foreign corporation receiving income that is treated as effectively connected with a U.S. trade or business also may be subject to an additional 30% “branch profits tax” on its effectively connected earnings and profits (subject to adjustments) unless an applicable tax treaty provides a lower rate or an exemption. Certain certification requirements must be satisfied in order for effectively connected income to be exempt from withholding.

Distributions to Non-U.S. Stockholders that are not attributable to gain from sales or exchanges by us of U.S. real property interests and are not designated by us as capital gain dividends (or deemed distributions of retained capital gains) are treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such distributions ordinarily are subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. Distributions in excess of our current and accumulated earnings and profits are not taxable to a Non-U.S. Stockholder to the extent that such distributions do not exceed the Non-U.S. Stockholder’s adjusted basis of our stock (determined on a share-by-share basis), but rather reduce the Non-U.S. Stockholder’s adjusted basis of our stock. To the extent that distributions in excess of current and accumulated earnings and profits exceed the Non-U.S. Stockholder’s adjusted basis of our stock, such distributions will give rise to tax liability if the Non-U.S. Stockholder would otherwise be subject to tax on any gain from the sale or disposition of our stock, as described below.

We expect to withhold U.S. tax at the rate of 30% on the gross amount of any dividends, other than dividends treated as attributable to gain from sales or exchanges of U.S. real property interests and capital gain dividends, paid to a Non-U.S. Stockholder, unless (i) a lower treaty rate applies and the required IRS Form W-8BEN or IRS Form W-8BEN-E (or other applicable documentation) evidencing eligibility for that reduced rate is filed with us or the appropriate withholding agent or (ii) the Non-U.S. Stockholder files an IRS Form W-8ECI or a successor form with us or the appropriate withholding agent properly claiming that the distributions are effectively connected with the Non-U.S. Stockholder’s conduct of a U.S. trade or business.

For any year in which we qualify as a REIT, distributions to a Non-U.S. Stockholder that owns more than 10% of our shares (assuming our shares are regularly traded on an established securities market located in the United States) at any time during the one-year period ending on the date of distribution and that are attributable to gain from sales or exchanges by us of U.S. real property interests will be taxed to the Non-U.S. Stockholder under the provisions of the

Foreign Investment in Real Property Tax Act of 1980 (“FIRPTA”) as if such gain were effectively connected with a U.S. business. Accordingly, a Non-U.S. Stockholder that owns more than 10% of our shares (assuming our shares are regularly traded on an established securities market located in the United States) will be taxed at the normal capital gain rates applicable to a U.S. Stockholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals) and would be required to file a U.S. federal income tax return. Distributions subject to FIRPTA also may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits (subject to adjustments) if the recipient is a corporate Non-U.S. Stockholder not entitled to treaty relief or exemption. Under FIRPTA, we are required to withhold 35% (which is higher than the maximum rate on long-term capital gains of non-corporate persons) of any distribution to a Non-U.S.

Stockholder that owns more than 10% of our shares which is or could be designated as a capital gain dividend attributable to U.S. real property interests. Moreover, if we designate previously made distributions as capital gain dividends attributable to U.S. real property interests, subsequent distributions (up to the amount of such prior distributions) will be treated as capital gain dividends subject to FIRPTA withholding. This amount is creditable against the Non-U.S. Stockholder's FIRPTA tax liability.

Distributions by us to a "qualified foreign pension fund," within the meaning of Section 897(l) of the Code ("Qualified Foreign Pension Fund"), or any entity all of the interests of which are held by a Qualified Foreign Pension Fund, is exempt from FIRPTA, but may nonetheless be subject to U.S. federal dividend withholding tax unless an applicable tax treaty or Section 892 of the Code provides an exemption from such dividend withholding tax. Non-U.S. Stockholders who are Qualified Foreign Pension Funds should consult their tax advisors regarding the application of these rules.

If a Non-U.S. Stockholder does not own more than 10% of our shares at any time during the one-year period ending on the date of a distribution (assuming our shares are regularly traded on an established securities market located in the United States), any capital gain distributions, to the extent attributable to sales or exchanges by us of U.S. real property interests, will not be considered to be effectively connected with a U.S. business, and the Non-U.S. Stockholder would not be required to file a U.S. federal income tax return solely as a result of receiving such a distribution. In that case, the distribution will be treated as an ordinary dividend to that Non-U.S. Stockholder and taxed as an ordinary dividend that is not a capital gain distribution (and subject to withholding), as described above. In addition, the branch profits tax will not apply to the distribution. Any capital gain distribution, to the extent not attributable to sales or exchanges by us of U.S. real property interests, generally will not be subject to U.S. federal income taxation (regardless of the amount of our shares owned by a Non-U.S. Stockholder).

For so long as our stock continues to be regularly traded on an established securities market, the sale of such stock by any Non-U.S. Stockholder who is not a Ten Percent Non-U.S. Stockholder (as defined below) generally will not be subject to U.S. federal income tax (unless the Non-U.S. Stockholder is a nonresident alien individual who was present in the United States for more than 182 days during the taxable year of the sale and certain other conditions apply, in which case such gain (net of certain sources within the U.S., if any) will be subject to a 30% tax on a gross basis). A "Ten Percent Non-U.S. Stockholder" is a Non-U.S. Stockholder who, at some time during the five-year period preceding such sale or disposition, beneficially owned (including under certain attribution rules) more than 10% of the total fair market value of our stock (as outstanding from time to time).

In general, the sale or other taxable disposition of our stock by a Ten Percent Non-U.S. Stockholder also will not be subject to U.S. federal income tax if we are a "domestically controlled qualified investment entity." A REIT is a "domestically controlled qualified investment entity" if, at all times during the five-year period preceding the disposition in question, less than 50% in value of its shares is held directly or indirectly by non-U.S. persons. For purposes of determining whether a REIT is a domestically controlled qualified investment entity, certain special rules apply including the rule that a person who at all applicable times holds less than 5 percent of a class of stock that is "regularly traded" is treated as a U.S. person unless the REIT has actual knowledge that such person is not a U.S. person. Because our common stock is publicly traded, we believe, but cannot assure you, that we currently qualify as a domestically controlled qualified investment entity, nor can we assure you that we will so qualify at any time in the future. If we do not constitute a domestically controlled qualified investment entity, a Ten Percent Non-U.S. Stockholder generally will be taxed in the same manner as a U.S. Stockholder with respect to gain on the sale of our stock (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). The sale or other taxable disposition of our stock by a Qualified Foreign Pension Fund, or any entity all of the interests of which are held by a Qualified Foreign Pension Fund, is exempt from U.S. tax irrespective of the level of its shareholding in us and of whether we are a domestically controlled qualified investment entity. Special rules apply to certain collective investment funds that are "qualified shareholders" as defined in Section 897(k)(3) of the Code of a REIT. Such investors, which include publicly traded vehicles that meet certain requirements, should consult with their own tax advisors prior to making an investment in our shares.

Additional Withholding Tax on Payments Made to Foreign Accounts

A 30% withholding tax will currently be imposed on dividends paid on our stock and will be imposed on gross proceeds from a sale or redemption of our stock paid after December 31, 2018 to (i) foreign financial institutions including non-U.S. investment funds, unless they agree to collect and disclose to the IRS information regarding their direct and indirect U.S. account holders and (ii) certain other foreign entities, unless they certify certain information regarding their direct and indirect U.S. owners. To avoid withholding, foreign financial institutions will need to (i) enter into agreements with the IRS that state that they will provide the IRS information, including the names, addresses and taxpayer identification numbers of direct and indirect U.S. account holders, comply with due diligence procedures with respect to the identification of U.S. accounts, report

to the IRS certain information with respect to U.S. accounts maintained, agree to withhold tax on certain payments made to non-compliant foreign financial institutions or to account holders who fail to provide the required information, and determine certain other information as to their account holders, or (ii) in the event that an applicable intergovernmental agreement and implementing legislation are adopted, provide local revenue authorities with similar account holder information or otherwise comply with the terms of the intergovernmental agreement and implementing legislation. Other foreign entities will need to either provide the name, address, and taxpayer identification number of each substantial U.S. owner or certifications of no substantial U.S. ownership unless certain exceptions apply or agree to provide certain information to other revenue authorities for transmittal to the IRS.

Information Reporting Requirements and Backup Withholding

Information returns may be filed with the IRS and backup withholding (at a rate of 28%) may be collected in connection with distributions paid or required to be treated as paid during each calendar year and payments of the proceeds of a sale or other disposition of our stock by a stockholder. A U.S. Stockholder will not be subject to backup withholding if such stockholder is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. A stockholder who does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS.

Payments of dividends on our common stock to Non-U.S. Stockholders generally will not be subject to backup withholding, provided the applicable withholding agent does not have actual knowledge or reason to know the stockholder is a United States person and the holder either certifies its non-U.S. status, such as by furnishing a valid IRS Form W-8BEN, W-8BEN-E or W-8ECI, or otherwise establishes an exemption. However, information returns are required to be filed with the IRS in connection with any dividends on our common stock paid to the Non-U.S. Stockholder, regardless of whether any tax was actually withheld. In addition, proceeds of the sale or other taxable disposition of such stock within the United States or conducted through certain U.S.-related brokers generally will not be subject to backup withholding or information reporting, if the applicable withholding agent receives the certification described above and does not have actual knowledge or reason to know that such stockholder is a United States person, or the stockholder otherwise establishes an exemption. Proceeds of a disposition of such stock conducted through a non-U.S. office of a non-U.S. broker generally will not be subject to backup withholding or information reporting. Copies of information returns that are filed with the IRS may also be made available under the provisions of an applicable treaty or agreement to the tax authorities of the country in which the Non-U.S. Stockholder resides or is established.

