Physicians Realty Trust
Form 424B5
April 05, 2016
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Filed pursuant to Rule 424(b)(5)
Registration No. 333-205034

Subject to Completion

Preliminary Prospectus Supplement dated April 5, 2016

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS SUPPLEMENT
(To Prospectus dated June 17, 2015)

18,000,000 Common Shares

We are offering 18,000,000 common shares of beneficial interest, $0.01 par value per share. We are a self-managed healthcare real estate company that acquires, selectively develops, owns and manages healthcare properties that are leased to physicians, hospitals and healthcare delivery systems. We invest in real estate that is integral to providing high quality healthcare services. Our properties typically are on a campus with a hospital or other healthcare facilities or strategically located and affiliated with a hospital or other healthcare facilities. Our management team has significant public healthcare real estate investment trust (“REIT”) experience and long established relationships with physicians, hospitals and healthcare delivery system decision makers that we believe will provide quality investment opportunities to generate attractive risk-adjusted returns to our shareholders.

Our common shares trade on the New York Stock Exchange (”NYSE”) under the symbol “DOC.” On April 4, 2016, the last sale price of our common shares as reported on the NYSE was $18.60 per share.

We are a Maryland real estate investment trust and have elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our short taxable year ended December 31, 2013. Our common shares are subject to restrictions on ownership and transfer that are intended, among other purposes, to assist us in qualifying and maintaining our qualification as a REIT. Our declaration of trust, subject to certain exceptions, limits ownership to no more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our shares of beneficial interest.

Investing in our securities involves a high degree of risk. You should review carefully the risks and uncertainties described under the heading “Risk Factors” contained in this prospectus supplement beginning on page S-12 and page 2 of the accompanying prospectus, and under similar headings in the other documents that are incorporated by reference into this prospectus supplement.

	Per Share	Total
Public offering price	$	$
Underwriting discount(1)	$	$
Proceeds, before expenses, to us	$	$

(1) See "Underwriting" for additional disclosure regarding the underwriting discounts and commissions and other expenses payable to the underwriters by us.

The underwriters may also exercise their option to purchase up to an additional 2,700,000 common shares from us, at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters are offering the common shares as set forth under "Underwriting." The common shares will be ready for delivery on or about April , 2016.

Book-Running Managers

KeyBanc Capital Markets BofA Merrill Lynch RBC Capital Markets

The date of this prospectus supplement is April , 2016

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You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and any free writing prospectus prepared by us, including any information incorporated by reference herein. We have not authorized anyone to provide information that is different. This document may only be used in jurisdictions where it is legal to sell these securities. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and any free writing prospectus prepared by us, including any information incorporated by reference herein, is accurate only as of their respective dates or on the date or dates specified in those documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

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For investors outside of the United States: Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus supplement and the accompanying prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus supplement and the accompanying prospectus.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. Generally, when we refer only to the “prospectus,” we are referring to both parts combined. This prospectus supplement may add to, update or change information in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement or the accompanying prospectus.

If information in this prospectus supplement is inconsistent with the accompanying prospectus or documents incorporated by reference, the information in this prospectus supplement shall supersede such information. In addition, any statement in a filing we make with the Securities and Exchange Commission (the “SEC”) that adds to, updates or changes information contained in an earlier filing we made with the SEC shall be deemed to modify and supersede such information in the earlier filing. This prospectus supplement, the accompanying prospectus and the documents incorporated into each by reference include important information about us, the common shares being offered and other information you should know before investing in these securities.

You should rely only on this prospectus supplement, the accompanying prospectus and the information incorporated or deemed to be incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectuses we have prepared. We have not, and the underwriters are not, authorized anyone to provide you with information that is different from that contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectuses we have prepared. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, offering to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of this prospectus supplement or the accompanying prospectus, as the case may be, or in the case of the documents incorporated by reference, the date of such documents, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any sale of our common shares. Our business, financial condition, liquidity, results of operations, and prospects may have changed since those dates.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and some of the documents that are incorporated by reference herein, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which we refer to as our “2015 10-K,” contain various “forward-looking statements” within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, property performance and results of operations contain forward-looking statements. Likewise, any of our pro forma financial statements and all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “pla forma,” “estimates” or “anticipates” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, expectations or intentions.

Forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. These forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- general economic conditions;
- adverse economic or real estate developments, either nationally or in the markets where our properties are located;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- fluctuations in interest rates and increased operating costs;
- the availability, terms and deployment of debt and equity capital, including our unsecured revolving credit facility;
- our ability to make distributions on our common shares;
- general volatility of the market price of our common shares;
- our increased vulnerability economically due to the concentration of our investments in healthcare properties;
- our geographic concentrations in Texas, Georgia and Arizona cause us to be particularly exposed to downturns in these local economies or other changes in local real estate market conditions;
- changes in our business or strategy;
- our dependence upon key personnel whose continued service is not guaranteed;
- our ability to identify, hire and retain highly qualified personnel in the future;
- the degree and nature of our competition;
- changes in governmental regulations, tax rates and similar matters;
- defaults on or non-renewal of leases by tenants;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying healthcare properties to acquire and completing acquisitions, including our ability to consummate the CHI Acquisition (as defined herein) and the financing thereof;
- competition for investment opportunities;
- our failure to successfully develop, integrate and operate acquired properties and operations, including our ability to integrate the CHI Portfolio (as defined herein);
- the impact of our investment in joint ventures;
- the financial condition and liquidity of, or disputes with, any joint venture and development partners with whom we may make co-investments in the future;
- cybersecurity incidents could disrupt our business and result in the compromise of confidential information;

- our ability to operate as a public company;
- changes in accounting principles generally accepted in the United States (GAAP);
- lack of or insufficient amounts of insurance;
- other factors affecting the real estate industry generally;
- our failure to maintain our qualification as a REIT for U.S. federal income tax purposes;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes;
- changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs; and

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- factors that may materially adversely affect us, or the per share trading price of our common shares, including:
  - higher market interest rates;
  - the number of our common shares available for future issuance or sale;
  - our issuance of equity securities or the perception that such issuance might occur;
  - future debt;
  - failure of securities analysts to publish research or reports about us or our industry; and
  - securities analysts' downgrade of our common shares or the healthcare-related real estate sector.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes after the date of this prospectus supplement, except as required by applicable law. You should not place undue reliance on any forward-looking statements that are based on information currently available to us or the third parties making the forward-looking statements. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section below entitled "Risk Factors," including the risks incorporated by reference therein from our 2015 10-K, as updated by our subsequent filings with the SEC.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary may not contain all of the information that you should consider before making an investment in our common shares. You should read carefully this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, including the 2015 10-K, and any free writing prospectus we file. Please read “Risk Factors” for more information about important risks that you should consider before investing in our common shares.

Unless otherwise indicated, the information in this prospectus supplement assumes (i) 18,000,000 common shares are sold in this offering at a price of $18.60 per share (the closing price of our common shares on the NYSE on April 4, 2016) and (ii) the underwriters’ option to purchase additional shares is not exercised.

Unless the context otherwise requires or indicates, all references to “we,” “us,” “our,” “our company,” the “Trust,” the “Compa and “Physicians Realty” refer to Physicians Realty Trust, a Maryland real estate investment trust, together with its consolidated subsidiaries, including Physicians Realty L.P., a Delaware limited partnership, which we refer to as our “operating partnership,” and the historical business and operations of four healthcare real estate funds that we have classified for accounting purposes as our “Predecessor” and which we sometimes refer to as the “Ziegler Funds,” and not to the persons who manage us or serve on our Board of Trustees.

Our Company

We are a self-managed healthcare real estate company organized in April 2013 to acquire, selectively develop, own and manage healthcare properties that are leased to physicians, hospitals and healthcare delivery systems. We completed our initial public offering (“IPO”) in July 2013. Our common shares are listed on the NYSE and we are included in the MSCI US REIT Index.

We have grown our portfolio of gross real estate investments from approximately $124 million at the time of our IPO to approximately $1.7 billion as of December 31, 2015. As of December 31, 2015, our portfolio consisted of 151 properties located in 26 states with approximately 5,799,337 net leasable square feet, which were approximately 95.8% leased with a weighted average remaining lease term of approximately 9.0 years and approximately 74% of the net leasable square footage of our portfolio was either affiliated with a healthcare delivery system or located within approximately 1/4 mile of a hospital campus.

We receive a cash rental stream from healthcare providers under our leases. Approximately 85.5% of the annualized base rent payments from our properties as of December 31, 2015 are from triple net leases, pursuant to which the tenants are responsible for all operating expenses relating to the property, including but not limited to real estate taxes, utilities, property insurance, routine maintenance and repairs, and property management. This structure helps insulate us from increases in certain operating expenses and provides relatively predictable cash flow. We seek to structure our triple net leases to generate attractive returns on a long-term basis. Our leases typically have initial terms of five to 15 years and include annual rent escalators of approximately 2-3%. Our operating results depend significantly upon the ability of our tenants to make required rental payments. We believe that our portfolio of medical office buildings and other healthcare facilities will enable us to generate stable cash flows over time because of the diversity of our tenants, staggered lease expiration schedule, long-term leases, and low historical occurrence of tenants defaulting under their leases. As of December 31, 2015, leases representing a percentage of our portfolio on the basis of leasable square feet will expire as follows:

Year	Portfolio Lease Expirations
MTM	0.7%
2016	3.2%

2017	5.4%
2018	6.0%
2019	5.3%
2020	3.4%
2021	3.3%
2022	5.1%
2023	6.3%
2024	10.1%
Thereafter:	46.2%
Total (1)	95.0%

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(1) The difference between the 95.8% leased as of December 31, 2015 as noted above, compared to the 95.0% noted in this table is 0.8%, which is due to leases that expired on December 31, 2015. Of those 0.6% rolled into new long-term leases and 0.2% are vacant as of the date of this prospectus supplement. Vacancy totaled 4.2%.

We invest in real estate that is integral to providing high quality healthcare services. Our properties are typically located on a campus with a hospital or other healthcare facilities or strategically located and affiliated with a hospital or other healthcare facilities. We believe the impact of government programs and continuing trends in the healthcare industry create attractive opportunities for us to invest in healthcare-related real estate. Our management team has significant public healthcare REIT experience and has long established relationships with physicians, hospitals and healthcare delivery system decision makers that we believe will provide quality investment and growth opportunities. Our principal investments include medical office buildings, outpatient treatment facilities and other real estate integral to health care providers. We seek to invest in stabilized medical facility assets with initial cash yields of 6% to 9%.

We had no business operations prior to completion of the IPO and the related formation transactions on July 24, 2013. Our Predecessor, which is not a legal entity, is comprised of the four healthcare real estate funds managed by B.C. Ziegler & Company, which we refer to as the Ziegler Funds, that owned, directly or indirectly, interests in entities that owned the initial properties we acquired on July 24, 2013 in connection with completion of our IPO and related formation transactions.

We are a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our short taxable year ended December 31, 2013. We conduct our business through an umbrella partnership REIT structure in which our properties are owned by our operating partnership directly or through limited partnerships, limited liability companies or other subsidiaries. We are the sole general partner of our operating partnership and, as of the date of this prospectus supplement, own approximately 96.7% of the partnership interests in our operating partnership (“OP Units”).

Our Objectives and Growth Strategy

Our principal business objective is to provide attractive risk-adjusted returns to our shareholders through a combination of (i) sustainable and increasing rental revenue and cash flow that generate reliable, increasing dividends and (ii) potential long-term appreciation in the value of our properties and common shares. Our primary strategies to achieve our business objective are to invest in, own and manage a diversified portfolio of high quality healthcare properties and pay careful attention to our tenants’ real estate strategies, which we believe will drive high retention, high occupancy and reliable, increasing rental revenue and cash flow.

We intend to grow our portfolio of high-quality healthcare properties leased to physicians, hospitals, healthcare delivery systems and other healthcare providers primarily through acquisitions of existing healthcare facilities that provide stable revenue growth and predictable long-term cash flows. We may also selectively finance the development of new healthcare facilities through joint venture or fee arrangements with premier healthcare real estate developers. Generally, we only expect to make investments in new development properties when approximately 70% or more of the development property has been pre-leased before construction commences. We seek to invest in properties where we can develop strategic alliances with financially sound healthcare providers and healthcare delivery systems that offer need-based healthcare services in sustainable healthcare markets. We focus our investment activity on the following types of healthcare properties:

- medical office buildings;
- outpatient treatment and diagnostic facilities;

- physician group practice clinics;
- ambulatory surgery centers; and
- specialty hospitals and treatment centers.

We may opportunistically invest in life science facilities, assisted living and independent senior living facilities and in the longer term, senior housing properties, including skilled nursing. Consistent with our intent to qualify as a REIT, we may also opportunistically invest in companies that provide healthcare services and in joint venture entities with operating partners structured to comply with the REIT Investment Diversification Act of 2007.

In connection with our review and consideration of healthcare real estate investment opportunities, we generally take into account a variety of market considerations, including:

- whether the property is anchored by a financially-sound healthcare delivery system or whether tenants have strong affiliation to a healthcare delivery system;
- the performance of the local healthcare delivery system and its future prospects;

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- property location, with a particular emphasis on proximity to healthcare delivery systems;
- demand for medical office buildings and healthcare related facilities, current and future supply of competing properties and occupancy and rental rates in the market;
- population density and growth potential;
- ability to achieve economies of scale with our existing medical office buildings and healthcare related facilities or anticipated investment opportunities; and
- existing and potential competition from other healthcare real estate owners and operators.

Competitive Strengths

We believe our management team's extensive public REIT and healthcare experience distinguishes us from many other healthcare real estate companies, both public and private. Specifically, our company's competitive strengths include, among others:

- Strong Relationships with Physicians and Healthcare Delivery Systems. We believe our management team has developed a reputation among physicians, hospitals and healthcare delivery system decision makers of accessibility, reliability and trustworthiness. We believe this will result in attractive investment opportunities for us and high tenant satisfaction, leading to high occupancy rates, tenant retention and increasing cash flow from our properties.
- Experienced Senior Management Team. Our senior management team has over 75 years of healthcare delivery system executive and related experience in healthcare real estate, finance, law, policy and clinical business development. Our management team's experience providing full service real estate solutions for the healthcare industry gives us a deep understanding of the dynamics and intricacies associated with insurance reimbursement practices, government regulation, cross-referrals, clinical interdependencies and patient behaviors. These same factors drive the profitability of the healthcare delivery systems with whom we are strategically aligned.
- Investment Focus. We believe that healthcare-related real estate rents and valuations are less susceptible to changes in the general economy than many other types of commercial real estate due to demographic trends and the need-based rise in healthcare expenditures, even during economic downturns. For this reason, we believe healthcare-related real estate investments could potentially offer a more stable return to investors when compared to other types of real estate investments.
- Nimble Management Execution. We focus on individual investment opportunities of $25 million or less in off market or lightly marketed transactions, with few transactions exceeding $100 million. We established our company to identify and execute on these types and size of transactions efficiently, which we believe provides us an advantage over other healthcare real estate investors, such as the larger healthcare REITs, that focus on larger properties or portfolios in more competitively marketed investment opportunities.
- Access to State and Federal Healthcare Policy Makers. Our management team and trustees have relationships and access to state and federal policy makers to stay informed with healthcare policy directions that may affect the investment decisions and management of the company.
- Strong Healthcare Delivery System Affiliation and Diverse Medical Tenant Base. As of December 31, 2015, approximately 74% of the net leasable square footage of our portfolio was either affiliated with a healthcare delivery system or located within approximately 1/4 mile of a hospital campus. We believe that a healthcare delivery system-anchored property with a diversified, clinically interdependent tenant mix is important to the success of any healthcare facility, and our management team's understanding of the dynamics associated with tenant mix and clinical interdependency will be a key to our success. As of December 31, 2015, the leases for our properties have a weighted-average remaining lease term of approximately 9.0 years and leases representing only 14.6% of our annualized rent expire over the following three years.