Backup withholding is not an additional tax. Rather, the U.S. federal income tax liability of persons subject to backup withholding will be offset by the amount of tax withheld. If backup withholding results in an overpayment of U.S. federal income taxes, a refund or credit may be obtained from the IRS, provided the required information is furnished timely thereto.

Other Tax Consequences

State and Local Taxes

We and our stockholders may be subject to taxation by various states and localities, including those in which we or a stockholder transact business, own property or reside. State and local tax treatment may differ from the U.S. federal income tax treatment described above. Consequently, stockholders should consult their own tax advisers regarding the effect of state and local tax laws, in addition to federal, foreign and other tax laws, in connection with an investment in our stock.

Possible Legislative or Other Actions Affecting Tax Consequences

You should recognize that future legislative, judicial and administrative actions or decisions, which may be retroactive in effect, could adversely affect our federal income tax treatment or the tax consequences of an investment in shares of

our stock. The rules dealing with U.S. federal income taxation are continually under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, resulting in statutory changes as well as promulgation of new, or revisions to existing, regulations and revised interpretations of established concepts. We cannot predict the likelihood of passage of any new tax legislation or other provisions, either directly or indirectly, affecting us or our stockholders or the value of an investment in our stock. Changes to the tax laws, such as the Protecting Americans From Tax Hikes Act of 2015 enacted on December 18, 2015 or the Bipartisan Budget Act of 2015 enacted on November 2, 2015, or interpretations thereof by the IRS and the Treasury, with or without retroactive application, could materially and adversely affect us or our stockholders.

ITEM 1A. Risk Factors

This section discusses the most significant factors that affect our business, operations and financial condition. It does not describe all risks and uncertainties applicable to us, our industry or ownership of our securities. If any of the following risks, or any other risks and uncertainties that are not addressed below or that we have not yet identified, actually occur, we could be materially adversely affected and the value of our securities could decline.

We have grouped these risk factors into three general categories:

• Risks arising from our business;

• Risks arising from our capital structure; and

• Risks arising from our status as a REIT.

Risks Arising from Our Business

The properties managed by Atria and Sunrise account for a significant portion of our revenues and operating income; adverse developments in Atria's or Sunrise's business and affairs or financial condition could have a Material Adverse Effect on us.

As of December 31, 2016, Atria and Sunrise, collectively, managed 266 of our seniors housing communities pursuant to long-term management agreements. These properties represent a substantial portion of our portfolio, based on their gross book value, and account for a significant portion of our revenues and NOI. Although we have various rights as the property owner under our management agreements, we rely on Atria's and Sunrise's personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior living operations efficiently and effectively. We also rely on Atria and Sunrise to set appropriate resident fees, to provide accurate property-level financial results for our properties in a timely manner and to otherwise operate our seniors housing communities in compliance with the terms of our management agreements and all applicable laws and regulations. For example, we depend on Atria's and Sunrise's ability to attract and retain skilled management personnel who are responsible for the day-to-day operations of our seniors housing communities. A shortage of nurses or other trained personnel or general inflationary pressures may force Atria or Sunrise to enhance its pay and benefits package to compete effectively for such personnel, but it may not be able to offset these added costs by increasing the rates charged to residents. Any increase in labor costs and other property operating expenses, any failure by Atria or Sunrise to attract and retain qualified personnel, or significant changes in Atria's or Sunrise's senior management or equity ownership could adversely affect the income we receive from our seniors housing communities and have a Material Adverse Effect on us.

Because Atria and Sunrise manage our properties in exchange for the receipt of a management fee from us, we are not directly exposed to the credit risk of our managers in the same manner or to the same extent as our triple-net tenants. However, any adverse developments in Atria's or Sunrise's business and affairs or financial condition could impair its ability to manage our properties efficiently and effectively and could have a Material Adverse Effect on us. If Atria or Sunrise experiences any significant financial, legal, accounting or regulatory difficulties due to a weak economy or otherwise, such difficulties could result in, among other adverse events, acceleration of its indebtedness, impairment of its continued access to capital, the enforcement of default remedies by its counterparties, or the commencement of insolvency proceedings by or against it under the U.S. Bankruptcy Code, any one or a combination of which indirectly could have a Material Adverse Effect on us.

Our leases and other agreements with Brookdale Senior Living, Kindred and Ardent account for a significant portion of our revenues and operating income; any failure, inability or unwillingness by Brookdale Senior Living, Kindred or Ardent to satisfy its obligations under our agreements could have a Material Adverse Effect on us.

The properties we lease and loans we make to Brookdale Senior Living, Kindred and Ardent account for a significant portion of our revenues and NOI, and we depend on Brookdale Senior Living, Kindred and Ardent to pay all insurance, taxes, utilities and maintenance and repair expenses in connection with the leased properties and properties that are collateral for the loans. We cannot assure you that Brookdale Senior Living, Kindred and Ardent will have sufficient assets, income and access to financing to enable them to satisfy their respective obligations to us, and any failure, inability or unwillingness by Brookdale Senior Living, Kindred or Ardent to do so could have a Material Adverse Effect on us. In addition, any failure by Brookdale Senior Living, Kindred or Ardent to effectively conduct its operations or to maintain and improve such properties could adversely affect its business reputation and its ability to attract and retain patients and residents in such properties, which could have a Material Adverse Effect on us.

Brookdale Senior Living, Kindred and Ardent have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses, and we cannot assure you that Brookdale Senior Living, Kindred and Ardent will have sufficient assets, income, access to financing and insurance coverage to enable them to satisfy their respective indemnification obligations.

We face potential adverse consequences of bankruptcy or insolvency by our tenants, operators, borrowers, managers and other obligors.

We are exposed to the risk that our tenants, operators, borrowers, managers or other obligors may become bankrupt or insolvent. Although our lease, loan and management agreements give us the right to exercise certain remedies in the event of default on the obligations owing to us or upon the occurrence of certain insolvency events, federal laws afford certain rights to a party that has filed for bankruptcy or reorganization. For example, a debtor-lessee may reject our lease in a bankruptcy proceeding, in which case our claim against the debtor-lessee for unpaid and future rents would be limited by the statutory cap of the U.S. Bankruptcy Code. This statutory cap could be substantially less than the remaining rent actually owed under the lease, and any claim we have for unpaid rent might not be paid in full. In addition, a debtor-lessee may assert in a bankruptcy proceeding that our lease should be re-characterized as a financing agreement, in which case our rights and remedies as a lender, compared to a landlord, generally would be more limited. If a debtor-manager seeks bankruptcy protection, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing our remedies against the manager unless relief is first obtained from the court having jurisdiction over the bankruptcy case. In any of these events, we also may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of our properties, avoid the imposition of liens on our properties or transition our properties to a new tenant, operator or manager.

We have rights to terminate our management agreements with Atria and Sunrise in whole or with respect to specific properties under certain circumstances, and we may be unable to replace Atria or Sunrise if our management agreements are terminated or not renewed.

We are parties to long-term management agreements pursuant to which Atria and Sunrise, collectively, provided comprehensive property management and accounting services with respect to 266 of our seniors housing communities as of December 31, 2016. Most of our management agreements with Atria have terms expiring either July 31, 2024 or December 31, 2027, with successive automatic ten-year renewal periods, and our management agreements with Sunrise have terms ranging from 25 to 30 years (which commenced as early as 2004 and as recently as 2012). Our ability to terminate these long-term management agreements is limited to specific circumstances set forth in the agreements and may relate to all properties or a specific property or group of properties.

We may terminate any of our Atria management agreements upon the occurrence of an event of default by Atria in the performance of a material covenant or term thereof (including, in certain circumstances, the revocation of any license or certificate necessary for operation), subject in most cases to Atria's right to cure such default, or upon the occurrence of certain insolvency events relating to Atria. In addition, we may terminate our management agreements with Atria based on the failure to achieve certain NOI targets or upon the payment of a fee.

Similarly, we may terminate any of our Sunrise management agreements upon the occurrence of an event of default by Sunrise in the performance of a material covenant or term thereof (including, in certain circumstances, the revocation of any license or certificate necessary for operation), subject in most cases to Sunrise's right to cure such default, or upon the occurrence of certain insolvency events relating to Sunrise. We also may terminate most of our management agreements with Sunrise based on the failure to achieve certain NOI targets or to comply with certain expense control covenants, subject to certain rights of Sunrise to make cure payments to us, and upon the occurrence of certain other events or the existence of certain other conditions.

We continually monitor and assess our contractual rights and remedies under our management agreements with Atria and Sunrise. When determining whether to pursue any existing or future rights or remedies under those agreements, including termination rights, we consider numerous factors, including legal, contractual, regulatory, business and other relevant considerations. In the event that we exercise our rights to terminate the Atria or Sunrise management agreements for any reason or such agreements are not renewed upon expiration of their terms, we would attempt to reposition the affected properties with another manager. Although we believe that many qualified national and regional seniors housing operators would be interested in managing our seniors housing communities, we cannot assure you that we would be able to locate another suitable manager or, if we are successful in locating such a manager, that it would manage the properties effectively. Moreover, the transition to a replacement manager would require approval by the applicable regulatory authorities and, in most cases, the mortgage lenders for the properties, and we cannot assure you that such approvals would be granted on a timely basis, if at all. Any inability to replace, or a lengthy delay in replacing, Atria or Sunrise as the manager of our seniors housing communities following

termination or non-renewal of the applicable management agreements could have a Material Adverse Effect on us.

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If we must replace any of our tenants or operators, we might be unable to reposition the properties on as favorable terms, or at all, and we could be subject to delays, limitations and expenses, which could have a Material Adverse Effect on us.

We cannot predict whether our tenants will renew existing leases beyond their current term. If our leases with Brookdale Senior Living or Ardent, the Kindred master leases or any of our other triple-net leases are not renewed, we would attempt to reposition those properties with another tenant or operator. In case of non-renewal, we generally have one year prior to expiration of the lease term to arrange for repositioning of the properties and our tenants are required to continue to perform all of their obligations (including the payment of all rental amounts) for the non-renewed assets until such expiration. However, following expiration of a lease term or if we exercise our right to replace a tenant or operator in default, rental payments on the related properties could decline or cease altogether while we reposition the properties with a suitable replacement tenant or operator. We also might not be successful in identifying suitable replacements or entering into leases or other arrangements with new tenants or operators on a timely basis or on terms as favorable to us as our current leases, if at all, and we may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of, and avoid the imposition of liens on, our properties while they are being repositioned. In addition, we may incur certain obligations and liabilities, including obligations to indemnify the replacement tenant or operator, which could have a Material Adverse Effect on us.

In the event of non-renewal or a tenant default, our ability to reposition our properties with a suitable replacement tenant or operator could be significantly delayed or limited by state licensing, receivership, CON or other laws, as well as by the Medicare and Medicaid change-of-ownership rules, and we could incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. Our ability to locate and attract suitable replacement tenants also could be impaired by the specialized healthcare uses or contractual restrictions on use of the properties, and we may be forced to spend substantial amounts to adapt the properties to other uses. Any such delays, limitations and expenses could adversely impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for tenant default and could have a Material Adverse Effect on us.

Moreover, in connection with certain of our properties, we have entered into intercreditor agreements with the tenants' lenders or tri-party agreements with our lenders. Our ability to exercise remedies under the applicable leases or management agreements or to reposition the applicable properties may be significantly delayed or limited by the terms of the intercreditor agreement or tri-party agreement. Any such delay or limit on our rights and remedies could adversely affect our ability to mitigate our losses and could have a Material Adverse Effect on us.

Merger and acquisition activity or consolidation in the seniors housing and healthcare industries resulting in a change of control of, or a competitor's investment in, one or more of our tenants, operators or managers could have a Material Adverse Effect on us.

The seniors housing and healthcare industries have recently experienced increased consolidation, including among owners of real estate and care 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, operators or managers. A competitor's investment in one of our tenants, operators or managers could enable our competitor to influence that tenant's, operator's or manager's business and strategy in a manner that impairs our relationship with the tenant, operator or manager or is otherwise adverse to our interests. Depending on our contractual agreements and the specific facts and circumstances, we may have the right to consent to, or otherwise exercise rights and remedies, including termination rights, on account of, a competitor's investment in, a change of control of, or other transactions impacting a tenant, operator or manager. In deciding whether to exercise our rights and remedies, including termination rights, we assess numerous factors, including legal, contractual, regulatory, business and other relevant considerations. In addition, in connection with any change of control of a tenant, operator or manager, the tenant's, operator's or manager's management team may change, which could lead to a change in the tenant's, operator's or manager's strategy or adversely affect the business of the tenant, operator or manager, either of which could have a Material Adverse Effect on us.

Market conditions, including, but not limited to, interest rates and credit spreads, the availability of credit and the actual and perceived state of the real estate markets and public capital markets generally could negatively impact our

business, results of operations, and financial condition.

The markets in which we operate are affected by a number of factors that are largely beyond our control but may nevertheless have a significant negative impact on us. These factors include, but are not limited to:

• Interest rates and credit spreads;

• The availability of credit, including the price, terms and conditions under which it can be obtained; and

• The actual and perceived state of the real estate market, the market for dividend-paying stocks and public capital markets in general.

In addition, increased inflation may have a pronounced negative impact on the interest expense we pay in connection with our outstanding indebtedness and our general and administrative expenses, as these costs could increase at a rate higher than our rents.

Deflation may result in a decline in general price levels, often caused by a decrease in the supply of money or credit. The predominant effects of deflation are high unemployment, credit contraction and weakened consumer demand. Restricted lending practices may impact our ability to obtain financing for our properties, which could adversely impact our growth and profitability.

Our ongoing strategy depends, in part, upon future investments in and acquisitions of, or our development or redevelopment of, seniors housing and healthcare assets, and we may not be successful in identifying and consummating these transactions.

An important part of our business strategy is to continue to expand and diversify our portfolio through accretive acquisition, investment, development and redevelopment opportunities in domestic and international seniors housing and healthcare properties. Our execution of this strategy by successfully identifying, securing and consummating beneficial transactions is made more challenging by increased competition and can be affected by many factors, including our relationships with current and prospective clients, our ability to obtain debt and equity capital at costs comparable to or better than our competitors and lower than the yield we earn on our acquisitions or investments, and our ability to negotiate favorable terms with property owners seeking to sell and other contractual counterparties. Our competitors for these opportunities include other healthcare REITs, real estate partnerships, healthcare providers, healthcare lenders and other investors, including developers, banks, insurance companies, pension funds, government-sponsored entities and private equity firms, some of whom may have greater financial resources and lower costs of capital than we do. See “Business—Competition” included in Item 1 of this Annual Report on Form 10-K. If we are unsuccessful at identifying and capitalizing on investment, acquisition, development and redevelopment opportunities, our growth and profitability may be adversely affected.

Investments in and acquisitions of seniors housing and healthcare properties entail risks associated with real estate investments generally, including risks that the investment will not achieve expected returns, that the cost estimates for necessary property improvements will prove inaccurate or that the tenant, operator or manager will fail to meet performance expectations. Investments outside the United States raise legal, economic and market risks associated with doing business in foreign countries, such as currency exchange fluctuations, costly regulatory requirements and foreign tax risks. Domestic and international real estate development and redevelopment projects present additional risks, including construction delays or cost overruns that increase expenses, the inability to obtain required zoning, occupancy and other governmental approvals and permits on a timely basis, and the incurrence of significant costs prior to completion of the project. Furthermore, healthcare properties are often highly customized and the development or redevelopment of such properties may require costly tenant-specific improvements. As a result, we cannot assure you that we will achieve the economic benefit we expect from acquisition, investment, development and redevelopment opportunities.

Our significant acquisition and investment activity presents certain risks to our business and operations.

We have made and expect to continue to make significant acquisitions and investments as part of our overall business strategy. Our significant acquisition and investment activity presents certain risks to our business and operations, including, among other things, that:

- We may be unable to successfully integrate the operations, personnel or systems of acquired companies, maintain consistent standards, controls, policies and procedures, or realize the anticipated benefits of acquisitions and other investments within the anticipated time frame or at all;

- We may be unable to effectively monitor and manage our expanded portfolio of properties, retain key employees or attract highly qualified new employees;

- Projections of estimated future revenues, costs savings or operating metrics that we develop during the due diligence and integration planning process might be inaccurate;

- Our leverage could increase or our per share financial results could decline if we incur additional debt or issue equity securities to finance acquisitions and investments;

- Acquisitions and other new investments could divert management’s attention from our existing assets;

¶The value of acquired assets or the market price of our common stock may decline; and

¶We may be unable to continue paying dividends at the current rate.

We cannot assure you that we will be able to integrate acquisitions and investments without encountering difficulties or that any such difficulties will not have a Material Adverse Effect on us.

If the liabilities we assume in connection with acquisitions, including indemnification obligations in favor of third parties, are greater than expected, or if there are unknown liabilities, our business could be materially and adversely affected.

We may assume or incur liabilities in connection with our acquisitions, including, in some cases, contingent liabilities. As we integrate these acquisitions, we may learn additional information about the sellers, the properties, their operations and their liabilities that adversely affects us, such as:

• Liabilities relating to the clean-up or remediation of undisclosed environmental conditions;

• Unasserted claims of vendors or other persons dealing with the sellers;

• Liabilities, claims and litigation, including indemnification obligations, whether or not incurred in the ordinary course of business, relating to periods prior to or following our acquisition;

• Claims for indemnification by general partners, directors, officers and others indemnified by the sellers; and

• Liabilities for taxes relating to periods prior to our acquisition.

As a result, we cannot assure you that our past or future acquisitions will be successful or will not, in fact, harm our business. Among other things, if the liabilities we assume in connection with acquisitions are greater than expected, or if we discover obligations relating to the acquired properties or businesses of which we were not aware at the time of acquisition, our business and results of operations could be materially adversely affected.