Property Acquisitions in 2016

To the date of this prospectus supplement in 2016, we have completed investments totaling $202.3 million, which includes acquisitions of 16 properties and 2 condominiums located in 13 states containing an aggregate of approximately 751,562 net leasable square feet with an average lease term of approximately 8.2 years, for an aggregate of approximately $201.8 million and a loan investment of $0.5 million. These investments were made using proceeds from our follow-on public offering of common shares in January 2016 and borrowings under our unsecured revolving credit facility and mortgage financings. Investment activity for the period is summarized below:

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Property (1)	Location	Acquisition Date	Square Footage	Purchase Price (in thousands)
Randall Road MOB - Suite 380	Elgin, IL	January 14, 2016	2,645	$704
Great Falls Hospital	Great Falls, MT	January 25, 2016	64,449	29,043
Monterey Medical Center ASC	Stuart, FL	February 1, 2016	9,500	6,900
Physicians Medical Plaza MOB	Indianapolis, IN	February 1, 2016	40,936	8,500
Mezzanine Loan - Davis	Minnetonka, MN	February 4, 2016	—	500
Park Nicollet Clinic	Chanhassen, MN	February 8, 2016	56,600	18,600
HEB Cancer Center	Bedford, TX	February 12, 2016	38,182	13,980
Riverview Medical Center	Lancaster, OH	February 26, 2016	73,465	12,800
St. Luke's Cornwall MOB	Cornwall, NY	February 26, 2016	41,744	14,550
HonorHealth Glendale	Glendale, AZ	March 15, 2016	28,057	9,820
Columbia MOB	Hudson, NY	March 21, 2016	65,965	18,450
St Vincent POB 1	Birmingham, AL	March 23, 2016	76,112	10,951
St Vincent POB 2	Birmingham, AL	March 23, 2016	66,169	7,945
St Vincent POB 3	Birmingham, AL	March 23, 2016	82,595	10,455
Emerson Medical Building	Creve Coeur, MO	March 24, 2016	39,184	14,250
Randall Road MOB - Suite 160	Elgin, IL	March 24, 2016	3,439	865
Patient Partners Surgery Center	Gallatin, TN	March 30, 2016	9,890	4,750
Eye Associates of NM - Albuquerque	Albuquerque, NM	March 31, 2016	28,930	10,536
Eye Associates of NM - Santa Fe	Santa Fe, NM	March 31, 2016	23,700	8,739
Total			751,562	$202,338

(1) “MOB” refers to medical office building.

CHI Acquisition

Our operating partnership entered into two separate purchase and sale agreements (the “Purchase Agreements”), each dated as of April 5, 2016, a non-binding letter of intent (the “LOI”) and is negotiating the purchase of two additional medical office facilities with certain subsidiaries and affiliates of Catholic Health Initiatives (“CHI”) to acquire 52 medical office facilities located in ten states, comprising approximately 3.2 million net leasable square feet (the “CHI Portfolio”) for an aggregate purchase price of approximately $724.9 million, subject to closing prorations and other adjustments (collectively, the “CHI Acquisition”). This amount includes $692.0 million payable to CHI as the purchase price for the medical office facilities plus $32.9 million of capital commitments for improvements to the facilities expected to be paid by the Company over a five-year period following the closing of the acquisitions. The CHI Portfolio is 94.4% leased and the weighted average lease term remaining is 8.6 years. Approximately $40.6 million, or 93%, of the first year in place net operating income of $43.5 million will be represented by new 10-year leases with associated CHI health systems as described in more detail below. Forty-seven of the properties in the CHI Portfolio, representing approximately $611.1 million of purchase price, are subject to the Purchase Agreements and three properties in the CHI Portfolio, representing approximately $60.8 million of purchase price, are subject to a non-binding LOI. In addition, two of the properties in the CHI Portfolio, representing approximately $20.0 million of purchase price, are subject to ongoing negotiations for the purchase by our operating partnership of such properties. Upon closing of the CHI Acquisition, the first year unlevered cash yield is expected to be 6.3%.

At closing, 34 properties in the CHI Portfolio will be subject to ground leases. We expect to enter into new ground leases with affiliates of CHI with respect to 33 of those properties in connection with the CHI Acquisition. Each of the 33 new ground leases with CHI affiliates will have an initial 49 year term with three 10-year extension options. We also expect to take assignment of one existing ground lease with approximately 87 years remaining on the lease term. The CHI health systems currently occupy a substantial portion of the CHI Portfolio space as shown in the tables below and, upon closing of the CHI Acquisition, we expect to enter into new 10-year lease agreements for this space with the CHI health systems, which leases will be subject to 2.5% annual rent increases. In aggregate, the CHI health systems will occupy approximately 2,467,135 square feet, or approximately 78% of the total square footage in the CHI Portfolio.

The CHI Portfolio consists of the following properties, organized by the health system for which the property is affiliated:

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CHI Health - 14 Properties:

Property		Location	Square Footage	Health System Occupancy
Memorial Health Center	(1) (3)	Grand Island, NE	178,347	100%
Creighton University Medical Center University Campus	(1) (2) (3)	Omaha, NE	85,000	100%
Good Samaritan Medical Office Building	(1)	Kearney, NE	111,953	97%
Nebraska Heart Institute Medical Building	(1) (3) (4)	Lincoln, NE	70,256	100%
CHI Health McAuley Fogelstrom Center	(1) (3)	Omaha, NE	96,231	100%
Meridan Office Building	(1) (3)	Englewood, CO	82,000	100%
Lakeside Two Professional Center	(1)	Omaha, NE	67,652	35%
Lakeside Wellness Center	(1) (3)	Omaha, NE	44,806	100%
Exton Revenue Cycle Office	(1) (3)	Exton, PA	32,000	100%
Midlands One Professional Center	(1)	Papillion, NE	63,093	54%
Grand Island Specialty Clinic	(3)	Grand Island, NE	15,713	100%
Lakeside Three Professional Center		Omaha, NE	20,939	27%
Midlands Two Professional Center	(1)	Papillion, NE	28,230	23%
Good Samaritan North Annex Building	(1) (3) (4)	Kearney, NE	11,700	100%
Total			907,920	

(1) The acquisition of these properties is subject to approval by CHF (as defined herein).

(2) The purchase of this property is subject to a signed non-binding LOI and we expect to negotiate for and enter into definitive purchase and sale agreements following completion of this offering.

(3) These properties are occupied by a single CHI tenant.

(4) The purchase of these properties are subject to negotiations and we expect to negotiate for and enter into definitive purchase and sale agreements following completion of this offering.

Kentucky One - 9 Properties:

Property		Location	Square Footage	Health System Occupancy
Medical Center Jewish East	(2)	Louisville, KY	211,236	100%
St. Joseph Office Park Condominiums		Lexington, KY	240,789	59%
Jewish Hospital Outpatient Care Center	(2)	Louisville, KY	137,932	100%
Jewish - Medical Center South	(2)	Shepherdsville, KY	47,980	100%
Jewish - Medical Plaza I		Louisville, KY	59,586	86%
St. Mary Caritas Medical I	(1)	Louisville, KY	70,299	54%
KentuckyOne Health Medical Plaza II		Louisville, KY	96,335	54%
St. Mary Caritas Medical II	(1)	Louisville, KY	33,052	79%
St. Mary Caritas Medical III	(1)	Louisville, KY	33,010	4%
Total			930,219	

(1) The acquisition of these properties is subject to approval by CHF.

(2) These properties are occupied by a single CHI tenant.

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CHI Franciscan Health - 9 Properties:

Property		Location	Square Footage	Health System Occupancy
FESC	(1) (3)	Tacoma, WA	97,197	100%
St. Joseph Medical Clinic	(1)	Tacoma, WA	56,536	89%
St. Francis MOB	(2)	Federal Way, WA	40,667	69%
St. Joseph Medical Pavilion	(2)	Tacoma, WA	48,088	74%
St. Clare Medical Pavilion	(1)	Lakewood, WA	38,151	73%
Franciscan Education & Support Center	(1) (3)	Tacoma, WA	49,443	100%
Physician Medical Center		Tacoma, WA	35,526	11%
Franciscan Medical Pavilion in Gig Harbor	(1)	Gig Harbor, WA	30,379	99%
Franciscan Health Port Clinic	(3)	Tacoma, WA	6,061	100%
Total			402,048	

(1) The acquisition of these properties is subject to approval by CHF.
(2) The purchases of these properties are subject to a signed non-binding LOI and we expect to negotiate for and enter into definitive purchase and sale agreements following completion of this offering.
(3) These properties are occupied by a single CHI tenant.

CHI St. Alexius Health - 6 Properties:

Property		Location	Square Footage	Health System Occupancy
St. Alexius Minot Medical Plaza	(1) (2)	Minot, ND	67,575	100%
St. Alexius Technology & Education Building	(1) (2)	Bismarck, ND	100,000	100%
St. Alexius Orthopaedic Center of Excellence Building	(1)	Bismark, ND	66,187	62%
St. Alexius Medical Arts Pavilion	(1) (2)	Bismarck, ND	56,005	100%
St. Alexius Health Medical Plaza - Mandan	(1) (2)	Mandan, ND	22,000	100%
St. Alexius Great Plains Rehabilitation Services Building	(1) (2)	Bismarck, ND	34,000	100%
Total			345,767	

(1) The acquisition of these properties is subject to approval by CHF.
(2) These properties are occupied by a single CHI tenant.

CHI St. Vincent - 4 Properties:

Property		Location	Square Footage	Health System Occupancy
St. Vincent West Medical Office Building	(1) (2)	Little Rock, AR	45,000	100%
Parkview Medical Office Condominium		Little Rock, AR	29,622	91%
Hot Springs Village Medical Office Building		Hot Springs Village, AR	29,850	51%
Blandford Medical Condominiums	(2)	Little Rock, AR	13,640	100%
Total			118,112	

(1) The acquisition of this property is subject to approval by CHF.
(2) These properties are occupied by a single CHI tenant.

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CHI St. Luke's Health - Memorial - 3 Properties:

Property		Location	Square Footage	Health System Occupancy
Cardwell Professional Building		Lufkin, TX	43,089	76%
St. Luke's Health Medical Arts Pavilion		Lufkin, TX	52,685	51%
Memorial Outpatient Therapy Center	(1) (2)	Lufkin, TX	21,432	100%
Total			117,206	

(1) The acquisition of this property is subject to approval by CHF.
(2) This property is occupied by a single CHI tenant.

CHI St. Luke's Health - 2 Properties:

Property		Location	Square Footage	Health System Occupancy
Springwoods Medical Office Building	(1)	Springwoods, TX	101,254	70%
Woodlands Medical Arts Center I	(1)	The Woodlands, TX	96,199	13%
Total			197,453	

(1) The acquisition of these properties is subject to approval by CHF.

CHI Memorial - 1 Property:

Property		Location	Square Footage	Health System Occupancy
Missionary Ridge Medical Tower	(1)	Chattanooga, TN	85,351	59%
Total			85,351	

(1) The acquisition of this property is subject to approval by CHF.

Centura - 3 Properties:

Property		Location	Square Footage	Health System Occupancy
Peak One ASC	(1) (2)	Frisco, CO	11,120	100%
Thornton Neighborhood Health	(1) (2)	Thornton, CO	10,700	100%
Dacono Neighborhood Health	(1) (2)	Dacono, CO	10,800	100%
Total			32,620	

(1) The acquisition of these properties is subject to approval by CHF.
(2) These properties are occupied by a single CHI tenant.

Trinity - 1 Property:

Property		Location	Square Footage	Health System Occupancy
Fruitland Health Plaza	(1)	Fruitland, ID	22,799	47%
Total			22,799	

(1) The acquisition of this property is subject to approval by CHF.

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Aggregate CHI Portfolio - 52 Properties

System	Number of Properties	Square Footage
CHI Health	14	907,920
Kentucky One	9	930,219
CHI Franciscan Health	9	402,048
CHI St. Alexius Health	6	345,767
CHI St. Vincent	4	118,112
CHI St. Luke's Health - Memorial	3	117,206
CHI St. Luke's Health	2	197,453
CHI Memorial	1	85,351
Centura	3	32,620
Trinity	1	22,799
Total	52	3,159,495

The Purchase Agreements, and the purchase agreements we expect to enter into pursuant to the signed LOI and in connection with our ongoing negotiations with respect to two properties in the CHI Portfolio, contain or will contain customary representations, warranties and covenants of the parties. The acquisition of the CHI Portfolio is also subject to the satisfaction of certain conditions to closing, including receipt of approval of the Catholic Healthcare Federation ("CHF") with respect to the sale of 35 of the 52 properties included in the CHI Portfolio and other customary conditions to closing. Properties subject to CHF approval represent approximately $438.6 million of the aggregate purchase price of the portfolio. The Company has the option to proceed with the purchase of some or all of the 17 properties, representing approximately $253.3 million of the aggregate purchase price of the CHI Portfolio, that do not require CHF approval. If CHF does not approve of the sale of the properties that require approval, a break-up fee of $8.0 million is payable by CHI to our operating partnership. Assuming the satisfaction or waiver of all other outstanding contingencies, the acquisitions are anticipated to occur in a series of two or more closings, with the first closing of some or all of the 17 properties that do not require CHF approval anticipated to occur in the second quarter of 2016 and the second closing to occur promptly following the date on which approval of CHF is obtained, or at such other times as the parties may agree. While we expect that we will be successful in obtaining CHF approval, we can provide no assurances as to the certainty or timing of such approval.

We intend to use all or a significant portion of the net proceeds of this offering to fund a portion of the aggregate purchase price of the CHI Acquisition. We expect to fund the remaining aggregate purchase price through borrowings under our unsecured revolving credit facility, additional issuances of senior indebtedness and/or cash available on hand. In addition, we have obtained a fully committed $400.0 million one-year senior unsecured bridge loan from KeyBank N.A. to be drawn upon in the event that we are unable to otherwise fund the aggregate purchase price of the CHI Acquisition. The bridge loan is subject to a LIBOR rate or a Base rate plus applicable margin based on our credit rating, with variable increases based upon the length of time that the debt remains outstanding. The bridge loan is also subject to negotiation and execution of definitive loan documentation and draws on the bridge loan are subject to customary conditions to funding.