In addition, we have now, and may have in the future, certain surviving indemnification obligations in favor of third parties under the terms of acquisition agreements to which we are a party. Most of these indemnification obligations will be capped as to amount and survival period, and we do not believe that these obligations will be material in the aggregate. However, there can be no assurances as to the ultimate amount of such obligations or whether such obligations will have a Material Adverse Effect on us.

Our future results will suffer if we do not effectively manage the expansion of our hospital and life science portfolios and operations following the acquisition of AHS and the Life Sciences Acquisition.

As a result of our acquisition of AHS in 2015, we entered into the general acute care hospital sector. Also, as a result of the Life Sciences Acquisition in 2016, we entered into the university-affiliated life science sector. Part of our long-term business strategy involves expanding our hospital and life science portfolios through additional acquisitions. Both the asset management of our existing general acute care hospital and university-affiliated life science portfolios and such additional acquisitions may involve complex challenges. Our future success will depend, in part, upon our ability to manage our expansion opportunities, integrate new investments into our existing business in an efficient and timely manner, successfully monitor the operations, costs, regulatory compliance and service quality of our operators and leverage our relationships with Ardent and other operators of hospitals and Wexford and other operators and developers of life science properties. It is possible that our expansion or acquisition opportunities within the general acute care hospital and life science sectors will not be successful, which could adversely impact our growth and future results.

Our investments are concentrated in seniors housing and healthcare real estate, making us more vulnerable economically to adverse changes in the real estate market and the seniors housing and healthcare industries than if our investments were diversified.

We invest primarily in seniors housing and healthcare properties and are constrained by the terms of our existing indebtedness from making investments outside those industries. This investment focus exposes us to greater economic risk than if our portfolio were to include real estate assets in other industries or assets unrelated to real estate.

The healthcare industry is highly regulated, and changes in government regulation and reimbursement can have material adverse consequences on its participants, some of which may be unintended. The healthcare industry is also highly competitive, and our operators and managers may encounter increased competition for residents and patients, including with respect to the scope and quality of care and services provided, reputation and financial condition, physical appearance of the properties, price and location. Our tenants, operators and managers are large employers who compete for labor, making their results sensitive to changes in the labor market and/or wages and benefits offered to their employees. If our tenants, operators and managers are unable to successfully compete with other operators and managers by maintaining profitable occupancy and rate levels or controlling labor costs, their ability to meet their respective obligations to us may be materially adversely affected. We cannot assure you that future changes in

government regulation will not adversely affect the healthcare industry, including our seniors housing and healthcare operations, tenants and operators, nor can we be certain that our tenants, operators and managers will achieve and maintain occupancy and rate levels or labor costs levels that will enable them to satisfy their obligations to us. Any adverse changes in the regulation of the healthcare industry, or the competitiveness of our tenants,

operators and managers, or costs of labor, could have a more pronounced effect on us than if we had investments outside the seniors housing and healthcare industries.

Real estate investments are relatively illiquid, and our ability to quickly sell or exchange our properties in response to changes in economic or other conditions is limited. In the event we market any of our properties for sale, the value of those properties and our ability to sell at prices or on terms acceptable to us could be adversely affected by a downturn in the real estate industry or any economic weakness in the seniors housing and healthcare industries. In addition, transfers of healthcare properties may be subject to regulatory approvals that are not required for transfers of other types of commercial properties. We cannot assure you that we will recognize the full value of any property that we sell for liquidity or other reasons, and the inability to respond quickly to changes in the performance of our investments could adversely affect our business, results of operations and financial condition.

Our operating assets expose us to various operational risks, liabilities and claims that could adversely affect our ability to generate revenues or increase our costs and could have a Material Adverse Effect on us.

Our senior living operating assets and office assets expose us to various operational risks, liabilities and claims that could increase our costs or adversely affect our ability to generate revenues, thereby reducing our profitability. These operational risks include fluctuations in occupancy levels, the inability to achieve economic resident fees (including anticipated increases in those fees), increases in the cost of food, materials, energy, labor (as a result of unionization or otherwise) or other services, rent control regulations, national and regional economic conditions, the imposition of new or increased taxes, capital expenditure requirements, professional and general liability claims, and the availability and cost of professional and general liability insurance. Any one or a combination of these factors could result in operating deficiencies in our senior living operations or office operations reportable business segments, which could have a Material Adverse Effect on us.

Our ownership of properties outside the United States exposes us to different risks than those associated with our domestic properties.

Our current or future ownership of properties outside the United States subjects us to risks that may be different or greater than those we face with our domestic properties. These risks include, but are not limited to:

- Challenges with respect to repatriation of foreign earnings and cash;
- Foreign ownership restrictions with respect to operations in countries in which we own properties;
- Regional or country-specific business cycles and economic instability;
- Challenges of complying with a wide variety of foreign laws and regulations, including those relating to real estate, corporate governance, operations, taxes, employment and legal proceedings;
- Differences in lending practices and the willingness of domestic or foreign lenders to provide financing; and
- Failure to comply with applicable laws and regulations in the United States that affect foreign operations, including, but not limited to, the U.S. Foreign Corrupt Practices Act.

Increased construction and development in the markets in which our seniors housing communities and MOBs are located could adversely affect our future occupancy rates, operating margins and profitability.

Limited barriers to entry in the seniors housing and MOB industries could lead to the development of new seniors housing communities or MOBs that outpaces demand. In particular, data published by the National Investment Center for Seniors Housing & Care has indicated that seniors housing construction starts have been increasing and deliveries on seniors housing communities will accelerate in 2017, especially in certain geographic markets. If development outpaces demand for those assets in the markets in which our properties are located, those markets may become saturated and we could experience decreased occupancy, reduced operating margins and lower profitability, which could have a Material Adverse Effect on us.

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

We derive a significant portion of our revenues from leasing properties pursuant to long-term triple-net leases that generally provide for fixed rental rates, subject to annual escalations. In certain cases, the annual escalations are contingent upon the achievement of specified revenue parameters or based on changes in CPI, with caps and floors. If, as a result of weak economic conditions or other factors, the properties subject to these leases do not generate sufficient revenue to achieve the specified rent escalation parameters or CPI does not increase, our growth and profitability may be hindered. If strong economic conditions result in significant increases in CPI, but the escalations

under our leases are capped, our growth and profitability also may be limited.

We own certain properties subject to ground lease, air rights or other restrictive agreements that limit our uses of the properties, restrict our ability to sell or otherwise transfer the properties and expose us to loss of the properties if such agreements are breached by us or terminated.

Our investments in MOBAs and other properties may be made through leasehold interests in the land on which the buildings are located, leases of air rights for the space above the land on which the buildings are located, or other similar restrictive arrangements. Many of these ground lease, air rights and other restrictive agreements impose significant limitations on our uses of the subject properties, restrict our ability to sell or otherwise transfer our interests in the properties or restrict the leasing of the properties. These restrictions may limit our ability to timely sell or exchange the properties, impair the properties' value or negatively impact our ability to find suitable tenants for the properties. In addition, we could lose our interests in the subject properties if the ground lease, air rights or other restrictive agreements are breached by us or terminated.

We may be unable to successfully foreclose on the collateral securing our loans and other investments, and even if we are successful in our foreclosure efforts, we may be unable to successfully sell any acquired equity interests or reposition any acquired properties, which could adversely affect our ability to recover our investments.

If a borrower defaults under mortgage or other secured loans for which we are the lender, we may attempt to foreclose on the collateral securing those loans, including by acquiring any pledged equity interests or acquiring title to the subject properties, to protect our investment. In response, the defaulting borrower may contest our enforcement of foreclosure or other available remedies, seek bankruptcy protection against our exercise of enforcement or other available remedies, or bring claims against us for lender liability. If a defaulting borrower seeks bankruptcy protection, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing foreclosure or other available remedies against the borrower unless relief is first obtained from the court with jurisdiction over the bankruptcy case. In addition, we may be subject to intercreditor or tri-party agreements that delay, impact, govern or limit our ability to foreclose on a lien securing a loan or otherwise delay or limit our pursuit of our rights and remedies. Any such delay or limit on our ability to pursue our rights or remedies could have a Material Adverse Effect on us.

Even if we successfully foreclose on the collateral securing our mortgage loans and other investments, costs related to enforcement of our remedies, high loan-to-value ratios or declines in the value of the collateral could prevent us from realizing the full amount of our secured loans, and we could be required to record a valuation allowance for such losses. Moreover, the collateral may include equity interests that we are unable to sell due to securities law restrictions or otherwise, or properties that we are unable to reposition with new tenants or operators on a timely basis, if at all, or without making improvements or repairs. Any delay or costs incurred in selling or repositioning acquired collateral could adversely affect our ability to recover our investments.

Some of our loan investments are subordinated to loans held by third parties.

Our mezzanine loan investments are subordinated to senior secured loans held by other investors that encumber the same real estate. If a senior secured loan is foreclosed, that foreclosure would extinguish our rights in the collateral for our mezzanine loan. In order to protect our economic interest in that collateral, we would need to be prepared, on an expedited basis, to advance funds to the senior lenders in order to cure defaults under the senior secured loans and prevent such a foreclosure. If a senior secured loan has matured or has been accelerated, then in order to protect our economic interest in the collateral, we would need to be prepared, on an expedited basis, to purchase or pay off that senior secured loan, which could require an infusion of fresh capital as large or larger than our initial investment. Our ability to sell or syndicate a mezzanine loan could be limited by transfer restrictions in the intercreditor agreement with the senior secured lenders. Our ability to negotiate modifications to the mezzanine loan documents with our borrowers could be limited by restrictions on modifications in the intercreditor agreement. Since mezzanine loans are typically secured by pledges of equity rather than direct liens on real estate, our mezzanine loan investments are more vulnerable than our mortgage loan investments to losses caused by competing creditor claims, unauthorized transfers, or bankruptcies.