There can be no assurance that any or all of the conditions to closing, including CHF approval, will be satisfied or, if satisfied, that we will complete the acquisition of one or more of the properties comprising the CHI Portfolio, or the timing of any such closings. Moreover, the non-binding LOI described above, and our ongoing negotiations with respect to the purchase of two properties in the CHI Portfolio, remain subject to negotiation and execution of definitive agreements and customary closing conditions and there can be no assurance the Company will complete any of these transactions or acquire any of these properties.

Other Recent Developments

On March 18, 2016, we announced that our Board of Trustees authorized and we declared a cash distribution of $0.225 per common share and OP Unit for the quarterly period ended March 31, 2016. The distribution will be payable on April 18, 2016 to common shareholders and common OP Unit holders of record as of the close of business on April 1, 2016. This quarterly distribution will not be payable with respect to common shares issued in this offering.

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Corporate Information

We were formed as a Maryland real estate investment trust on April 9, 2013. Our corporate offices are located at 309 N. Water Street, Suite 500, Milwaukee, Wisconsin 53202. Our telephone number is (414) 367-5600. Our internet website is www.docreit.com. The information contained on, or accessible through, this website, or any other website, is not incorporated by reference into this prospectus supplement and the accompanying prospectus and should not be considered a part of this prospectus supplement and the accompanying prospectus.

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THE OFFERING

Common shares offered by us	18,000,000 shares (1)
Common shares to be outstanding after this offering	126,819,245 shares (2)
Common shares and OP Units to be outstanding after completion of this offering	130,495,945 shares and OP Units (3)
Use of proceeds	We estimate that we will receive net proceeds from this offering of approximately $320.7 million, or approximately $368.9 million if the underwriters' option to purchase additional common shares is exercised in full, after deducting the underwriting discount and estimated offering expenses payable by us. We intend to use the net proceeds of this offering as follows: l to fund a portion of the purchase price for the CHI Acquisition; and l for general corporate purposes, including, without limitation, working capital and investment in real estate. Pending application of the net proceeds of this offering, we intend to invest the net proceeds in interest-bearing accounts, money market accounts and interest-bearing securities in a manner that is consistent with our intention to maintain our qualification for taxation as a REIT.
Risk Factors	An investment in our common shares involves a high degree of risk. You should carefully read and consider the risks discussed under the caption “Risk Factors” and other information in this prospectus supplement, including “Part I, Item 1A. Risk Factors” contained in our 2015 10-K, which is incorporated by reference herein, for a discussion of factors you should consider carefully before investing in our common shares.
NYSE symbol	“DOC”

(1) Excludes up to 2,700,000 common shares that may be issued by us upon exercise of the underwriters’ option to purchase additional common shares.

(2) Common shares to be outstanding after this offering represents common shares outstanding as of April 4, 2016, and include (i) 106,523 unvested restricted common shares granted to our officers and trustees under our 2013 Equity Incentive Plan that are subject to vesting over a three-year period in connection with our IPO, (ii) 42,796 unvested restricted common shares granted to our officers and certain employees under our 2013 Equity Incentive

Plan in 2014, which shares vest ratably over three years, (iii) 80,988 unvested restricted common shares granted to our officers and certain employees under our 2013 Equity Incentive Plan in 2015, which have a one-year vesting period for officer award-recipients and a three-year vesting period for employee award-recipients, and (iv) 141,381 unvested restricted common shares granted to our officers and certain employees under our 2013 Equity Incentive Plan in 2016, which have a one-year vesting period for officer award-recipients and a three-year vesting period for employee award-recipients. Does not include (i) up to 2,700,000 common shares that may be issued by us upon exercise of the underwriters' option to purchase additional shares in this offering, (ii) 55,680, 95,725, and 141,337 performance-based restricted stock units at target level granted to our officers and trustees in 2014, 2015, and 2016, respectively, under the 2013 Equity Incentive Plan, which will vest, if at all, based on achievement of performance criteria over a performance period, subject to the terms of the grant, (iii) 1,687,430 common shares available for future issuance

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under our 2013 Equity Incentive Plan or (iv) 3,676,700 common shares that may be issued, at our option, upon redemption of outstanding OP Units not held by us.

(3) Includes (i) 3,676,700 OP Units that were outstanding and not held by us as of April 4, 2016, adjusted for the redemption of 44,685 preferred OP Units for cash in April 2016, (ii) 106,523 unvested restricted common shares granted to our officers and trustees under our 2013 Equity Incentive Plan that are subject to vesting over a three-year period in connection with our IPO, (iii) 42,796 unvested restricted common shares granted to certain new employees under our 2013 Equity Incentive Plan in 2014, which shares vest ratably over three years, (iv) 80,988 unvested restricted common shares granted to our officers and certain employees under our 2013 Equity Incentive Plan in 2015, which have a one-year vesting period for officer award-recipients and a three-year vesting period for employee award-recipients, and (v) 141,381 unvested restricted common shares granted to our officers and certain employees under our 2013 Equity Incentive Plan in 2016, which have a one-year vesting period for officer award-recipients and a three-year vesting period for employee award-recipients. Does not include (i) up to 2,700,000 common shares that may be issued by us upon exercise of the underwriters' option to purchase additional shares in this offering, (ii) 55,680, 95,725 and 141,337 performance-based restricted stock units at target level granted to our officers and trustees in 2014, 2015, and 2016, respectively, under the 2013 Equity Incentive Plan, which will vest, if at all, based on achievement of performance criteria over a performance period, subject to the terms of the grant or (iii) 1,687,430 common shares available for future issuance under our 2013 Equity Incentive Plan.

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RISK FACTORS

An investment in our common shares involves a high degree of risk. Before making an investment decision, you should carefully consider the risk factors set forth below as well as in our 2015 10-K, together with the other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus and the risks we have highlighted in other sections of this prospectus supplement. If any of these risks occurs, our business, financial condition, liquidity, tax status and results of operations could be materially and adversely affected. Some statements in this prospectus supplement and the accompanying prospectus, including statements in the following risk factors and those incorporated by reference, constitute forward-looking statements. Please refer to the section captioned "Cautionary Note Regarding Forward-Looking Statements."

Risks Related to the CHI Acquisition

Failure to complete the CHI Acquisition could negatively impact our business, prospects, financial condition and results of operations.

The CHI Acquisition is subject to the satisfaction of certain conditions to closing, including receipt of approval of CHF with respect to the sale of 35 of the 52 properties included in the CHI Portfolio, and other customary conditions to closing. Assuming the satisfaction or waiver of all other outstanding conditions, the acquisitions are anticipated to occur in a series of two or more closings, with the first closing of some or all of the 17 properties that do not require CHF approval anticipated to occur in the second quarter of 2016 and the second closing to occur promptly following the date on which approval of CHF is obtained, or at such other times as the parties may agree. Three properties in the CHI Portfolio are currently only subject to a non-binding LOI and no definitive agreements regarding the acquisition of such properties has been executed. In addition, two properties in the CHI Portfolio are subject to ongoing negotiations and no LOI or definitive agreements regarding the acquisition of such properties have been executed.

There can be no assurance that any or all of the conditions to closing, including CHF approval, will be satisfied or, if satisfied, that we will complete the acquisition of one or more of the properties comprising the CHI Portfolio, or the timing of any such closings. Moreover, the non-binding LOI described above, and our ongoing negotiations with respect to the purchase of two properties in the CHI Portfolio, remain subject to negotiation and execution of definitive agreements and customary closing conditions and there can be no assurance the Company will complete any of these transactions or acquire any of these properties.

In addition, we intend to use all or a significant portion of the net proceeds of this offering to fund a portion of the aggregate purchase price of the CHI Acquisition. However, we will be required to fund the remaining aggregate purchase price through borrowings under our unsecured revolving credit facility, additional issuances of senior indebtedness and/or cash available on hand. We have also obtained a fully committed $400.0 million one-year senior unsecured bridge loan from KeyBank N.A. to be drawn upon in the event that we are unable to otherwise fund the aggregate purchase price of the CHI Acquisition. The bridge loan is subject to a LIBOR rate or a Base rate plus applicable margin based on our credit rating, with variable increases based upon the length of time that the debt remains outstanding. The bridge loan is also subject to negotiation and execution of definitive loan documentation and draws on the bridge loan are subject to customary conditions to funding.

If the CHI Acquisition is not completed, in whole or in part, for any reason, we may be subject to several risks, including, but not limited to, the following:

- the requirement that, under certain circumstances, we may be required to forfeit an initial deposit of $6.0 million;
-

the incurrence of substantial legal, accounting, financial advisory and costs relating to the transaction that are payable whether or not the transaction is completed;

- we will have issued a significant number of additional common shares in this offering without realizing a corresponding increase in earnings and cash flow from acquiring the CHI properties;
- the focus of our management being directed toward the transaction and integration planning instead of on our core business and other opportunities; and
- we will have broad authority to use the net proceeds of this offering for other general corporate purposes, including funding acquisitions and other investments and the repayment of debt that may not be accretive to our results of operations.

If the transaction is not completed, these risks may materially adversely affect our business, financial condition, operating results and cash flows, including our ability to service debt and to make distributions to our shareholders.

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The intended benefits of the CHI Acquisition may not be realized, and if we are unable to successfully integrate the operations of the acquired properties, our business, prospects, financial condition and results of operations may be negatively affected.

We may not be able to achieve the anticipated benefits of the CHI Acquisition, even if the transaction is consummated. The CHI Acquisition poses risks associated with acquisition activities. Such risks include, without limitation, the following:

- the inability to successfully integrate the operations, maintain consistent standards, controls, policies and procedures, or realize the anticipated benefits of the CHI Acquisition within the anticipated timeframe, or at all;
- certain properties in the CHI Portfolio are located in new markets where we face risks associated with a limited number of established business relationships in the area;
- the inability to effectively monitor and manage our expanded business;
- diversion of our management's attention away from managing our business and other properties or seeking out other investment opportunities; and
- the properties in the CHI Portfolio may subject us to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities.

We cannot assure you that we will be able to complete the integration of the CHI Portfolio into our existing operations without encountering difficulties or that any such difficulties will not have a material adverse effect on us. Failure to realize the intended benefits of the CHI Acquisition could have a material adverse effect on our business, financial condition, operating results and cash flows, including our ability to service debt and to make distributions to our shareholders.

If we are unable to complete the CHI Acquisition, we will have no designated use for a substantial portion of the net proceeds from this offering, which could result in significant dilution to you and our existing shareholders and delays securing attractive alternative investments and may cause our future operating results to fall short of expectations.

We intend to use all or a significant portion of the net proceeds of this offering to fund a portion of the aggregate purchase price of the CHI Acquisition. If we are unable to complete the CHI Acquisition, we will have no designated use for the net proceeds from this offering, which could result in significant dilution to you and our existing shareholders. There can be no assurances that we will secure attractive alternative investments, which may cause our future operating results to fall short of expectations. Any delays in securing attractive alternative investments could also affect our ability to make distributions to our shareholders. In addition, you will be unable to evaluate in advance the manner in which we invest the net proceeds or the economic merits of the properties we may ultimately acquire with the net proceeds.

If we do not complete the CHI Acquisition, we will have incurred substantial expenses without our shareholders realizing the expected benefits.

If we are unable to complete the CHI Acquisition, we will have incurred significant due diligence, legal, accounting and other transaction costs in connection with the CHI Acquisition without our shareholders realizing the anticipated benefits. We cannot assure you that we will acquire the CHI Portfolio because the proposed CHI Acquisition is subject to a variety of factors, including the consent of CHF with respect to the sale of 35 of the 52 properties included in the CHI Portfolio, and the satisfaction of other customary closing conditions. Three properties in the CHI Portfolio are currently only subject to a non-binding LOI and no definitive agreements regarding the acquisition of such properties has been executed. In addition, two properties in the CHI Portfolio are subject to ongoing negotiations and no LOI or definitive agreements regarding the acquisition of such properties have been executed.

If we are unable to complete the CHI Acquisition, we may lose a $6.0 million initial deposit we made upon execution of the Purchase Agreements.

We made a $6.0 million initial deposit upon execution of the Purchase Agreements that is non-refundable except in the case of a material default by the sellers or the sellers' failure to satisfy a closing condition. If we are unable to complete the CHI Acquisition, we may lose the initial deposit without our shareholders realizing the expected benefits.

We intend to incur additional indebtedness to complete the CHI Acquisition, which may have a material adverse effect on our financial condition, results of operations and our ability to make distributions to our shareholders.

We intend to use all or a significant portion of the net proceeds of this offering to fund a portion of the aggregate purchase price of the CHI Acquisition. We expect to fund the remaining aggregate purchase price through borrowings under our unsecured revolving credit facility, additional issuances of senior indebtedness and/or cash available on hand. We have also

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obtained a fully committed $400.0 million one-year senior unsecured bridge loan from KeyBank N.A. to be drawn upon in the event that we are unable to otherwise fund the aggregate purchase price of the CHI Acquisition. The incurrence of additional indebtedness to fund the purchase price for the CHI Acquisition may have a material adverse effect on our financial condition, results of operations and our ability to make distributions to our shareholders.

Some of the properties in the CHI Portfolio will be subject to ground leases or other restrictions on the use of the space that could adversely affect our ability to procure new tenants, in which case our business and results of operations may suffer.

Thirty-four of the properties in the CHI Portfolio will be subject to long-term ground leases that contain certain restrictions. These restrictions include limits on our ability to re-let our initial properties to tenants not affiliated with CHI or its affiliates who own the underlying ground lessor interests, rights of first offer and refusal with respect to sales of the property, and limits on the types of medical procedures that may be performed. In addition, lower than expected rental rates upon re-letting could impede our growth. We may not be able to re-let space on terms that are favorable to us or at all. If we are unable to promptly re-let our properties, or if the rates upon such re-letting are significantly lower than expected, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be adversely affected.

The market price of our common shares and our earnings per share may decline as a result of the CHI Acquisition.

The market price of our common shares may decline as a result of the CHI Acquisition if we do not achieve the perceived benefits of the transaction as rapidly, or to the extent anticipated, by financial or industry analysts, if at all, or if the effect of the transaction on our financial results is not consistent with the expectations of financial or industry analysts or our own financial projections. In addition, the failure to achieve expected benefits and unanticipated costs relating to the transaction could reduce our future financial performance.

Risks Related to this Offering

The market price and trading volume of our common shares may be volatile following this offering and may be affected by a number of factors.

The per share trading price of our common shares may be volatile. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur, and investors in our common shares may from time to time experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. If the per share trading price of our common shares declines significantly, you may be unable to resell your shares at or above the public offering price. We cannot assure you that the per share trading price of our common shares will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common shares include:

- actual or anticipated variations in our quarterly operating results or dividends;
- increases in interest rates;
- changes in our funds from operations or earnings estimates;
- publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares to require a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we incur in the future;

- additions or departures of key management personnel;
- actions by institutional shareholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this prospectus or incorporated by reference herein;
- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate based companies;
- our underlying asset value;
- investor confidence in the stock and bond markets generally;
- changes in tax laws;
- future equity issuances;
- failure to meet earnings estimates;

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- failure to meet and maintain REIT qualification;
- changes in our credit ratings; and
- general market and economic conditions.

In the past, securities class-action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on us, including our financial condition, results of operations, cash flow, and per share trading price of our common shares.