Our tenants, operators and managers may be adversely affected by healthcare regulation and enforcement.

Regulation of the healthcare industry generally has intensified over time both in the number and type of regulations and in the efforts to enforce those regulations. This is particularly true for large for-profit, multi-facility providers like Atria, Sunrise, Brookdale Senior Living, Kindred and Ardent. Federal, state and local laws and regulations affecting

the healthcare industry include those relating to, among other things, licensure, conduct of operations, ownership of facilities, addition of facilities and equipment, allowable costs, services, prices for services, qualified beneficiaries, quality of care, patient rights, fraudulent or abusive behavior, financial and other arrangements that may be entered into by healthcare providers and the research, development, clinical testing, manufacture and marketing of life science products. In addition, changes in enforcement policies by federal and state governments have resulted in an increase in the number of inspections, citations of regulatory deficiencies and other regulatory sanctions, including terminations from the Medicare and Medicaid programs, bars

on Medicare and Medicaid payments for new admissions, civil monetary penalties and even criminal penalties. See “Governmental Regulation—Healthcare Regulation” included in Item 1 of this Annual Report on Form 10-K. We are unable to predict the scope of future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a material adverse effect on our tenants, operators and managers, which, in turn, could have a Material Adverse Effect on us.

If our tenants, operators and managers fail to comply with the extensive laws, regulations and other requirements applicable to their businesses and the operation of our properties, they could become ineligible to receive reimbursement from governmental and private third-party payor programs, face bans on admissions of new patients or residents, suffer civil or criminal penalties or be required to make significant changes to their operations. Our tenants, operators and managers also could face increased costs related to changes in healthcare regulation, such as the possible repeal of the ACA by the new presidential administration and Republican-controlled Congress and a shift toward less comprehensive health coverage, or be forced to expend considerable resources in responding to an investigation or other enforcement action under applicable laws or regulations. In such event, the results of operations and financial condition of our tenants, operators and managers and the results of operations of our properties operated or managed by those entities could be adversely affected, which, in turn, could have a Material Adverse Effect on us. Changes in the reimbursement rates or methods of payment from third-party payors, including insurance companies and the Medicare and Medicaid programs, could have a material adverse effect on certain of our tenants and operators and on us.

Certain of our tenants and operators rely on reimbursement from third-party payors, including the Medicare (both traditional Medicare and "managed" Medicare/Medicare Advantage) and Medicaid programs, for substantially all of their revenues. Federal and state legislators and regulators have adopted or proposed various cost-containment measures that would limit payments to healthcare providers, and budget crises and financial shortfalls have caused states to implement or consider Medicaid rate freezes or cuts. See “Governmental Regulation—Healthcare Regulation” included in Item 1 of this Annual Report on Form 10-K. Private third-party payors also have continued their efforts to control healthcare costs. In addition, coverage expansions via the ACA through Medicaid expansion and health insurance exchanges may be scaled back as the new presidential administration leads efforts to repeal and replace the ACA. We cannot assure you that our tenants and operators who currently depend on governmental or private payor reimbursement will be adequately reimbursed for the services they provide. Significant limits by governmental and private third-party payors on the scope of services reimbursed or on reimbursement rates and fees, whether from legislation, administrative actions or private payor efforts, could have a material adverse effect on the liquidity, financial condition and results of operations of certain of our tenants and operators, which could affect adversely their ability to comply with the terms of our leases and have a Material Adverse Effect on us.

The healthcare industry trend away from a traditional fee for service reimbursement model towards value-based payment approaches may negatively impact certain of our tenants’ revenues and profitability. Certain of our tenants, specifically those providers in the post-acute and general acute care hospital space, are subject to the broad trend in the healthcare industry toward value-based purchasing of healthcare services.

These value-based purchasing programs include both public reporting of quality data and preventable adverse events tied to the quality and efficiency of care provided by facilities. Medicare and Medicaid require healthcare facilities, including hospitals and skilled nursing facilities, to report certain quality data to receive full reimbursement updates. In addition Medicare does not reimburse for care related to certain preventable adverse events (also called “never events”). Many large commercial payors currently require healthcare facilities to report quality data, and several commercial payors do not reimburse hospitals for certain preventable adverse events.

During the Obama administration, HHS focused on tying Medicare payments to quality or value through alternative payment models, which generally aim to make providers attentive to the total costs of treatment. Examples of alternative payment models include bundled-payment arrangements. It is unclear whether such models will successfully coordinate care and reduce costs or whether they will decrease reimbursement. The value-based purchasing trend is not limited to the public sector. Several of the nation’s largest commercial payors have also expressed an intent to increase reliance on value-based reimbursement arrangements. Further, many large commercial payors require hospitals to report quality data, and several commercial payors do not reimburse hospitals for certain

preventable adverse events.

While the transition of presidential administrations and possible repeal of the ACA create unpredictability, we expect value-based purchasing programs, including programs that condition reimbursement on patient outcome measures, to become more common and to involve a higher percentage of reimbursement amounts. We are unable at this time to predict how this trend will affect the revenues and profitability of those of our tenants who are providers of healthcare services; however, if

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this trend significantly and adversely affects their profitability, it could in turn negatively affect their ability and willingness to comply with the terms of their leases with us and or renew those leases upon expiration, which could have a Material Adverse Effect on us.

If controls imposed on certain of our tenants who provide healthcare services that are reimbursed by Medicare, Medicaid and other third-party payors to reduce admissions and length of stay affect inpatient volumes at our healthcare facilities, the financial condition or results of operations of those tenants could be adversely affected.

Controls imposed by Medicare, Medicaid and commercial third-party payors designed to reduce admissions and lengths of stay, commonly referred to as “utilization reviews,” have affected and are expected to continue to affect certain of our healthcare facilities, specifically our acute care hospitals and post-acute facilities. Utilization review entails the review of the admission and course of treatment of a patient by managed care plans. Inpatient utilization, average lengths of stay and occupancy rates continue to be negatively affected by payor-required preadmission authorization and utilization review and by payor pressures to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Efforts to impose more stringent cost controls and reductions are expected to continue, which could negatively impact the financial condition of our tenants who provide healthcare services in our hospitals and post-acute facilities. If so, this could adversely affect these tenants’ ability and willingness to comply with the terms of their leases with us and or renew those leases upon expiration, which could have a Material Adverse Effect on us.

The implementation of new patient criteria for LTACs will change the basis upon which certain of our tenants are reimbursed by Medicare, which could adversely affect those tenants’ revenues and profitability.

As part of the Pathway for SGR Reform Act of 2013 enacted on December 26, 2013, Congress adopted various legislative changes impacting LTACs. These legislative changes create new Medicare criteria and payment rules for LTACs, and could have a material adverse impact on the revenues and profitability of the tenants of our LTACs. This material adverse impact could, in turn, negatively affect those tenants’ ability and willingness to comply with the terms of their leases with us or renew those leases upon expiration, which could have a Material Adverse Effect on us.

The hospitals on or near whose campuses our MOBs are located and their affiliated health systems could fail to remain competitive or financially viable, which could adversely impact their ability to attract physicians and physician groups to our MOBs.

Our MOB operations depend on the competitiveness and financial viability of the hospitals on or near whose campuses our MOBs are located and their ability to attract physicians and other healthcare-related clients to our MOBs. The viability of these hospitals, in turn, depends on factors such as the quality and mix of healthcare services provided, competition for patients, physicians and physician groups, demographic trends in the surrounding community, market position and growth potential, as well as the ability of the affiliated health systems to provide economies of scale and access to capital. If a hospital on or near whose campus one of our MOBs is located fails or becomes unable to meet its financial obligations, and if an affiliated health system is unable to support that hospital, the hospital may be unable to compete successfully or could be forced to close or relocate, which could adversely impact its ability to attract physicians and other healthcare-related clients. Because we rely on proximity to and affiliations with hospitals to create leasing demand in our MOBs, a hospital’s inability to remain competitive or financially viable, or to attract physicians and physician groups, could materially adversely affect our MOB operations and have a Material Adverse Effect on us.

Our development and redevelopment projects, including projects undertaken through our joint ventures, may not yield anticipated returns.

We consider and, when appropriate, invest in various development and redevelopment projects. In deciding whether to make an investment in a particular project, we make certain assumptions regarding the expected future performance of the property. Our assumptions are subject to risks generally associated with development and redevelopment projects, including, among others, that:

⚡We may be unable to obtain financing for the project on favorable terms or at all;

⚡We may not complete the project on schedule or within budgeted amounts;

We may encounter delays in obtaining or fail to obtain all necessary zoning, land use, building, occupancy, environmental and other governmental permits and authorizations, or underestimate the costs necessary to develop or redevelop the property to market standards;

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Construction or other delays may provide tenants or residents the right to terminate preconstruction leases or cause us to incur additional costs;

• Volatility in the price of construction materials or labor may increase our project costs;

• In the case of our MOB developments, hospitals or health systems may maintain significant decision-making authority with respect to the development schedule;

• Our builders may fail to perform or satisfy the expectations of our clients or prospective clients;

• We may incorrectly forecast risks associated with development in new geographic regions;

• Tenants may not lease space at the quantity or rental rate levels or on the schedule projected;

• Demand for our project may decrease prior to completion, including due to competition from other developments; and
• Lease rates and rents at newly developed or redeveloped properties may fluctuate based on factors beyond our control, including market and economic conditions.