We may be unable to make distributions which could result in a decrease in the market price of our common shares.

While we expect to make regular quarterly distributions to the holders of our common shares, if sufficient cash is not available for distribution from our operations, we may have to fund distributions from working capital, borrow to provide funds for such distributions, or reduce the amount of such distributions. To the extent we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. If cash available for distribution generated by our assets is less than expected, or if such cash available for distribution decreases in future periods from expected levels, our inability to make distributions could result in a decrease in the market price of our common shares.

All distributions will be made at the discretion of our Board of Trustees and will be based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, maintenance of our REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such other matters as our Board of Trustees may deem relevant from time to time. We may not be able to make distributions in the future, and our inability to make distributions, or to make distributions at expected levels, could result in a decrease in the market price of our common shares.

We may use a portion of the net proceeds from this offering to make distributions to our shareholders, which would, among other things, reduce our cash available to develop or acquire properties and may reduce the returns on your investment in our common shares.

Prior to the time we have fully invested the net proceeds of this offering, we may fund distributions to our shareholders out of the net proceeds of this offering, which would reduce the amount of cash we have available to acquire properties and may reduce the returns on your investment in our common shares. The use of these net proceeds for distributions to shareholders could adversely affect our financial results. In addition, funding distributions from the net proceeds of this offering may constitute a return of capital to our shareholders, which would have the effect of reducing each shareholder's tax basis in our common shares.

You may be restricted from acquiring or transferring certain amounts of our common shares.

The share ownership restrictions of the Internal Revenue Code of 1986, as amended (the "Code"), for REITs and the 9.8% share ownership limit and other restrictions on ownership and transfer of our shares contained in our declaration of trust may inhibit market activity in our shares of beneficial interest and restrict our business combination opportunities.

In order to qualify as a REIT, five or fewer individuals, as defined in the Code, may not own, beneficially or constructively, more than 50% in value of our issued and outstanding shares of beneficial interest at any time during the last half of a taxable year. Attribution rules in the Code determine if any individual or entity beneficially or constructively owns our shares of beneficial interest under this requirement. Additionally, at least 100 persons must beneficially own our shares of beneficial interest during at least 335 days of a taxable year. To help insure that we meet these tests, our declaration of trust restricts the acquisition and ownership of shares of our beneficial interest.

Our declaration of trust, with certain exceptions, authorizes our trustees to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our Board of Trustees, our declaration of trust prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our shares of beneficial interest. Our Board of Trustees has granted, and may in the future grant, an exemption to the 9.8% share ownership limitation. However, our Board of Trustees may not grant an exemption from this restriction to any proposed transferee whose ownership in excess of 9.8% of the number or value of our outstanding shares would result in our failing to qualify as a REIT. This as well as other restrictions on transferability and ownership will not apply, however, if our Board of Trustees determines that it is no longer in our best interests to continue to qualify as a REIT.

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USE OF PROCEEDS

After deducting the underwriting discount and commissions and estimated expenses of this offering payable by us, we expect to receive net proceeds from this offering of approximately $320.7 million, or approximately $368.9 million if the underwriters' option to purchase additional shares is exercised in full.

We intend to contribute the net proceeds of this offering to our operating partnership in exchange for OP Units in our operating partnership, and our operating partnership intends to use the net proceeds of this offering (i) to fund a portion of the purchase price for the CHI Acquisition and (ii) for general corporate purposes, including, without limitation, working capital and investment in real estate.

Pending application of the net proceeds of this offering, we intend to invest the net proceeds in interest-bearing accounts, money market accounts and interest-bearing securities in a manner that is consistent with our intention to maintain our qualification for taxation as a REIT. Such investments may include, for example, government and government agency certificates, government bonds, certificates of deposit, interest-bearing bank deposits, money market accounts and mortgage loan participations.

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CAPITALIZATION

The following table sets forth (i) our historical capitalization as of December 31, 2015, and (ii) our historical capitalization on an as adjusted basis to give effect (a) to this offering and the use of net proceeds as set forth in "Use of Proceeds," (b) the consummation of our operating partnership's January 2016 offering of $150.0 million aggregate principal amount of senior notes and the application of the net proceeds therefrom, (c) the consummation of our registered public offering of common shares in January 2016 and the application of the net proceeds therefrom and (d) the other adjustments described in the footnotes to the table below. You should read this table in conjunction with "Use of Proceeds" appearing elsewhere in this prospectus supplement, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in our 2015 10-K, which is incorporated herein by reference.

	As of December 31, 2015	
	Historical	As Adjusted
	(In thousands, except share amounts)	
Cash and Cash Equivalents	$3,143	$323,851
Debt (2)		
Revolving Credit Facility	395,000	121,000
Mortgage Debt	94,600	115,687
Private Placement Debt	—	150,000
Equity:		
Common shares, $0.01 par value per share, 500,000,000 common shares authorized, 86,864,063 common shares issued and outstanding as of December 31, 2015; 125,450,904 common shares issued and outstanding on an adjusted basis (1)	872	1,237
Additional paid in capital	1,129,284	1,724,405
Accumulated deficit	(109,024)	(109,024)
Non-controlling interests	55,329	59,471
Total equity	1,076,461	1,676,089
Total capitalization	$1,566,061	$2,062,776

(1) As adjusted common shares and other equity amounts outstanding include (i) 18,000,000 common shares to be issued in this offering, (ii) 21,275,000 common shares issued in our January 2016 public offering, (iii) 106,523 unvested restricted common shares as of December 31, 2015 granted to our officers and trustees under our 2013 Equity Incentive Plan that are subject to vesting over a three-year period in connection with our IPO, (iv) 42,796 unvested restricted common shares as of December 31, 2015 granted to certain new employees under our 2013 Equity Incentive Plan in 2014, which shares vest ratably over three years, (v) 162,522 unvested restricted common shares granted to our officers and certain employees under our 2013 Equity Incentive Plan in 2015, which have a one-year vesting period for officer award-recipients and a three-year vesting period for employee award-recipients, but exclude (i) up to 2,700,000 common shares issuable upon exercise of the underwriters' option to purchase additional shares in this offering, (ii) 141,381 unvested restricted common shares granted to our officers and certain employees under our 2013 Equity Incentive Plan after December 31, 2015, which have a one-year vesting period for officer award-recipients and a three-year vesting period for employee award-recipients, (iii) 20,481 shares issued our trustees under the 2013 Equity Incentive Plan in 2016 upon vesting of performance-based restricted stock units, (iv) 2,829 common shares that have been issued under our DRIP, (v) 55,680, 95,725, and 141,337 performance-based restricted stock units, which are neither issued nor outstanding as of the date of this offering, at

target level granted to our officers and trustees in 2014, 2015, and 2016, respectively, under the 2013 Equity Incentive Plan, which will vest, if at all, based on achievement of performance criteria over a performance period, subject to the terms of the grant, (vi) 12,023 incentive shares forfeited by Company executives and employees, (vii) 1,687,430 common shares available for future issuance under our 2013 Equity Incentive Plan, which are neither issued nor outstanding as of the date of this offering, (viii) 215,673 common shares issued upon redemption of outstanding OP Units not held by us or (ix) 3,676,700 common shares that as of the date of this offering which may be issued, at our option, upon redemption of outstanding OP Units not held by us, adjusted for the redemption of 44,685 preferred OP Units for cash in April 2016. The OP Units may, subject to holding period requirements and other limits in the operating partnership agreement, be redeemed at the option of the holder for cash or, at our option, for common shares on a one-for-one basis.

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(2) As adjusted to (i) reflect the repayment of $273.0 million of borrowings under our unsecured revolving credit facility with a portion of the net proceeds from our January 2016 public offering, (ii) reflect the repayment of $150.0 million of borrowings under our unsecured revolving credit facility with the net proceeds from the issuance by our operating partnership of $150.0 million aggregate principal amount of senior notes in January 2016 and (iii) reflect a net increase in mortgage debt in the amount of approximately $21.1 million and additional net borrowings made under our unsecured revolving credit facility since December 31, 2015 totaling $149.0 million.

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OUR INDUSTRY AND MARKET OPPORTUNITY

The nature of healthcare delivery continues to evolve due to the impact of government programs, regulatory changes and consumer preferences. We believe these changes have increased the need for capital among healthcare providers and increased pressure on these providers to integrate more efficient real estate solutions in order enhance the delivery of quality healthcare. In particular, we believe the following factors and trends are creating an attractive environment in which to invest in healthcare properties.

$3.0 Trillion Healthcare Industry Projected to Grow to $5.4 Trillion (and 19.6% of U.S. GDP) by 2024

According to the U.S. Department of Health and Human Services ("HHS"), healthcare spending accounted for 17.5% of U.S. gross domestic product ("GDP") in 2014. The general aging of the population, driven by the Baby Boomer generation and advances in medical technology and services which increase life expectancy, are key drivers of the growth in healthcare expenditures. The anticipated continuing increase in demand for healthcare services, together with an evolving complex and costly regulatory environment, changes in medical technology and reductions in government reimbursements are expected to pressure capital-constrained healthcare providers to find cost effective solutions for their real estate needs.

We believe the demand by healthcare providers for healthcare real estate will increase as health spending in the United States continues to increase. According to the Centers for Medicare & Medicaid Services' National Health Expenditure Projections 2015-2024, national healthcare expenditures continue to rise and are projected to grow from an estimated $3.0 trillion in 2014 to $5.4 trillion by 2024 representing an average annual rate of growth of 6.0%, reaching a projected 19.6% of GDP in 2024.

Source: Centers for Medicare & Medicaid Services, Office of the Actuary

Aging Population

The aging of the U.S. population has a direct effect on the demand for healthcare as older persons generally utilize healthcare services at a rate well in excess of younger people. According to the U.S. Census Bureau, the U.S. population over 65 years of age is projected to more than double from 47.8 million to nearly 98.2 million and the 85 and older population is expected to more than triple, from 6.3 million to 19.7 million, between 2015 and 2060. Also according to the U.S. Census Bureau, the number of older Americans is growing as a percentage of the total U.S. population with the number of persons older than 65 estimated to comprise 14.9% of the total U.S. population in 2015 and projected to grow to 23.6% by 2060.

We believe that healthcare expenditures for the population over 65 years of age will continue to rise as a disproportionate share of healthcare dollars is spent on older Americans. We believe the older population group increasingly will require treatment and management of chronic and acute health ailments and that this increased demand for healthcare services will create a substantial need for additional medical office buildings and other facilities that serve the healthcare industry in many regions of the United States. Additionally, we believe there will likely be a focus on lowering the cost of outpatient care to support the aging U.S. population, which will continue to support medical office and outpatient facility property demand in the long term. We believe these trends will result in a substantial increase in the number of quality properties meeting our investment criteria.

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We believe advances in medical technology will continue to enable healthcare providers to identify and treat once fatal illnesses and improve the survival rate of critically ill and injured patients who will require continuing medical care. Along with these technical innovations, the U.S. population is growing older and living longer.

Source: U.S. Census Bureau

Affordable Care Act (Estimated 30 Million More Insured by 2020 and Increased Market Certainty)

The Patient Protection and Affordable Care Act (the "Affordable Care Act") constitutes a significant overhaul of many aspects of healthcare regulations and health insurance. We believe this evolution of U.S. healthcare policy creates the framework for healthcare services over the near term. The Affordable Care Act requires every American to have health insurance or be subjected to a tax. Those who cannot afford health insurance are offered insurance subsidies or Medicaid coverage. The U.S. Census Bureau estimates that approximately 50 million Americans did not have healthcare insurance in 2009. HHS predicts the Affordable Care Act will result in an additional 30 million Americans having healthcare insurance by 2020, which we believe will substantially increase the demand for healthcare services.

We believe the increase in the number of Americans with access to health insurance will result in an increase in physician office visits and an overall rise in healthcare utilization which in turn will drive a need for expansion of medical, outpatient, and smaller specialty hospital facilities. Additionally, the increased dissemination of health research through media outlets, marketing of healthcare products, and availability of advanced screening techniques and medical procedures have contributed to a more engaged population of healthcare users. This has created increased demand for customized facilities providing specialized, preventive and integrative healthcare services.

The Affordable Care Act further contains provisions which are designed to lower reimbursement amounts under Medicare and tie reimbursement levels to the quality of services provided. We believe these and other provisions of the Affordable Care Act will increase the pressure on healthcare providers to become more efficient in their business models, invest capital in their businesses, lower costs and improve the quality of care, which in turn will drive healthcare systems to monetize their real estate assets and create demand for new, modern and specialized facilities.

Clinical Care Continues to Shift to Outpatient Care

According to the American Hospital Association, procedures traditionally performed in hospitals, such as certain types of surgery, are increasingly moving to outpatient facilities driven by advances in clinical science, shifting consumer preferences, limited or inefficient space in existing hospitals and lower costs in the outpatient environment. This continuing shift toward delivering healthcare services in an outpatient environment rather than a traditional hospital environment increases the need for additional outpatient facilities and smaller, more specialized and efficient hospitals. Studies by the Medicare Payment Advisory Commission and others have shown that healthcare is delivered more cost effectively and with higher patient satisfaction when it is provided on an outpatient basis. Increasingly, hospital admissions are reserved for the critically ill, and less critical patients are treated on an outpatient basis with recuperation in their own homes. We believe the recently enacted Affordable Care Act and healthcare market trends toward outpatient care will continue to push healthcare services out of larger, older, inefficient hospitals and into newer, more efficient and conveniently located outpatient facilities and smaller specialized hospitals. We believe that increased specialization within the medical field is also driving demand for medical facilities designed specifically for particular specialties and that physicians want to locate their practices in medical office space that is in or adjacent to these facilities.

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Impact of BBA on Outpatient Care

Section 603 of the Bipartisan Budget Act of 2015 (the “BBA”) will exclude certain hospital outpatient departments (“HOPDs”) from charging hospital inpatient rates, potentially impacting their profitability, particularly for those providing oncology and cardiology services. Until recently, HOPDs charged similar rates as hospital inpatient departments for certain services. The BBA was passed into law on November 2, 2015, and will take effect in 2016. All HOPDs currently reimbursed at the existing hospital inpatient rates will be allowed to continue reimbursement at these higher rates, and thus Section 603 of the BBA will apply only to new HOPD locations.

We own a number of assets that will continue to be reimbursed at hospital inpatient rates, which we refer to as “603 assets” after the applicable section of the BBA. Rent derived from these 603 assets accounts for approximately 25% of our total portfolio rent. Depending upon the implementation of the regulations, the BBA may enhance the value of these 603 assets, as existing HOPDs may lose their higher reimbursements rates should they choose to change locations.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section summarizes the material U.S. federal income tax considerations that you, as a prospective investor, may consider relevant in connection with the purchase, ownership and disposition of our common shares and is intended to supersede in its entirety the discussion under the heading "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus. Baker & McKenzie LLP has acted as our tax counsel, has reviewed this summary, and is of the opinion that the discussion contained herein is accurate in all material respects. Because this section is a summary, it does not address all aspects of taxation that may be relevant to particular shareholders in light of their personal investment or tax circumstances, or to certain types of shareholders that are subject to special treatment under the U.S. federal income tax laws, such as:

- insurance companies;
- tax-exempt organizations (except to the limited extent discussed in "—Taxation of Tax-Exempt Shareholders" below);
- financial institutions or broker-dealers;
- non-U.S. individuals and foreign corporations (except to the limited extent discussed in "—Taxation of Non-U.S. Shareholders" below);
- U.S. expatriates;
- persons who mark-to-market our common shares;
- subchapter S corporations;
- U.S. shareholders (as defined below) whose functional currency is not the U.S. dollar;
- regulated investment companies and REITs;
- trusts and estates;
- persons who receive our common shares through the exercise of employee shares options or otherwise as compensation;
- persons holding our common shares as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment;
- persons subject to the alternative minimum tax provisions of the Code; and
- persons holding our common shares through a partnership or similar pass-through entity.

This summary assumes that shareholders hold our shares as capital assets for U.S. federal income tax purposes, which generally means property held for investment.

The statements in this section are not intended to be, and should not be construed as, tax advice. The statements in this section are based on the Code, final, temporary and proposed regulations promulgated by the U.S. Treasury Department ("Treasury Regulations"), the legislative history of the Code, current administrative interpretations and practices of the Internal Revenue Service (the "IRS"), and court decisions. The reference to IRS interpretations and practices includes the IRS practices and policies endorsed in private letter rulings, which are not binding on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this prospectus supplement. Future legislation, Treasury Regulations, administrative interpretations and court decisions could change the current law or adversely affect existing interpretations of current law on which the information in this section is based. Any such change could apply retroactively. We have not received any rulings from the IRS concerning our qualification as a REIT. Accordingly, even if there is no change in the applicable law, no assurance can be provided that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged.

WE URGE YOU TO CONSULT YOUR TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES AND OF OUR ELECTION TO BE TAXED AS A REIT. SPECIFICALLY, YOU ARE URGED TO CONSULT YOUR TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN, AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP, DISPOSITION AND ELECTION, AND REGARDING POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

Taxation of our Company

We were organized on April 9, 2013 as a Maryland real estate investment trust. We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our short taxable year ended December 31, 2013. We believe that, commencing with such taxable year, we have been organized and have operated in such a manner as to qualify for taxation as a REIT under the U.S. federal income tax laws, and we intend to continue to operate in such a manner, but no assurances can be given that we will operate in a manner so as to qualify or remain qualified as a REIT. This section discusses the laws governing the U.S. federal income tax treatment of a REIT and its shareholders. These laws are highly technical and complex.

In connection with the filing of this prospectus supplement, Baker & McKenzie LLP will render an opinion that we qualified to be taxed as a REIT under the U.S. federal income tax laws for our taxable years ended December 31, 2013, December

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31, 2014 and December 31, 2015 and our organization and current and proposed method of operations will enable us to continue to qualify for taxation as a REIT for our taxable year ending December 31, 2016 and thereafter. Investors should be aware that Baker & McKenzie LLP's opinion will be based upon various customary assumptions relating to our organization and operation, will be conditioned upon certain representations and covenants made by our management as to factual matters, including representations regarding our organization, the nature of our assets and income, and the conduct of our business operations. Baker & McKenzie LLP's opinion is not binding upon the IRS or any court and speaks as of the date issued. In addition, Baker & McKenzie LLP's opinion will be based on existing U.S. federal income tax law governing qualification as a REIT, which is subject to change either prospectively or retroactively. Moreover, our qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual results, certain qualification tests set forth in the U.S. federal income tax laws. Those qualification tests involve the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of ownership of shares of our beneficial interest, and the percentage of our earnings that we distribute. Baker & McKenzie LLP will not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements. While we intend to operate so that we will continue to qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given by tax counsel or by us that we will qualify as a REIT for any particular year. Baker & McKenzie LLP's opinion does not foreclose the possibility that we may have to use one or more of the REIT savings provisions described below, which could require us to pay an excise or penalty tax (which could be material) in order for us to maintain our REIT qualification. For a discussion of the tax consequences of our failure to qualify as a REIT, see "—Failure to Qualify."

If we qualify as a REIT, we generally will not be subject to U.S. federal income tax on the taxable income that we distribute to our shareholders. The benefit of that tax treatment is that it avoids the "double taxation," or taxation at both the corporate and shareholder levels, that generally results from owning shares in a non-REIT corporation. However, we will be subject to U.S. federal tax in the following circumstances:

- We will pay U.S. federal income tax on any taxable income, including undistributed net capital gain, that we do not distribute to shareholders during, or within a specified time period after, the calendar year in which the income is earned.
- We may be subject to the "alternative minimum tax" on any items of tax preference, including any deductions of net operating losses.
- We will pay income tax at the highest corporate rate on:
  - net income from the sale or other disposition of property acquired through foreclosure ("Foreclosure Property") that we hold primarily for sale to customers in the ordinary course of business, and
  - other non-qualifying income from Foreclosure Property.
- We will pay a 100% tax on net income from sales or other dispositions of property, other than Foreclosure Property, that we hold primarily for sale to customers in the ordinary course of business.
- If we fail to satisfy one or both of the 75% gross income test or the 95% gross income test, as described below under "-Gross Income Tests," but nonetheless continue to qualify as a REIT because we meet other requirements, we will pay a 100% tax on:
  - the gross income attributable to the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, in either case, multiplied by
  - a fraction intended to reflect our profitability.
- If, during a calendar year, we fail to distribute at least the sum of (1) 85% of our REIT ordinary income for the year, (2) 95% of our REIT capital gain net income for the year, and (3) any undistributed taxable income required to be distributed from earlier periods, we will pay a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed.
- We may elect to retain and pay income tax on our net long-term capital gain. In that case, a shareholder would be taxed on its proportionate share of our undistributed long-term capital gain (to the extent that we made a timely

designation of such gain to the shareholders) and would receive a credit or refund for its proportionate share of the tax we paid.

- We will be subject to a 100% excise tax on income attributable to a transaction between us and a "taxable REIT subsidiary" (a "TRS") that is not conducted on an arm's-length basis.
- If we fail to satisfy any of the asset tests, other than a de minimis failure of the 5% asset test, the 10% vote test or 10% value test, as described below under "—Asset Tests," as long as the failure was due to reasonable cause and not to willful neglect, we file a schedule with the IRS describing each asset that caused such failure, and we dispose of the assets causing the failure or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure, we will pay a tax equal to the greater of $50,000 or the highest U.S. federal income tax rate then applicable to U.S. corporations (currently 35%) on the net income from the non-qualifying assets during the period in which we failed to satisfy the asset tests.
- If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, and such failure is due to reasonable cause and not to willful neglect, we will be required to pay a penalty of $50,000 for each such failure.

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- If we acquire any asset from an entity treated as a C corporation, or a corporation that generally is subject to full corporate-level tax, in a merger or other transaction in which we acquire a basis in the asset that is determined by reference either to such entity's basis in the asset or to another asset, we will pay tax at the highest applicable regular corporate rate (currently 35%) if we recognize gain on the sale or disposition of the asset during the five-year period after we acquire the asset provided no election is made for the transaction to be taxable on a current basis. The amount of gain on which we will pay tax is the lesser of:
  - the amount of gain that we recognize at the time of the sale or disposition, and
  - the amount of gain that we would have recognized if we had sold the asset at the time we acquired it.
- We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet record-keeping requirements intended to monitor our compliance with rules relating to the composition of a REIT's shareholders, as described below in "-Recordkeeping Requirements."
- The earnings of our lower-tier entities that are treated as C corporations, including any TRS we may form in the future, will be subject to U.S. federal corporate income tax.

In addition, notwithstanding our qualification as a REIT, we may also have to pay certain state and local income taxes because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes. Moreover, as further described below, any TRS we may form in the future will be subject to federal, state and local corporate income tax on its taxable income.

Requirements for Qualification

A REIT is a corporation, trust, or association that meets each of the following requirements:

1. It is managed by one or more trustees or directors.
2. Its beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest.
3. It would be taxable as a domestic corporation, but for the REIT provisions of the U.S. federal income tax laws.
4. It is neither a financial institution nor an insurance company subject to special provisions of the U.S. federal income tax laws.
5. At least 100 persons are beneficial owners of its shares or ownership certificates.
6. Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the Code defines to include certain entities, during the last half of any taxable year.
7. It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.
8. It meets certain other qualification tests, described below, regarding the nature of its income and assets and the amount of its distributions to shareholders.
9. It uses a calendar year for U.S. federal income tax purposes and complies with the recordkeeping requirements of the U.S. federal income tax laws.

We must meet requirements 1 through 4, 8 and 9 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. If we comply with all the requirements for ascertaining the ownership of our outstanding shares in a taxable year and we do not know, or would not have reason to know after exercising reasonable diligence that we violated requirement 6, we will be deemed to have satisfied requirement 6 for that taxable year. For purposes of determining share ownership under requirement 6, an "individual" generally includes a supplemental unemployment compensation benefits plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes. An "individual," however, generally does not include a trust that is a qualified employee pension or profit sharing trust under the U.S. federal income tax laws, and beneficiaries of such a trust will be treated as holding our shares in proportion to their actuarial interests in the trust for purposes of requirement 6.

Our declaration of trust provides restrictions regarding the transfer and ownership of shares of beneficial interest. See "Description of Shares-Restrictions on Ownership and Transfer." We believe that we have issued sufficient shares of beneficial interest with sufficient diversity of ownership to allow us to satisfy requirements 5 and 6 above. The restrictions in our declaration of trust are intended (among other things) to assist us in continuing to satisfy requirements 5 and 6 above. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy such share ownership requirements. If we fail to satisfy these share ownership requirements, our qualification as a REIT may terminate.

Qualified REIT Subsidiaries

A corporation that is a "qualified REIT subsidiary" is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a "qualified REIT subsidiary" are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A "qualified REIT subsidiary" is a corporation, all of the shares of which are

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owned by the REIT and for which no election has been made to treat such corporation as a TRS. Thus, in applying the requirements described herein, any "qualified REIT subsidiary" that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.

Other Disregarded Entities and Partnerships

An unincorporated domestic entity, such as a partnership or limited liability company that has a single owner, generally is not treated as an entity separate from its owner for U.S. federal income tax purposes. An unincorporated domestic entity with two or more owners is generally treated as a partnership for U.S. federal income tax purposes. In the case of a REIT that is a partner in a partnership that has other partners, the REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. Our proportionate share for purposes of the 10% value test (see "—Asset Tests") will be based on our proportionate interest in the equity interests and certain debt securities issued by the partnership, and, for purposes of the gross income tests (see "—Gross Income Tests") we will be deemed to be entitled to the income of the partnership attributable to such share. For all of the other asset tests, our proportionate share will be based on our capital interest in the partnership. Our proportionate share of the assets, liabilities, and items of income of any partnership, joint venture, or limited liability company that is treated as a partnership for U.S. federal income tax purposes in which we acquire an equity interest, directly or indirectly, will be treated as our assets and gross income for purposes of applying the various REIT qualification requirements.

We have control of our operating partnership and intend to control any subsidiary partnerships and limited liability companies, and we intend to operate them in a manner consistent with the requirements for our qualification as a REIT. We may from time to time be a limited partner or non-managing member in some of our partnerships and limited liability companies. If a partnership or limited liability company in which we own an interest takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause us to fail a gross income or asset test, and that we would not become aware of such action in time to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to qualify as a REIT unless we were entitled to relief, as described below.

Taxable REIT Subsidiaries

A REIT may own up to 100% of the shares of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the securities will automatically be treated as a TRS. We will not be treated as holding the assets of a TRS or as receiving any income that the TRS earns. Rather, the shares issued by a TRS to us will be an asset in our hands, and we will treat the distributions paid to us from such TRS, if any, as income. This treatment may affect our compliance with the gross income and asset tests. Because we will not include the assets and income of TRSs in determining our compliance with the REIT requirements, we may use such entities to undertake activities indirectly, such as earning fee income, that the REIT rules might otherwise preclude us from doing directly or through pass-through subsidiaries. Overall, for taxable years of a REIT beginning on or before December 31, 2017, no more than 25% of the value of a REIT's assets may consist of shares or securities of one or more TRSs, and for taxable years of a REIT beginning after December 31, 2017, no more than 20% of the value of a REIT's assets may consist of shares or securities of one or more TRSs.

A TRS pays income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on income of a parent REIT attributable to transactions between a TRS and such parent REIT or the REIT's tenants that are not conducted on an arm's-length basis. Further, a 100% excise tax is imposed on the gross income of a TRS attributable to services provided to, or on behalf of, its parent REIT that are not conducted on an arm's-length basis.

A TRS may not directly or indirectly operate or manage any healthcare facilities or lodging facilities or provide rights to any brand name under which any healthcare facility or lodging facility is operated. A TRS is not considered to operate or manage a "qualified health care property" or "qualified lodging facility" solely because the TRS directly or indirectly possesses a license, permit, or similar instrument enabling it to do so.

Rents that we receive from a TRS will qualify as "rents from real property" under two scenarios. Under the first scenario, rents we receive from a TRS will qualify as "rents from real property" as long as (1) at least 90% of the leased space in the property is leased to persons other than TRSs and related-party tenants, and (2) the amount paid by the TRS to rent space at the property is substantially comparable to rents paid by other tenants of the property for comparable space, as described in further detail below under "—Gross Income Tests—Rents from Real Property." If we lease space to a TRS in the future, we will seek to comply with

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these requirements. Under the second scenario, rents that we receive from a TRS will qualify as "rents from real property" if the TRS leases a property from us that is a "qualified health care property" and such property is operated on behalf of the TRS by a person who qualifies as an "independent contractor" and who is, or is related to a person who is, actively engaged in the trade or business of operating "qualified health care properties" for any person unrelated to us and the TRS (an "eligible independent contractor"). A "qualified health care property" includes any real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a provider of such services which is eligible for participation in the Medicare program with respect to such facility. None of our current properties are treated as "qualified health care properties." Accordingly, we do not currently intend to lease our properties to a TRS. However, to the extent we acquire or own "qualified health care properties" in the future, we may lease such properties to a TRS.

Gross Income Tests

We must satisfy two gross income tests annually to maintain our qualification as a REIT. First, at least 75% of our gross income for each taxable year must consist of defined types of income that we derive, directly or indirectly, from investments relating to real property or mortgages on real property or qualified temporary investment income. Qualifying income for purposes of that 75% gross income test generally includes:

- rents from real property;
- interest on obligations secured by mortgages on real property, or on interests in real property (such obligations shall also include any obligation secured by personal property, where the obligation is secured by both real and personal property and if the fair market value of the personal property does not exceed 15% of the total fair market value of all such property);
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- gain from the sale of real estate assets, other than property held primarily for sale to customers in the ordinary course of business;
- income derived from the operation, and gain from the sale of, certain property acquired at or in lieu of foreclosure on a lease of, or indebtedness secured by, such Foreclosure Property; and
- income derived from the temporary investment of new capital that is attributable to the issuance of our shares of beneficial interest or a public offering of our debt with a maturity date of at least five years and that we receive during the one-year period beginning on the date on which we received such new capital.