If any of the risks described above occur, our development and redevelopment projects, including projects undertaken through our joint ventures, may not yield anticipated returns, which could have a Material Adverse Effect on us.

Our investments in joint ventures and unconsolidated entities could be adversely affected by our lack of sole decision-making authority, our reliance on our joint venture partners' financial condition, any disputes that may arise between us and our joint venture partners, and our exposure to potential losses from the actions of our joint venture partners.

As of December 31, 2016, we owned 33 MOBs, 13 seniors housing communities, eight life science and innovation centers and one specialty hospital through consolidated joint ventures, and we had ownership interests ranging between 5% and 25% in five MOBs, 21 seniors housing communities and 13 skilled nursing facilities through investments in unconsolidated entities. In addition, we had a 34% ownership interest in Atria and a 9.9% interest in Ardent as of December 31, 2016. These joint ventures and unconsolidated entities involve risks not present with respect to our wholly owned properties, including the following:

• We may be unable to take actions that are opposed by our joint venture partners under arrangements that require us to share decision-making authority over major decisions affecting the ownership or operation of the joint venture and any property owned by the joint venture, such as the sale or financing of the property or the making of additional capital contributions for the benefit of the property;

• For joint ventures in which we have a noncontrolling interest, our joint venture partners may take actions that we oppose;

• Our ability to sell or transfer our interest in a joint venture to a third party may be restricted if we fail to obtain the prior consent of our joint venture partners;

• Our joint venture partners may become bankrupt or fail to fund their share of required capital contributions, which could delay construction or development of a property or increase our financial commitment to the joint venture;

• Our joint venture partners may have business interests or goals with respect to a property that conflict with our business interests and goals, including with respect to the timing, terms and strategies for investment, which could increase the likelihood of disputes regarding the ownership, management or disposition of the property;

• Disagreements with our joint venture partners could result in litigation or arbitration that increases our expenses, distracts our officers and directors, and disrupts the day-to-day operations of the property, including by delaying important decisions until the dispute is resolved; and

• We may suffer losses as a result of actions taken by our joint venture partners with respect to our joint venture investments.

Events that adversely affect the ability of seniors and their families to afford daily resident fees at our seniors housing communities could cause our occupancy rates, resident fee revenues and results of operations to decline.

Assisted and independent living services generally are not reimbursable under government reimbursement programs, such as Medicare and Medicaid. A large majority of the resident fee revenues generated by our senior living operations, therefore, are derived from private pay sources consisting of the income or assets of residents or their family members. In light of the significant expense associated with building new properties and staffing and other costs of providing services, typically only seniors with income or assets that meet or exceed the comparable region median can afford the daily resident and care fees

at our seniors housing communities, and a weak economy, depressed housing market or changes in demographics could adversely affect their continued ability to do so. If the managers of our seniors housing communities are unable to attract and retain seniors that have sufficient income, assets or other resources to pay the fees associated with assisted and independent living services, the occupancy rates, resident fee revenues and results of operations of our senior living operations could decline, which, in turn, could have a Material Adverse Effect on us.

Our tenants in the life science industry face high levels of regulation, expense and uncertainty.

Life science tenants, particularly those involved in developing and marketing pharmaceutical products, are subject to certain unique risks, including the following:

Some of our tenants require significant outlays of funds for the research and development and clinical testing of their products and technologies. The economic environment in recent years has significantly impacted the ability of these companies to access the capital markets and venture capital funding. In addition, state and federal government and university budgets have been negatively impacted by the recent economic environment and, as a result certain programs, including grants related to biotechnology research and development, may be at risk of being eliminated or cut back significantly. If private investors, the government, universities, public markets or other sources of funding are unavailable to support such development, a tenant's business may fail.

The research and development, clinical testing, manufacture and marketing of some of our tenants' products require federal, state and foreign regulatory approvals. The approval process is typically long, expensive and uncertain. Even if our tenants have sufficient funds to seek approvals, one or all of their products may fail to obtain the required regulatory approvals on a timely basis or at all. Furthermore, our tenants may only have a small number of products under development. If one product fails to receive the required approvals at any stage of development, it could significantly adversely affect our tenant's entire business and its ability to pay rent.

Our tenants may be unable to adequately protect their intellectual property under patent, copyright or trade secret laws. Failure to do so could jeopardize their ability to profit from their efforts and to protect their products from competition.

Collaborative relationships with other life science entities may be crucial to the development, manufacturing, distribution or marketing of our tenants' products. If these other entities fail to fulfill their obligations under these collaborative arrangements, our tenants' businesses will suffer.

Legislation to reform the U.S. healthcare system, including regulations and legislation relating to the ACA, may include government intervention in product pricing and other changes that adversely affect reimbursement for our tenants' marketable products. In addition, sales of many of our tenants' marketable products are dependent, in large part, on the availability and extent of reimbursement from government health administration authorities, private health insurers and other organizations. Changes in government regulations, price controls or third-party payors' reimbursement policies may reduce reimbursement for our tenants' marketable products and adversely impact our tenants' businesses.

We cannot assure you that our tenants in the life science industry will be successful in their businesses. If our tenants' businesses are adversely affected, they may have difficulty making payments to us, which could materially adversely affect our business, results of operations and financial condition.

The amount and scope of insurance coverage provided by our policies and policies maintained by our tenants, operators and managers may not adequately insure against losses.

We maintain or require in our lease, management and other agreements that our tenants, operators and managers maintain all applicable lines of insurance on our properties and their operations. Although we regularly review the amount and scope of insurance provided by our policies and required to be maintained by our tenants, operators and managers and believe the coverage provided to be customary for similarly situated companies in our industry, we cannot assure you that we or our tenants, operators and managers will continue to be able to maintain adequate levels of insurance. We also cannot assure you that we or our tenants, operators and managers will maintain the required coverages, that we will continue to require the same levels of insurance under our lease, management and other

agreements, that such insurance will be available at a reasonable cost in the future or that the policies maintained will fully cover all losses on our properties upon the occurrence of a catastrophic event, nor can we make any guaranty as to the future financial viability of the insurers that underwrite our policies and the policies maintained by our tenants, operators and managers.

For various reasons, including to reduce and manage costs, many healthcare companies utilize different organizational and corporate structures coupled with self-insurance trusts or captive programs that may provide less insurance coverage than a traditional insurance policy. Companies that insure any part of their general and professional liability risks through their own

captive limited purpose entities generally estimate the future cost of general and professional liability through actuarial studies that rely primarily on historical data. However, due to the rise in the number and severity of professional claims against healthcare providers, these actuarial studies may underestimate the future cost of claims, and reserves for future claims may not be adequate to cover the actual cost of those claims. As a result, the tenants and operators of our properties who self-insure could incur large funded and unfunded general and professional liability expenses, which could materially adversely affect their liquidity, financial condition and results of operations and, in turn, their ability to satisfy their obligations to us. If we or the managers of our senior living operations decide to implement a captive or self-insurance program, any large funded and unfunded general and professional liability expenses incurred could have a Material Adverse Effect on us.

Should an uninsured loss or a loss in excess of insured limits occur, we could incur substantial liability or lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenues from the property. Following the occurrence of such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material uninsured losses, or losses in excess of insurance proceeds, will not occur in the future.

Significant legal actions or regulatory proceedings could subject us or our tenants, operators and managers to increased operating costs and substantial uninsured liabilities, which could materially adversely affect our or their liquidity, financial condition and results of operations.

From time to time, we may be subject to claims brought against us in lawsuits and other legal or regulatory proceedings arising out of our alleged actions or the alleged actions of our tenants, operators and managers for which such tenants, operators and managers may have agreed to indemnify, defend and hold us harmless. An unfavorable resolution of any such litigation or proceeding could materially adversely affect our or their liquidity, financial condition and results of operations and have a Material Adverse Effect on us.

In certain cases, we and our tenants, operators and managers may be subject to professional liability claims brought by plaintiffs' attorneys seeking significant punitive damages and attorneys' fees. Due to the historically high frequency and severity of professional liability claims against seniors housing and healthcare providers, the availability of professional liability insurance has decreased and the premiums on such insurance coverage remain costly. As a result, insurance protection against such claims may not be sufficient to cover all claims against us or our tenants, operators or managers, and may not be available at a reasonable cost. If we or our tenants, operators and managers are unable to maintain adequate insurance coverage or are required to pay punitive damages, we or they may be exposed to substantial liabilities.

The occurrence of cyber incidents could disrupt our operations, result in the loss of confidential information and/or damage our business relationships and reputation.

As our reliance on technology has increased, our business is subject to greater risk from cyber incidents, including attempts to gain unauthorized access to our or our managers' systems to disrupt operations, corrupt data or steal confidential information, and other electronic security breaches. While we and our managers have implemented measures to help mitigate these threats, such measures cannot guarantee that we will be successful in preventing a cyber incident. The occurrence of a cyber incident could disrupt our operations, or the operations of our managers, compromise the confidential information of our employees or the residents in our seniors housing communities, and/or damage our business relationships and reputation.