Second, in general, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, other types of interest and dividends, gain from the sale or disposition of shares or securities, or any combination of these. Cancellation of indebtedness income and gross income from our sale of property that we hold primarily for sale to customers in the ordinary course of business is excluded from both the numerator and the denominator in both gross income tests. In addition, income and gain from "hedging transactions" that we enter into to hedge indebtedness incurred or to be incurred to acquire or carry real estate assets and that are clearly and timely identified as such will be excluded from both the numerator and the denominator for purposes of the 75% and 95% gross income tests. See "Hedging Transactions." Further, certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. See "Foreign Currency Gain." The following paragraphs discuss the specific application of the gross income tests to us.

Rents from Real Property

Rent that we receive from real property that we own and lease to tenants will qualify as "rents from real property," which is qualifying income for purposes of the 75% and 95% gross income tests, only if each of the following conditions is met:

- First, the rent must not be based, in whole or in part, on the income or profits of any person, but may be based on a fixed percentage or percentages of receipts or sales.
- Second, neither we nor a direct or indirect owner of 10% or more of our shares may own, actually or constructively, 10% or more of a tenant from whom we receive rent, other than a TRS.
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Third, if the rent attributable to personal property leased in connection with a lease of real property is 15% or less of the total rent received under the lease, then the rent attributable to personal property will qualify as rents from real property. The allocation of rent between real and personal property is based on the relative fair market values of the real and personal property. However, if the 15% threshold is exceeded, the rent attributable to personal property will not qualify as rents from real property.

Fourth, we generally must not operate or manage our real property or furnish or render services to our tenants, other than through an "independent contractor" who is adequately compensated and from whom we do not derive revenue. However, we need not provide services through an "independent contractor," but instead may provide services directly to our tenants, if the services are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not considered to be provided for the tenants' convenience. In addition, we may provide a minimal amount of "noncustomary" services to the tenants of a property, other than through an independent contractor, as long as our income

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from the services (valued at not less than 150% of our direct cost of performing such services) does not exceed 1% of our income from the related property. Such income will not disqualify all rents from tenants of the property as rents from real property, but income from such services will not qualify as rents from real property. Furthermore, we may own up to 100% of the shares of a TRS which may provide customary and noncustomary services to our tenants without tainting our rental income from the related properties.

If a portion of the rent that we receive from a property does not qualify as "rents from real property" because the rent attributable to personal property exceeds 15% of the total rent for a taxable year, the portion of the rent that is attributable to personal property will not be qualifying income for purposes of either the 75% or 95% gross income test. Thus, if such rent attributable to personal property, plus any other income that is non-qualifying income for purposes of the 95% gross income test, during a taxable year exceeds 5% of our gross income during the year, we would lose our REIT qualification. If, however, the rent from a particular property does not qualify as "rents from real property" because either (1) the rent is considered based on the income or profits of the related tenant, (2) the tenant either is a related party tenant or fails to qualify for the exceptions to the related party tenant rule for qualifying TRSs or (3) we furnish noncustomary services to the tenants of the property in excess of the one percent threshold, or manage or operate the property, other than through a qualifying independent contractor or a TRS, none of the rent from that property would qualify as "rents from real property."

We do not currently lease and do not anticipate leasing significant amounts of personal property pursuant to our leases. Moreover, we have not performed and do not intend to perform any services other than customary ones for our tenants, unless such services are provided through independent contractors from whom we do not receive or derive income, or a TRS. Accordingly, we believe that our leases have produced and will generally produce rent that qualifies as "rents from real property" for purposes of the 75% and 95% gross income tests.

In addition to the rent, the tenants may be required to pay certain additional charges. To the extent that such additional charges represent reimbursements of amounts that we are obligated to pay to third parties, such charges generally will qualify as "rents from real property." Additionally, to the extent such additional charges represent penalties for nonpayment or late payment of such amounts, such charges should qualify as "rents from real property." However, to the extent that late charges do not qualify as "rents from real property," they instead will be treated as interest that qualifies for the 95% gross income test.

As described above, we may own up to 100% of the shares of one or more TRSs. There are two exceptions to the related-party tenant rule described above for TRSs. Under the first exception, rent that we receive from a TRS will qualify as "rents from real property" as long as (1) at least 90% of the leased space in the property is leased to persons other than TRSs and related-party tenants, and (2) the amount paid by the TRS to rent space at the property is substantially comparable to rents paid by other tenants of the property for comparable space. The "substantially comparable" requirement must be satisfied when the lease is entered into, when it is extended, and when the lease is modified, if the modification increases the rent paid by the TRS. If the requirement that at least 90% of the leased space in the related property is rented to unrelated tenants is met when a lease is entered into, extended, or modified, such requirement will continue to be met as long as there is no increase in the space leased to any TRS or related party tenant. Any increased rent attributable to a modification of a lease with a TRS in which we own directly or indirectly more than 50% of the voting power or value of the stock (a "controlled TRS") will not be treated as "rents from real property." If in the future we receive rent from a TRS, we will seek to comply with this exception.

Under the second exception, a TRS is permitted to lease healthcare properties from the related REIT as long as it does not directly or indirectly operate or manage any healthcare facilities or provide rights to any brand name under which any healthcare facility is operated. Rents that we receive from a TRS will qualify as "rents from real property" as long as the "qualified health care property" is operated on behalf of the TRS by an "independent contractor" who is adequately compensated, who does not, directly or through its shareholders, own more than 35% of our shares, taking into account certain ownership attribution rules, and who is, or is related to a person who is, actively engaged in the trade or business of operating "qualified health care properties" for any person unrelated to us and the TRS (an "eligible independent contractor"). A "qualified health care property" includes any real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a provider of such services which is eligible for participation in the Medicare program with respect to such facility. Our properties generally will not be treated as “qualified health care properties.” Accordingly, we do not currently intend to lease properties to a TRS. However, to the extent we acquire or own “qualified health care properties” in the future, we may lease such properties to a TRS.

Interest

The term “interest” generally does not include any amount received or accrued, directly or indirectly, if the determination of such amount depends in whole or in part on the income or profits of any person. However, interest generally includes the following:

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- an amount that is based on a fixed percentage or percentages of receipts or sales; and
- an amount that is based on the income or profits of a debtor, as long as the debtor derives substantially all of its income from leasing substantially all of its interest in the real property securing the debt, and only to the extent that the amounts received by the debtor would be qualifying "rents from real property" if received directly by a REIT.

If a loan contains a provision that entitles a REIT to a percentage of the borrower's gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property's value as of a specific date, income attributable to that loan provision will be treated as gain from the sale of the property securing the loan, which generally is qualifying income for purposes of both gross income tests.

Interest on debt secured by a mortgage on real property or on interests in real property generally is qualifying income for purposes of the 75% gross income test. For this purpose, where a debt obligation is secured by a mortgage on both real property and personal property and the fair market value of the personal property does not exceed 15% of the total fair market value of all such property, the entire obligation is treated as debt that is secured by a mortgage on real property. If a loan is treated as secured by both real property and other property and the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date the REIT agreed to originate or acquire the loan (or, if the loan has experienced a "significant modification" since its origination or acquisition by the REIT, then as of the date of that "significant modification"), a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the interest income attributable to the portion of the principal amount of the loan that is treated as not being secured by real property, that is, the amount by which the loan exceeds the value of the real estate that is security for the loan.

We have originated several mezzanine loans, and may continue to originate or acquire such mezzanine loans. Mezzanine loans are loans secured by equity interests in an entity that directly or indirectly owns real property, rather than by a direct mortgage of the real property. In Revenue Procedure 2003-65, the IRS established a safe harbor under which loans secured by a first priority security interest in ownership interests in a partnership or limited liability company owning real property will be treated as real estate assets for purposes of the REIT asset tests described below, and interest derived from those loans will be treated as qualifying income for both the 75% and 95% gross income tests, provided several requirements are satisfied.

Although Revenue Procedure 2003-65 provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We believe that our mezzanine loans meet all of the requirements for reliance on the safe harbor. However, even if our current mezzanine loans did not meet all of these requirements, and to the extent any mezzanine loans that we originate or acquire in the future do not qualify for the safe harbor described above, the interest income from such loans will be qualifying income for purposes of the 95% gross income test, but there is a risk that such interest income will not be qualifying income for purposes of the 75% gross income test. We have invested, and will continue to invest, in mezzanine loans in a manner that will enable us to continue to satisfy the REIT gross income and asset tests.

Dividends

Our share of any dividends received from any corporation (including any TRS, but excluding any REIT) in which we own an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Our share of any dividends received from any other REIT in which we own an equity interest, if any, will be qualifying income for purposes of both gross income tests.

Prohibited Transactions

A REIT will incur a 100% tax on the net income (including foreign currency gain) derived from any sale or other disposition of property, other than Foreclosure Property, that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. We believe that none of our properties will be held primarily for sale to customers and that a sale of any of our properties will not be in the ordinary course of our business. Whether a REIT holds a property "primarily for sale to customers in the ordinary course of a trade or business" depends, however, on the facts and circumstances in effect from time to time, including those related to a particular property. A safe harbor to the characterization of the sale of property by a REIT as a prohibited transaction and the 100% prohibited transaction tax is available if the following requirements are met:

- the REIT has held the property for not less than two years;
- the aggregate expenditures made by the REIT, or any partner of the REIT, during the two-year period preceding the date of the sale that are includable in the basis of the property do not exceed 30% of the selling price of the property;
- either (1) during the year in question, the REIT did not make more than seven sales of property other than Foreclosure Property or sales to which Section 1033 of the Code applies, (2) the aggregate adjusted bases of all such properties sold by the REIT during the year did not exceed 20% of the aggregate bases of all of the assets of the REIT at the beginning of the year, and the aggregate adjusted bases of all such properties sold by the REIT during the three-year period ending

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with such year did not exceed 10% of the sum of the aggregate bases of all the assets of the REIT at the beginning of each year in such three-year period or (3) the aggregate fair market value of all such properties sold by the REIT during the year did not exceed 20% of the aggregate fair market value of all of the assets of the REIT at the beginning of the year, and the aggregate fair market value of all such properties sold by the REIT during the three-year period ending with such year did not exceed 10% of the sum of the aggregate fair market values of all the assets of the REIT at the beginning of each year in such three-year period;

- in the case of property not acquired through foreclosure or lease termination, the REIT has held the property for at least two years for the production of rental income; and
- if the REIT has made more than seven sales of non-Foreclosure Property during the taxable year, substantially all of the marketing and development expenditures with respect to the property were made through an independent contractor from whom the REIT derives no income or a TRS.

We will attempt to comply with the terms of the safe-harbor provisions in the U.S. federal income tax laws prescribing when a property sale will not be characterized as a prohibited transaction. We cannot assure you, however, that we can comply with the safe-harbor provisions or that we will avoid owning property that may be characterized as property that we hold "primarily for sale to customers in the ordinary course of a trade or business." The 100% tax will not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be taxed to the corporation at regular corporate income tax rates.

Fee Income

Fee income generally will not be qualifying income for purposes of either the 75% or 95% gross income tests. Any fees earned by any TRS we form, such as fees for providing asset management and construction management services to third parties, will not be included for purposes of the gross income tests.

Foreclosure Property

We will be subject to tax at the maximum corporate rate on any income from Foreclosure Property, which includes certain foreign currency gains and related deductions, other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. However, gross income from Foreclosure Property will qualify under the 75% and 95% gross income tests.

Foreclosure Property is any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as the result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or when default was imminent on a lease of such property or on indebtedness that such property secured;
- for which the related loan was acquired by the REIT at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as Foreclosure Property.

Foreclosure Property also includes certain "qualified health care properties" (as defined above under "—Rents from Real Property") acquired by a REIT as a result of the termination or expiration of a lease of such property (other than by reason of a default, or the imminence of a default, on the lease).

A REIT will not be considered to have foreclosed on a property where the REIT takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor.

Property generally ceases to be Foreclosure Property at the end of the third taxable year (or, with respect to qualified health care property, the second taxable year) following the taxable year in which the REIT acquired the property, or longer if an extension is granted by the Secretary of the Treasury. However, this grace period terminates and Foreclosure Property ceases to be Foreclosure Property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test, or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test;
- on which any construction takes place on the property, other than completion of a building or any other improvement where more than 10% of the construction was completed before default became imminent; or

• which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income or a TRS.

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Hedging Transactions

From time to time, we or our operating partnership may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and forward contracts. Income and gain from "hedging transactions" will be excluded from gross income for purposes of both the 75% and 95% gross income tests provided we satisfy the identification requirements discussed below.

A "hedging transaction" means either (1) any transaction entered into in the normal course of our or our operating partnership's trade or business primarily to manage the risk of interest rate, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets and (2) any transaction entered into primarily to manage the risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income test (or any property which generates such income or gain). A "hedging transaction" also includes a transaction entered into to manage the risk of any hedging transaction described in the preceding sentence if some or all of the underlying debt or underlying property to which such original hedging transaction relates is extinguished or disposed.

We are required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated, or entered into and to satisfy other identification requirements. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT.

Foreign Currency Gain

Certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. "Real estate foreign exchange gain" will be excluded from gross income for purposes of the 75% and 95% gross income tests. Real estate foreign exchange gain generally includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 75% gross income test, foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations secured by mortgages on real property or an interest in real property and certain foreign currency gain attributable to certain "qualified business units" of a REIT. "Passive foreign exchange gain" will be excluded from gross income for purposes of the 95% gross income test. Passive foreign exchange gain generally includes real estate foreign exchange gain as described above, and also includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 95% gross income test and foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations. These exclusions for real estate foreign exchange gain and passive foreign exchange gain do not apply to any certain foreign currency gain derived from dealing, or engaging in substantial and regular trading, in securities. Such gain is treated as non-qualifying income for purposes of both the 75% and 95% gross income tests.

Failure to Satisfy Gross Income Tests

If we fail to satisfy one or both of the gross income tests for any taxable year, we nevertheless may qualify as a REIT for that year if we qualify for relief under certain provisions of the U.S. federal income tax laws. Those relief provisions are generally available if:

- our failure to meet those tests is due to reasonable cause and not to willful neglect; and
- following such failure for any taxable year, we file a schedule of the sources of our income in accordance with regulations prescribed by the Secretary of the Treasury.

We cannot predict, however, whether in all circumstances we would qualify for the relief provisions. In addition, as discussed above in "-Taxation of Our Company," even if the relief provisions apply, we would incur a 100% tax on the gross income attributable to the greater of the amount by which we fail the 75% gross income test or the 95% gross income test multiplied, in either case, by a fraction intended to reflect our profitability.

Asset Tests

To qualify as a REIT, we also must satisfy the following asset tests at the end of each quarter of each taxable year. First, at least 75% of the value of our total assets must consist of (the "75% asset test"):

- cash or cash items, including certain receivables and money market funds and, in certain circumstances, foreign currencies;

- government securities;
- interests in real property, including leaseholds and options to acquire real property and leaseholds;
- interests in mortgage loans secured by real property;
- shares in other REITs;

- debt instruments issued by publicly offered REITs (i.e., REITs that are required to file annual and periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)); and
- investments in shares or debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or public offerings of debt with at least a five-year term.

For purposes of the 75% asset test, (1) if the rent attributable to personal property leased in connection with a lease of real property is 15% or less of the total rent received under the lease, such that the entire rent received with respect to such real property and the personal property leased in connection therewith qualifies as rents from real property for purposes of the 75% gross income test, the value of such personal property, as well as the value of the real property, will be treated as an interest in real property and (2) where a debt obligation is secured by a mortgage on both real property and personal property and the fair market value of the personal property does not exceed 15% of the aggregate fair market values of the personal property and real property, the entire obligation will treated as a mortgage loan secured by real property.

Second, of our investments not included in the 75% asset class, the value of our interest in any one issuer’s securities may not exceed 5% of the value of our total assets (the “5% asset test”).

Third, of our investments not included in the 75% asset class, we may not own more than 10% of the voting power of any one issuer’s outstanding securities or 10% of the value of any one issuer’s outstanding securities (the “10% vote test” and “10% value test,” respectively).

Fourth, in taxable years beginning on or prior to December 31, 2017, no more than 25% of the value of our total assets may consist of the securities of one or more TRSs, and in taxable years beginning after December 31, 2017, no more than 20% of the value of our total assets may consist of the securities of one or more TRSs.

Fifth, no more than 25% of the value of our total assets may consist of debt instruments that are issued by publicly-offered REITs, but that are not secured by real property.

Sixth, no more than 25% of the value of our total assets may consist of the securities of TRSs, other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test (the “25% securities test”).

For purposes of the 5% asset test, the 10% vote test and the 10% value test, the term “securities” does not include shares in another REIT, equity or debt securities of a qualified REIT subsidiary or a TRS, mortgage loans that constitute real estate assets, or equity interests in a partnership. The term “securities,” however, generally includes debt securities issued by a partnership or another REIT, except that for purposes of the 10% value test, the term “securities” does not include:

- “Straight debt” securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if (1) the debt is not convertible, directly or indirectly, into equity, and (2) the interest rate and interest payment dates are not contingent on profits, the borrower’s discretion, or similar factors. “Straight debt” securities do not include any securities issued by a partnership or a corporation in which we or any controlled TRS (i.e., a TRS in which we own directly or indirectly more than 50% of the voting power or value of the shares) hold non-“straight debt” securities that have an aggregate value of more than 1% of the issuer’s outstanding securities. However, “straight debt” securities include debt subject to the following contingencies:

  a contingency relating to the time of payment of interest or principal, as long as either (1) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (2) neither the aggregate issue price nor the aggregate face amount of the issuer’s debt obligations held by us exceeds $1 million and no more than 12 months of unaccrued interest on the debt obligations can be required to be prepaid; and

  a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice.
- Any loan to an individual or an estate;
- Any “section 467 rental agreement,” other than an agreement with a related party tenant;
- Any obligation to pay “rents from real property”;
- Certain securities issued by governmental entities;

- Any security issued by a REIT;
- Any debt instrument issued by an entity treated as a partnership for U.S. federal income tax purposes in which we are a partner to the extent of our proportionate interest in the equity and debt securities of the partnership; and
- Any debt instrument issued by an entity treated as a partnership for U.S. federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership's gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test described above in "- Gross Income Tests."

For purposes of the 10% value test, our proportionate share of the assets of a partnership is our proportionate interest in any securities issued by the partnership, without regard to the securities described in the last two bullet points above.

We will monitor the status of our assets for purposes of the various asset tests and will manage our portfolio in order to comply at all times with such tests. However, there is no assurance that we will not inadvertently fail to comply with such tests. If we fail to satisfy the asset tests at the end of a calendar quarter, we will not lose our REIT qualification if:

- we satisfied the asset tests at the end of the preceding calendar quarter; and
- the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more non-qualifying assets.

If we did not satisfy the condition described in the second item, above, we still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose.

If we violate the 5% asset test, the 10% vote test or the 10% value test described above at the end of any quarter of each taxable year, we will not lose our REIT qualification if (1) the failure is de minimis (up to the lesser of 1% of the value of our assets or $10 million) and (2) we dispose of assets causing the failure or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure. In the event of a failure of any of the asset tests (other than de minimis failures described in the preceding sentence), as long as the failure was due to reasonable cause and not to willful neglect, we will not lose our REIT qualification if we (1) dispose of assets causing the failure or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify the failure, (2) we file a schedule with the IRS describing each asset that caused the failure and (3) pay a tax equal to the greater of $50,000 or 35% of the net income from the assets causing the failure during the period in which we failed to satisfy the asset tests.

We believe that the assets that we hold and that we will hold in the future will satisfy the foregoing asset test requirements. However, we have not obtained and will not obtain independent appraisals to support our conclusions as to the value of our assets. Moreover, the values of some assets may not be susceptible to a precise determination. As a result, there can be no assurance that the IRS will not contend that our ownership of assets violates one or more of the asset tests applicable to REITs.

Distribution Requirements

Each year, we must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our shareholders in an aggregate amount at least equal to:

- the sum of:
  - 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gain or loss, and
  - 90% of our after-tax net income, if any, from Foreclosure Property, minus
  - the sum of certain items of non-cash income (to the extent such items of income exceed 5% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gain or loss).

We must pay such distributions in the taxable year to which they relate, or in the following taxable year if either (1) we declare the distribution before we timely file our U.S. federal income tax return for the year and pay the distribution on or before the first regular dividend payment date after such declaration or (2) we declare the distribution in October, November or December of the taxable year, payable to shareholders of record on a specified day in any such month, and we actually pay the dividend before the end of January of the following year. The distributions under clause (1) are taxable to the shareholders in the year in which paid, and the distributions in clause (2) are treated as paid on December 31st of the prior taxable year. In both instances, these distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

We will pay U.S. federal income tax on taxable income, including net capital gain, that we do not distribute to shareholders. Furthermore, if we fail to distribute during a calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

- 85% of our REIT ordinary income for such year,
- 95% of our REIT capital gain income for such year, and
- any undistributed taxable income from prior periods.

We will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts we actually distribute.

We may elect to retain and pay income tax on the net long-term capital gain we receive in a taxable year. If we so elect, we will be treated as having distributed any such retained amount for purposes of the 4% nondeductible excise tax described above. We intend to make timely distributions sufficient to satisfy the annual distribution requirements and to avoid corporate income tax and the 4% nondeductible excise tax.

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It is possible that, from time to time, we may experience timing differences between the actual receipt of income and actual payment of deductible expenses and the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. For example, it is possible that, from time to time, we may be allocated a share of net capital gain attributable to the sale of depreciated property that exceeds our allocable share of cash attributable to that sale. As a result of the foregoing, we may have less cash than is necessary to distribute taxable income sufficient to avoid corporate income tax and the excise tax imposed on certain undistributed income or even to meet the 90% distribution requirement. In such a situation, we may need to borrow funds or, if possible, pay taxable dividends of our shares of beneficial interest or debt securities.

We may satisfy the 90% distribution test with taxable distributions of our shares or debt securities. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in shares as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for U.S. federal income tax purposes. Those rulings may be relied upon only by taxpayers whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS previously issued a revenue procedure authorizing publicly traded REITs to make elective cash/shares dividends, but that revenue procedure has expired. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and shares. We have not made and have no current intention to make a taxable dividend payable in our shares.

Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying "deficiency dividends" to our shareholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest to the IRS based upon the amount of any deduction we take for deficiency dividends.

Recordkeeping Requirements

We must maintain certain records in order to qualify as a REIT. In addition, to avoid a monetary penalty, we must request on an annual basis information from our shareholders designed to disclose the actual ownership of our outstanding shares. We intend to comply with these requirements.

Failure to Qualify

If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of $50,000 for each such failure. In addition, there are relief provisions for a failure of the gross income tests and asset tests, as described in "—Gross Income Tests" and "—Asset Tests."

If we fail to qualify as a REIT in any taxable year, and no relief provision applies, we would be subject to U.S. federal income tax and any applicable alternative minimum tax on our taxable income at regular corporate rates. In addition, we may be required to pay penalties and/or interest with respect to such tax. In calculating our taxable income in a year in which we fail to qualify as a REIT, we would not be able to deduct amounts paid out to shareholders. In fact, we would not be required to distribute any amounts to shareholders in that year. In such event, to the extent of our current and accumulated earnings and profits, distributions to shareholders generally would be taxable as ordinary dividend income. Subject to certain limitations of the U.S. federal income tax laws, corporate shareholders may be eligible for the dividends received deduction and shareholders taxed at individual rates may be eligible for the reduced federal income tax rate of up to 20% on such dividends. Unless we qualified for relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether we would qualify for such statutory relief in all circumstances.

Taxation of Taxable U.S. Shareholders

This section is a summary of the rules governing the U.S. federal income taxation of U.S. shareholders and is for general information only. We urge you to consult your tax advisors to determine the impact of federal, state, and local income tax laws on the purchase, ownership and disposition of our common shares.

As used herein, the term "U.S. shareholder" means a beneficial owner of our common shares that for U.S. federal income tax purposes is:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any of its states or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

any trust if (1) a court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in place to be treated as a U.S. person.

If a partnership, entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our common shares, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our common shares, you should consult your tax advisor regarding the consequences of the ownership and disposition of our common shares by the partnership.

As long as we qualify as a REIT, a taxable U.S. shareholder must generally take into account as ordinary income distributions made out of our current or accumulated earnings and profits that we do not designate as capital gain dividends or retained long-term capital gain.

A U.S. shareholder will not qualify for the dividends received deduction generally available to corporations. In addition, dividends paid to a U.S. shareholder generally will not qualify for the 20% tax rate for "qualified dividend income." The maximum tax rate for qualified dividend income received by U.S. shareholders taxed at individual rates is 20%. The maximum tax rate on qualified dividend income is lower than the maximum tax rate on ordinary income, which is currently 39.6%. Qualified dividend income generally includes dividends paid by domestic C corporations and certain qualified foreign corporations to U.S. shareholders that are taxed at individual rates. Because we are not generally subject to federal income tax on the portion of our REIT taxable income distributed to our shareholders (See-"Taxation of Our Company" above), our dividends generally will not be eligible for the 20% rate on qualified dividend income. As a result, our ordinary REIT dividends will be taxed at the higher tax rate applicable to ordinary income. However, the 20% tax rate for qualified dividend income will apply to our ordinary REIT dividends, if any, that are (1) attributable to dividends received by us from non REIT corporations, such as any TRS we may form, and (2) attributable to income upon which we have paid corporate income tax (e.g., to the extent that we distribute less than 100% of our taxable income). In general, to qualify for the reduced tax rate on qualified dividend income, a shareholder must hold our common shares for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our common shares become ex-dividend.

Individuals, trusts and estates whose income exceeds certain thresholds are also subject to an additional 3.8% Medicare tax on dividends received from us. U.S. shareholders are urged to consult their tax advisors regarding the implications of the additional Medicare tax resulting from an investment in our shares.

A U.S. shareholder generally will take into account as long-term capital gain any distributions that we designate as capital gain dividends without regard to the period for which the U.S. shareholder has held our common shares. We generally will designate our capital gain dividends as either 20% or 25% rate distributions. See "Capital Gains and Losses." A corporate U.S. shareholder, however, may be required to treat up to 20% of certain capital gain dividends as ordinary income.

We may elect to retain and pay income tax on the net long-term capital gain that we receive in a taxable year. In that case, to the extent that we designate such amount in a timely notice to such shareholder, a U.S. shareholder would be taxed on its proportionate share of our undistributed long-term capital gain. The U.S. shareholder would receive a credit for its proportionate share of the tax we paid. The U.S. shareholder would increase the basis in its shares by the amount of its proportionate share of our undistributed long-term capital gain, minus its share of the tax we paid.

A U.S. shareholder will not incur tax on a distribution in excess of our current and accumulated earnings and profits if the distribution does not exceed the adjusted basis of the U.S. shareholder's common shares. Instead, the distribution will reduce the U.S. shareholder's adjusted basis in such shares. A U.S. shareholder will recognize a distribution in excess of both our current and accumulated earnings and profits and the U.S. shareholder's adjusted basis in his or her shares as long-term capital gain, or short-term capital gain if the shares have been held for one year or less, assuming the shares are a capital asset in the hands of the U.S. shareholder. In addition, if we declare a distribution in October, November, or December of any year that is payable to a U.S. shareholder of record on a specified date in any such month, such distribution will be treated as both paid by us and received by the U.S. shareholder on December 31 of such year, provided that we actually pay the distribution during January of the following calendar year.

U.S. shareholders may not include in their individual income tax returns any of our net operating losses or capital losses. Instead, these losses are generally carried over by us for potential offset against our future income. Taxable distributions from us and gain from the disposition of our common shares will not be treated as passive activity income and, therefore, shareholders 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. shareholder is a limited partner, against such income or gain. In addition, taxable distributions from us and gain from the disposition of our common shares generally will be treated as investment income for purposes of the investment interest limitations. We will notify U.S. shareholders 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.

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Taxation of U.S. Shareholders on the Disposition of Common Shares

A U.S. shareholder who is not a dealer in securities must generally treat any gain or loss realized upon a taxable disposition of our common shares as long-term capital gain or loss if the U.S. shareholder has held our common shares for more than one year and otherwise as short-term capital gain or loss. In general, a U.S. shareholder will realize gain or loss in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. shareholder's adjusted tax basis. A shareholder's adjusted tax basis generally will equal the U.S. shareholder's acquisition cost, increased by the excess of net capital gains deemed distributed to the U.S. shareholder (discussed above) less tax deemed paid on such gains and reduced by any returns of capital. However, a U.S. shareholder must treat any loss upon a sale or exchange of common shares held by such shareholder 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 that such U.S. shareholder treats as long-term capital gain. All or a portion of any loss that a U.S. shareholder realizes upon a taxable disposition of our common shares may be disallowed if the U.S. shareholder purchases other of our common shares within 30 days before or after the disposition.

If we redeem shares held by a U.S. shareholder, such U.S. shareholder will be treated as having sold the redeemed shares if (1) all of the U.S. shareholder's shares are redeemed (after taking into consideration certain ownership attribution rules) or (2) such redemption is either (i) "not essentially equivalent" to a dividend or (ii) "substantially disproportionate." If a redemption is not treated as a sale of the redeemed shares, it will be treated as a distribution made with respect to such shares. U.S. shareholders are urged to consult their tax advisors regarding the taxation of any particular redemption of our shares.

Capital Gains and Losses

A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The highest marginal individual income tax rate currently is 39.6%. The maximum tax rate on long-term capital gain applicable to taxpayers taxed at individual rates is 20% for sales and exchanges of assets held for more than one year. The maximum tax rate on long-term capital gain from the sale or exchange of "Section 1250 property," or depreciable real property, is 25%, which applies to the lesser of the total amount of the gain or the accumulated depreciation on the Section 1250 property.

Individuals, trusts and estates whose income exceeds certain thresholds are also subject to an additional 3.8% Medicare tax on gain from the sale of our common shares. U.S. shareholders are urged to consult their tax advisors regarding the implications of the additional Medicare tax resulting from an investment in our shares.