Our operators may be sued under a federal whistleblower statute.

Our operators who engage in business with the federal government may be sued under a federal whistleblower statute designed to combat fraud and abuse in the healthcare industry. See "Governmental Regulation—Healthcare Regulation" included in Item 1 of this Annual Report on Form 10-K. These lawsuits can involve significant monetary damages and award bounties to private plaintiffs who successfully bring these suits. If any of these lawsuits were brought against our operators, such suits combined with increased operating costs and substantial uninsured liabilities could have a material adverse effect on our operators' liquidity, financial condition and results of operations and on their ability to satisfy their obligations under our leases, which, in turn, could have a Material Adverse Effect on us.

We could incur substantial liabilities and costs if any of our properties are found to be contaminated with hazardous substances or we become involved in any environmental disputes.

Under federal and state environmental laws and regulations, a current or former owner of real property may be liable for costs related to the investigation, removal and remediation of hazardous or toxic substances or petroleum that are released from or are present at or under, or that are disposed of in connection with such property. Owners of real property may also face other environmental liabilities, including government fines and penalties imposed by regulatory authorities and damages for injuries to persons, property or natural resources. Environmental laws and regulations often impose liability without regard to whether the owner was aware of, or was responsible for, the presence, release or disposal of hazardous or toxic substances or

petroleum. In certain circumstances, environmental liability may result from the activities of a current or former operator of the property. Although we generally have indemnification rights against the current operators of our properties for contamination caused by them, such indemnification may not adequately cover all environmental costs. See “Governmental Regulation—Environmental Regulation” included in Item 1 of this Annual Report on Form 10-K. Our success depends, in part, on our ability to attract and retain talented employees, and the loss of any one of our key personnel could adversely impact our business.

The success of our business depends, in part, on the leadership and performance of our executive management team and key employees, and our ability to attract, retain and motivate talented employees could significantly impact our future performance. Competition for these individuals is intense, and we cannot assure you that we will retain our key officers and employees or that we will be able to attract and retain other highly qualified individuals in the future. Losing any one or more of these persons could have a Material Adverse Effect on us.

Failure to maintain effective internal controls could harm our business, results of operations and financial condition. Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on internal control over financial reporting, including management’s assessment of the effectiveness of such control. Because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud, effective internal controls over financial reporting may not prevent or detect misstatement and can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls over financial reporting and our operating internal controls, including any failure to implement required new or improved controls as a result of changes to our business or otherwise, or if we experience difficulties in their implementation, our business, results of operations and financial condition could be materially adversely harmed and we could fail to meet our reporting obligations.

Economic and other conditions that negatively affect geographic locations to which a greater percentage of our NOI is attributed could adversely affect our financial results.

For the year ended December 31, 2016, approximately 36.5% of our total NOI (excluding amounts in discontinued operations) was derived from properties located in California (13.8%), New York (5.9%), Texas (7.0%), Illinois (5.3%), and Florida (4.5%). As a result, we are subject to increased exposure to adverse conditions affecting these regions, including downturns in the local economies or changes in local real estate conditions, increased construction and competition or decreased demand for our properties, regional climate events and changes in state-specific legislation, which could adversely affect our business and results of operations.

We may be adversely affected by fluctuations in currency exchange rates.

Our ownership of properties in Canada and the United Kingdom currently subjects us to fluctuations in the exchange rates between U.S. dollars and Canadian dollars or the British pound, which may, from time to time, impact our financial condition and results of operations. If we continue to expand our international presence through investments in, or acquisitions or development of, seniors housing or healthcare assets outside the United States, Canada or the United Kingdom, we may transact business in other foreign currencies. Although we may pursue hedging alternatives, including borrowing in local currencies, to protect against foreign currency fluctuations, we cannot assure you that such fluctuations will not have a Material Adverse Effect on us.

Risks Arising from Our Capital Structure

We may become more leveraged.

As of December 31, 2016, we had approximately \$11.1 billion of outstanding indebtedness. The instruments governing our existing indebtedness permit us to incur substantial additional debt, including secured debt, and we may satisfy our capital and liquidity needs through additional borrowings. A high level of indebtedness would require us to dedicate a substantial portion of our cash flow from operations to the payment of debt service, thereby reducing the funds available to implement our business strategy and make distributions to stockholders. A high level of indebtedness could also have the following consequences:

- Potential limits on our ability to adjust rapidly to changing market conditions and vulnerability in the event of a downturn in general economic conditions or in the real estate or healthcare industries;
- Potential impairment of our ability to obtain additional financing to execute on our business strategy; and
- Potential downgrade in the rating of our debt securities by one or more rating agencies, which could have the effect of, among other things, limiting our access to capital and increasing our cost of borrowing.

In addition, from time to time, we mortgage certain of our properties to secure payment of indebtedness. If we are unable to meet our mortgage payments, then the encumbered properties could be foreclosed upon or transferred to the mortgagee with a resulting loss of income and asset value.

We are exposed to increases in interest rates, which could reduce our profitability and adversely impact our ability to refinance existing debt, sell assets or engage in acquisition, investment, development and redevelopment activity, and our decision to hedge against interest rate risk might not be effective.

We receive a significant portion of our revenues by leasing assets under long-term triple-net leases that generally provide for fixed rental rates subject to annual escalations, while certain of our debt obligations are floating rate obligations with interest and related payments that vary with the movement of LIBOR, Bankers' Acceptance or other indexes. The generally fixed rate nature of a significant portion of our revenues and the variable rate nature of certain of our debt obligations create interest rate risk. Although our operating assets provide a partial hedge against interest rate fluctuations, if interest rates rise, the costs of our existing floating rate debt and any new debt that we incur would increase. These increased costs could reduce our profitability, impair our ability to meet our debt obligations, or increase the cost of financing our acquisition, investment, development and redevelopment activity. An increase in interest rates also could limit our ability to refinance existing debt upon maturity or cause us to pay higher rates upon refinancing, as well as decrease the amount that third parties are willing to pay for our assets, thereby limiting our ability to promptly reposition our portfolio in response to changes in economic or other conditions.

We may seek to manage our exposure to interest rate volatility with hedging arrangements that involve additional risks, including the risks 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, that the amount of income we earn from hedging transactions may be limited by federal tax provisions governing REITs, and that these arrangements may cause us to pay higher interest rates on our debt obligations than otherwise would be the case.

Moreover, no amount of hedging activity can fully insulate us from the risks associated with changes in interest rates. Failure to hedge effectively against interest rate risk, if we choose to engage in such activities, could adversely affect our results of operations and financial condition.

Limitations on our ability to access capital could have an adverse effect on our ability to make required payments on our debt obligations, make distributions to our stockholders or make future investments necessary to implement our business strategy.

We cannot assure you that we will be able to raise the capital necessary to meet our debt service obligations, make distributions to our stockholders or make future investments necessary to implement our business strategy, if our cash flow from operations is insufficient to satisfy these needs, and the failure to do so could have a Material Adverse Effect on us. Although we believe that we have sufficient access to capital and other sources of funding to meet our expected liquidity needs, we cannot assure you that conditions in the capital markets will not deteriorate or that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancings and our results of operation and financial condition. If we cannot access capital at an acceptable cost or at all, we may be required to liquidate one or more investments in properties at times that may not permit us to maximize the return on those investments or that could result in adverse tax consequences to us.

As a public company, our access to debt and equity capital depends, in part, on the trading prices of our senior notes and common stock, which, in turn, depend upon market conditions that change from time to time, such as the market's perception of our financial condition, our growth potential and our current and expected future earnings and cash distributions. Our failure to meet the market's expectation with regard to future earnings and cash distributions or a significant downgrade in the ratings assigned to our long-term debt could impact our ability to access capital or increase our borrowing costs. We also rely on the financial institutions that are parties to our unsecured revolving credit facility. If these institutions become capital constrained, tighten their lending standards or become insolvent or if they experience excessive volumes of borrowing requests from other borrowers within a short period of time, they may be unable or unwilling to honor their funding commitments to us, which would adversely affect our ability to draw on our unsecured revolving credit facility and, over time, could negatively impact our ability to consummate acquisitions, repay indebtedness as it matures, fund capital expenditures or make distributions to our stockholders.

Covenants in the instruments governing our and our subsidiaries' existing indebtedness limit our operational flexibility, and a covenant breach could materially adversely affect our operations.

The terms of the instruments governing our existing indebtedness require us to comply with certain customary financial and other covenants, such as maintaining debt service coverage, leverage ratios and minimum net worth requirements. Our continued ability to incur additional debt and to conduct business in general is subject to our compliance with these covenants, which limit our operational flexibility. Breaches of these covenants could result in defaults under the applicable debt

instruments and could trigger defaults under any of our other indebtedness that is cross-defaulted against such instruments, even if we satisfy our payment obligations. In addition, covenants contained in the instruments governing our subsidiaries' outstanding mortgage indebtedness may restrict our ability to obtain cash distributions from such subsidiaries for the purpose of meeting our debt service obligations. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from our breach of any of these covenants, could have a Material Adverse Effect on us.

Risks Arising from Our Status as a REIT

Loss of our status as a REIT would have significant adverse consequences for us and the value of our common stock. If we lose our status as a REIT (currently or with respect to any tax years for which the statute of limitations has not expired), we will face serious tax consequences that will substantially reduce the funds available to satisfy our obligations, to implement our business strategy and to make distributions to our stockholders for each of the years involved because:

- We would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

- We could be subject to the federal alternative minimum tax and increased state and local taxes; and

- Unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a REIT for four taxable years following the year during which we were disqualified.

In addition, in such event we would no longer be required to pay dividends to maintain REIT status, which could adversely affect the value of our common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The determination of factual matters and circumstances not entirely within our control, as well as new legislation, regulations, administrative interpretations or court decisions, may adversely affect our investors or our ability to remain qualified as a REIT for tax purposes. Although we believe that we currently qualify as a REIT, we cannot assure you that we will continue to qualify for all future periods. The 90% distribution requirement will decrease our liquidity and may limit our ability to engage in otherwise beneficial transactions.

To comply with the 90% distribution requirement applicable to REITs and to avoid the nondeductible excise tax, we must make distributions to our stockholders. See "Certain U.S. Federal Income Tax Considerations—Requirements for Qualification as a REIT—Annual Distribution Requirements" included in Item 1 of this Annual Report on Form 10-K. Such distributions reduce the funds we have available to finance our investment, acquisition, development and redevelopment activity and may limit our ability to engage in transactions that are otherwise in the best interests of our stockholders.

Although we do not anticipate any inability to satisfy the REIT distribution requirement, from time to time, we may not have sufficient cash or other liquid assets to do so. For example, timing differences between the actual receipt of income and actual payment of deductible expenses, on the one hand, and the inclusion of that income and deduction of those expenses in arriving at our taxable income, on the other hand, or non-deductible expenses such as principal amortization or repayments or capital expenditures in excess of non-cash deductions may prevent us from having sufficient cash or liquid assets to satisfy the 90% distribution requirement.

In the event that timing differences occur or we decide to retain cash or to distribute such greater amount as may be necessary to avoid income and excise taxation, we may seek to borrow funds, issue additional equity securities, pay taxable stock dividends, distribute other property or securities or engage in a transaction intended to enable us to meet the REIT distribution requirements. Any of these actions may require us to raise additional capital to meet our obligations; however, see "Risks Arising from Our Capital Structure—Limitations on our ability to access capital could have an adverse effect on our ability to make required payments on our debt obligations, make distributions to our stockholders or make future investments necessary to implement our business strategy." The terms of the instruments governing our existing indebtedness restrict our ability to engage in certain of these transactions.

To preserve our qualification as a REIT, our certificate of incorporation contains ownership limits with respect to our capital stock that may delay, defer or prevent a change of control of our company.

To assist us in preserving our qualification as a REIT, our certificate of incorporation provides that if a person acquires beneficial ownership of more than 9.0% of our outstanding common stock or more than 9.9% of our

outstanding preferred stock, the shares that are beneficially owned in excess of the applicable limit are considered “excess shares” and are automatically deemed transferred to a trust for the benefit of a charitable institution or other qualifying organization selected by our Board of Directors. The trust is entitled to all dividends with respect to the excess shares and the trustee may exercise all

voting power over the excess shares. In addition, we have the right to purchase the excess shares for a price equal to the lesser of (i) the price per share in the transaction that created the excess shares or (ii) the market price on the day we purchase the shares, but if we do not purchase the excess shares, the trustee of the trust is required to transfer the shares at the direction of our Board of Directors. These ownership limits could delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

Our use of TRSs is limited under the Code.

Under the Code, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of the gross assets of a REIT may be represented by securities of one or more TRSs. This limitation may affect our ability to increase the size of our TRSs' operations and assets, and there can be no assurance that we will be able to comply with the applicable limitation, or that such compliance will not adversely affect our business. Also, our TRSs may not, among other things, operate or manage certain health care facilities, which may cause us to forego investments we might otherwise make. Finally, we may be subject to a 100% excise tax on the income derived from certain transactions with our TRSs that are not on an arm's-length basis. We believe our arrangements with our TRSs are on arm's-length terms and intend to continue to operate in a manner that allows us to avoid incurring the 100% excise tax described above, but there can be no assurance that we will be able to avoid application of that tax.

The tax imposed on REITs engaging in "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

Legislative or other actions could have a negative effect on our stockholders or us.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. The recent U.S. president election, coupled with a Republican-controlled Congress, makes tax reform more likely in the near-term. Changes to the tax laws, with or without retroactive application, could adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT, the federal income tax consequences of such qualification, or the federal income tax consequences of an investment in us. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Seniors Housing and Healthcare Properties

As of December 31, 2016, we owned approximately 1,300 properties (including properties owned through investments in unconsolidated entities and properties classified as held for sale), consisting of seniors housing communities, MOBs, life science and innovation centers, skilled nursing facilities, specialty hospitals and general acute care hospitals, and we had six properties under development, including one property that is owned by an unconsolidated real estate entity. We believe that maintaining a balanced portfolio of high-quality assets diversified by investment type, geographic location, asset type, tenant/operator, revenue source and operating model makes us less susceptible to single-state regulatory or reimbursement changes, regional climate events and local economic downturns and diminishes the risk that any single factor or event could materially harm our business.

As of December 31, 2016, we had \$1.7 billion aggregate principal amount of mortgage loan indebtedness outstanding, secured by 123 of our properties. Excluding those portions attributed to our joint venture partners, our share of mortgage loan indebtedness outstanding was \$1.6 billion.

The following table provides additional information regarding the geographic diversification of our portfolio of properties as of December 31, 2016 (including properties owned through investments in unconsolidated entities, but excluding properties classified as held for sale):

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| Geographic Location | Seniors Housing Communities | | Skilled Nursing Facilities | | MOBs | | Life Science and Innovation Centers | | Specialty Hospitals | | General Acute Care | |
|----------------------|-----------------------------|-------|----------------------------|---------------|-----------------|----------------------------|-------------------------------------|----------------------------|---------------------|---------------|--------------------|---------------|
| | # of Properties | Units | # of Properties | Licensed Beds | # of Properties | Square Feet ⁽¹⁾ | # of Properties | Square Feet ⁽¹⁾ | # of Properties | Licensed Beds | # of Properties | Licensed Beds |
| Alabama | 6 | 382 | — | — | 4 | 469 | — | — | — | — | — | — |
| Arizona | 28 | 2,562 | — | — | 13 | 830 | — | — | 1 | 60 | — | — |
| Arkansas | 4 | 287 | — | — | 1 | 5 | — | — | — | — | — | — |
| California | 86 | 9,743 | 4 | 483 | 25 | 2,034 | — | — | 6 | 503 | — | — |
| Colorado | 19 | 1,689 | 2 | 190 | 13 | 891 | — | — | 1 | 68 | — | — |
| Connecticut | 14 | 1,625 | — | — | — | — | 2 | 1,032 | — | — | — | — |
| District of Columbia | — | — | — | — | 2 | 102 | — | — | — | — | — | — |
| Florida | 49 | 4,582 | — | — | 19 | 583 | 1 | 259 | 6 | 511 | — | — |
| Georgia | 20 | 1,751 | 1 | 162 | 14 | 1,188 | — | — | — | — | — | — |
| Idaho | 1 | 70 | 6 | 513 | — | — | — | — | — | — | — | — |
| Illinois | 25 | 2,942 | 1 | 82 | 37 | 1,547 | 1 | 129 | 4 | 430 | — | — |
| Indiana | 11 | 921 | 8 | 1,109 | 23 | 1,603 | — | — | 1 | 59 | — | — |
| Kansas | 9 | 541 | — | — | 1 | 33 | — | — | — | — | — | — |
| Kentucky | 10 | 911 | 3 | 377 | 4 | 173 | — | — | 1 | 384 | — | — |
| Louisiana | 1 | 58 | — | — | 5 | 361 | — | — | — | — | — | — |
| Maine | 6 | 445 | — | — | — | — | — | — | — | — | — | — |
| Maryland | 5 | 360 | — | — | 2 | 83 | 5 | 489 | — | — | — | — |
| Massachusetts | 19 | 2,104 | 8 | 963 | — | — | — | — | — | — | — | — |
| Michigan | 23 | 1,457 | — | — | 14 | 599 | — | — | — | — | — | — |
| Minnesota | 18 | 1,029 | — | — | 4 | 241 | — | — | — | — | — | — |
| Mississippi | — | — | — | — | 1 | 51 | — | — | — | — | — | — |
| Missouri | 2 | 153 | — | — | 20 | 1,096 | 3 | 465 | 2 | 227 | — | — |
| Montana | 2 | 182 | 2 | 276 | — | — | — | — | — | — | — | — |
| Nebraska | 1 | 134 | — | — | — | — | — | — | — | — | — | — |
| Nevada | 5 | 589 | — | — | 5 | 416 | — | — | 1 | 52 | — | — |
| New Hampshire | 1 | 125 | 1 | 290 | — | — | — | — | — | — | — | — |
| New Jersey | 13 | 1,184 | 1 | 153 | 3 | 37 | — | — | — | — | — | — |
| New Mexico | 4 | 468 | — | — | — | — | — | — | 2 | 123 | 4 | 544 |
| New York | 42 | | | | | | | | | | | |