With respect to distributions that we designate as capital gain dividends and any retained capital gain that we are deemed to distribute, we generally may designate whether such a distribution is taxable to U.S. shareholders taxed at individual rates currently at a 20% or 25% rate. Thus, the tax rate differential between capital gain and ordinary income for those taxpayers may be significant. In addition, the characterization of income as capital gain or ordinary income may affect the deductibility of capital losses. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of $3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

Taxation of Tax-Exempt Shareholders

This section is a summary of rules governing the U.S. federal income taxation of U.S. shareholders that are tax-exempt entities and is for general information only. We urge tax-exempt shareholders to consult their tax advisors to determine the impact of federal, state, and local income tax laws on the purchase, ownership and disposition of our common shares, including any reporting requirements.

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. However, they are subject to taxation on their unrelated business taxable income ("UBTI"). Although many investments in real estate generate UBTI, the IRS has issued a ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI so long as the exempt employee pension trust does not otherwise use the shares of the REIT in an unrelated trade or business of the pension trust. Based on that ruling, amounts that we distribute to tax-exempt shareholders generally should not constitute UBTI. However, if a tax-exempt shareholder were to finance (or be deemed to finance) its acquisition of common shares with debt, a portion of the income that it receives from us would constitute UBTI pursuant to the “debt-financed property” rules. Moreover, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans that are exempt from taxation under special provisions of the U.S. federal income tax laws are subject to different UBTI rules, which generally will require them to characterize distributions that they receive from us as UBTI. Finally, in certain circumstances, a qualified employee pension or profit sharing trust that owns more than 10% of our shares of beneficial interest must treat a percentage of the dividends that it receives from us as UBTI. Such percentage is equal to the gross income we derive from an unrelated trade or business, determined as if we were a pension trust, divided by our total gross income for the year in which we pay the dividends. That rule applies to a pension trust holding more than 10% of our shares of beneficial interest only if:

- the percentage of our dividends that the tax-exempt trust must treat as UBTI is at least 5%;
- we qualify as a REIT by reason of the modification of the rule requiring that no more than 50% of our shares of beneficial interest be owned by five or fewer individuals that allows the beneficiaries of the pension trust to be treated as holding our shares of beneficial interest in proportion to their actuarial interests in the pension trust; and
- either:
  - one pension trust owns more than 25% of the value of our shares of beneficial interest; or
  - a group of pension trusts individually holding more than 10% of the value of our shares of beneficial interest collectively owns more than 50% of the value of our shares of beneficial interest.

Taxation of Non-U.S. Shareholders

This section is a summary of the rules governing the U.S. federal income taxation of non-U.S. shareholders. The term “non-U.S. shareholder” means a beneficial owner of our common shares that is not a U.S. shareholder, a partnership (or entity treated as a partnership for U.S. federal income tax purposes) or a tax-exempt shareholder. The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships, and other foreign shareholders are complex and this summary is for general information only. We urge non-U.S. shareholders to consult their tax advisors to determine the impact of federal, state, and local income tax laws on the purchase, ownership and disposition of our common shares, including any reporting requirements.

Distributions

A non-U.S. shareholder that receives a distribution that is not attributable to gain from our sale or exchange of a “United States real property interest” (“USRPI”), and that we do not designate as a capital gain dividend or retained capital gain, will recognize ordinary income to the extent that we pay such distribution out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply to such distribution unless an applicable tax treaty reduces or eliminates the tax. However, if a distribution is treated as effectively connected with the non-U.S. shareholder’s conduct of a U.S. trade or business, the non-U.S. shareholder generally will be subject to U.S. federal income tax on the distribution at graduated rates, in the same manner as U.S. shareholders are taxed with respect to such distribution, and a non-U.S. shareholder that is a corporation also may be subject to a 30% branch profits tax with respect to that distribution. The branch profits tax may be reduced by an applicable tax treaty. We plan to withhold U.S. income tax at the rate of 30% on the gross amount of any such distribution paid to a non-U.S. shareholder unless either:

- a lower treaty rate applies and the non-U.S. shareholder provides us with an IRS Form W-8BEN or an IRS Form W-8BEN-E, as applicable, evidencing eligibility for that reduced rate;
- the non-U.S. shareholder provides us with an IRS Form W-8ECI claiming that the distribution is effectively connected with the conduct of a U.S. trade or business; or
- the distribution is treated as attributable to a sale of a USRPI under FIRPTA (discussed below).

A non-U.S. shareholder will not incur tax on a distribution in excess of our current and accumulated earnings and profits if the excess portion of such distribution does not exceed the adjusted basis of the non-U.S. shareholder in its common shares. Instead, the excess portion of such distribution will reduce the adjusted basis of the non-U.S. shareholder in such shares. A non-U.S. shareholder will be subject to tax on a distribution that exceeds both our current and accumulated earnings and profits and the adjusted basis of the non-U.S. shareholder in its common shares, if the non-U.S. shareholder otherwise would be subject to tax on gain from the sale or disposition of its common shares, as described below. We must withhold 15% of any distribution that exceeds our current and accumulated earnings and profits. Consequently, although we intend to withhold at a rate of 30% on the entire amount of any distribution, to the extent that we do not do so, we will withhold at a rate of 15% on any portion of a distribution not subject to withholding at a rate of 30%. Because we generally cannot determine at the time we make a distribution whether the distribution will exceed our current and accumulated earnings and profits, we normally will withhold tax on the entire amount of any distribution at the same rate as we would withhold on a dividend. However, a non-U.S.

shareholder may claim a refund of amounts that we withhold if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

For any year in which we qualify as a REIT, a non-U.S. shareholder may incur tax on distributions that are attributable to gain from our sale or exchange of a USRPI under the Foreign Investment in Real Property Act of 1980 ("FIRPTA"). A USRPI includes certain interests in real property and shares in corporations at least 50% of whose assets consist of interests in real property. Under FIRPTA, subject to the exception discussed below for distributions on a class of shares that is regularly traded on an established securities market to a less-than-10% holder of such shares, a non-U.S. shareholder is taxed on distributions attributable to gain from sales of USRPIs as if such gain were effectively connected with a U.S. business of the non-U.S. shareholder. A non-

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U.S. shareholder thus would be taxed on such a distribution at the normal capital gains rates applicable to U.S. shareholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A non-U.S. corporate shareholder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on such a distribution. Certain "qualified foreign pension funds" and certain publicly traded non-U.S. "qualified collective investment vehicles" are not subject to tax under FIRPTA on distributions that are attributable to gain from our sale or exchange of a USRPI (the "FIRPTA Exemption"). Non-U.S. shareholders are urged to consult their tax advisors to determine the application to them of this potential relief from FIRPTA taxation in light of their particular circumstances. Notwithstanding the foregoing, unless the exception described in the next paragraph applies, we must withhold 35% of any distribution that we could designate as a capital gain dividend. A non-U.S. shareholder may receive a credit against its tax liability for the amount we withhold.

Because our common shares are regularly traded on an established securities market in the United States, capital gain distributions on our common shares that are attributable to our sale of a USRPI will be treated as ordinary dividends rather than as gain from the sale of a USRPI, as long as the non-U.S. shareholder did not own more than 10% of our common shares at any time during the one-year period preceding the distribution. As a result, non-U.S. shareholders generally will be subject to withholding tax on such capital gain distributions in the same manner as they are subject to withholding tax on ordinary dividends. Our common shares have been regularly traded on an established securities market in the United States since our IPO. If our common shares were not regularly traded on an established securities market in the United States, capital gain distributions that are attributable to our sale of USRPIs would be subject to tax under FIRPTA (unless a non-U.S. shareholder qualifies for the FIRPTA Exemption), as described in the preceding paragraph. In such case, we must withhold 35% of any distribution that we could designate as a capital gain dividend. A non-U.S. shareholder may receive a credit against its tax liability for the amount we withhold. Moreover, if a non-U.S. shareholder disposes of our common shares during the 30-day period preceding a dividend payment, and such non-U.S. shareholder (or a person related to such non-U.S. shareholder) acquires or enters into a contract or option to acquire our common shares within 61 days of the first day of the 30-day period described above, and any portion of such dividend payment would, but for the disposition, be treated as a USRPI capital gain to such non-U.S. shareholder, then such non-U.S. shareholder will be treated as having USRPI capital gain in an amount that, but for the disposition, would have been treated as USRPI capital gain.

For dividend payments, a U.S. withholding tax at a 30% rate will be imposed on amounts paid to certain non-U.S. shareholders if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. If payment of withholding taxes is required, non-U.S. shareholders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect to such dividends will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction.

` We will not pay any additional amounts in respect of any amounts withheld from any distribution made by us.

Dispositions

Non-U.S. shareholders could incur tax under FIRPTA with respect to gain realized upon a disposition of our common shares if we are a United States real property holding corporation during a specified testing period. If at least 50% of a REIT's assets are USRPIs, then the REIT will be a United States real property holding corporation. We believe that we are a United States real property holding corporation based on our investment strategy. However, even if we are a United States real property holding corporation, a non-U.S. shareholder generally would not incur tax under FIRPTA on gain from the sale of our common shares if we are a "domestically controlled qualified investment entity."

A "domestically controlled qualified investment entity" includes a REIT in which, at all times during a specified testing period, less than 50% in value of its shares are held directly or indirectly by non-U.S. shareholders. We cannot assure you that this test will be met.

Because our common shares are regularly traded on an established securities market, an additional exception to the tax under FIRPTA will be available with respect to our common shares, even if we do not qualify as a domestically controlled qualified investment entity at the time the non-U.S. shareholder sells our common shares. Under that exception, the gain from such a sale by such a non-U.S. shareholder will not be subject to tax under FIRPTA if (1) our common shares are treated as being regularly traded on an established securities market under applicable Treasury

Regulations and (2) the non-U.S. shareholder owned, actually or constructively, 10% or less of our common shares at all times during a specified testing period. Our common shares have been regularly traded on an established securities market following our IPO.

In addition, pursuant to the FIRPTA Exemption, certain "qualified foreign pension funds" and certain publicly traded non-U.S. "qualified collective investment vehicles" are not subject to tax under FIRPTA on a disposition of our common shares, even if we do not qualify as a domestically controlled qualified investment entity at the time of the disposition. Non-U.S. shareholders are urged to consult their tax advisors to determine the application to them of this potential relief from FIRPTA taxation in light of their particular circumstances.

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If the gain on the sale of our common shares were taxed under FIRPTA, a non-U.S. shareholder would be taxed on that gain in the same manner as U.S. shareholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Finally, if we are not a domestically controlled qualified investment entity at the time our shares are sold and the non-U.S. shareholder does not qualify for the exemptions described in the preceding two paragraphs, under FIRPTA the purchaser of our common shares also may be required to withhold 15% of the purchase price and remit this amount to the IRS on behalf of the selling non-U.S. shareholder.

With respect to individual non-U.S. shareholders, even if not subject to FIRPTA, capital gains recognized from the sale of our common shares will be taxable to such non-U.S. shareholder if he or she is a non-resident alien individual who is present in the United States for 183 days or more during the taxable year and some other conditions apply, in which case the non-resident alien individual may be subject to a U.S. federal income tax on his or her U.S. source capital gain.

For payments after December 31, 2018, a U.S. withholding tax at a 30% rate will be imposed on proceeds from the sale of our common shares received by certain non-U.S. shareholders if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. If payment of withholding taxes is required, non-U.S. shareholders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect of such proceeds will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction.

We will not pay any additional amounts in respect of any amounts withheld on payments made by us.

Information Reporting Requirements and Withholding

We will report to our shareholders and to the IRS the amount of distributions we pay during each calendar year, and the amount of tax we withhold, if any. Under the backup withholding rules, a shareholder may be subject to backup withholding at a rate of 28% with respect to distributions unless the shareholder:

- is a corporation or qualifies for 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 shareholder who does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the shareholder’s income tax liability. In addition, we may be required to withhold a portion of capital gain distributions to any shareholders who fail to certify their non-foreign status to us.

Backup withholding will generally not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-U.S. shareholder provided that the non-U.S. shareholder furnishes to us or our paying agent the required certification as to its non-U.S. status, such as providing a valid IRS Form W-8BEN, W-8BEN-E or W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient. Payments of the proceeds from a disposition or a redemption effected outside the U.S. by a non-U.S. shareholder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) generally will apply to such a payment if the broker has certain connections with the U.S. unless the broker has documentary evidence in its records that the beneficial owner is a non-U.S. shareholder and specified conditions are met or an exemption is otherwise established. Payment of the proceeds from a disposition by a non-U.S. shareholder of common shares made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. shareholder certifies under penalties of perjury that it is not a U.S. person and satisfies certain other requirements, or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the shareholder’s U.S. federal income tax liability if certain required information is furnished to the IRS. Shareholders should consult their tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

For dividend payments, a U.S. withholding tax at a 30% rate will be imposed on amounts paid to U.S. shareholders who own our shares of our beneficial interest through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed, for payments after December 31, 2018, on proceeds from the sale of our common shares by U.S. shareholders who own our common shares through foreign accounts or foreign intermediaries. In addition, we may be required to withhold a portion of capital gain distributions to any U.S. shareholders who fail to certify their non-foreign status to us. We will not pay any additional amounts in respect of amounts withheld on payments made by us.

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Other Tax Consequences

Tax Aspects of Our Investments in Our Operating Partnership and Subsidiary Partnerships

The following discussion summarizes certain U.S. federal income tax considerations applicable to our direct or indirect investments in our operating partnership and any subsidiary partnerships or limited liability companies that we form or acquire (each individually, a Partnership and, collectively, the Partnerships). The discussion does not cover state or local tax laws or any federal tax laws other than income tax laws.

Classification as Partnerships

We will include in our income our distributive share of each Partnership's income and deduct our distributive share of each Partnership's losses only if such Partnership is classified for U.S. federal income tax purposes as a partnership (or an entity that is disregarded for U.S. federal income tax purposes if the entity is treated as having only one owner for U.S. federal income tax purposes) rather than as a corporation or an association taxable as a corporation. An unincorporated entity with at least two owners or members will be classified as a partnership, rather than as a corporation, for U.S. federal income tax purposes if it:

- is treated as a partnership under the Treasury Regulations relating to entity classification (the "check-the-box regulations"); and
- is not a "publicly traded partnership."

Under the check-the-box regulations, an unincorporated entity with at least two owners or members may generally elect to be classified either as an association taxable as a corporation or as a partnership. If such an entity does not make an election, it will generally be treated as a partnership (or an entity that is disregarded for U.S. federal income tax purposes if the entity is treated as having only one owner or member for U.S. federal income tax purposes) for U.S. federal income tax purposes. Our operating partnership intends to be classified as a partnership for U.S. federal income tax purposes and will not elect to be treated as an association taxable as a corporation under the check-the-box regulations.

We believe our operating partnership and each of our other Partnerships will be treated for U.S. federal income tax purposes as a partnership (or a disregarded entity). Pursuant to Treasury Regulations under Section 7701 of the Code, a partnership will be treated as a partnership for U.S. federal income tax purposes unless it elects to be treated as an association taxable as a corporation or would be treated as an association taxable as a corporation because it is a "publicly traded partnership." A publicly traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof.

We and our operating partnership currently take the reporting position for U.S. federal income tax purposes that our operating partnership is not a publicly traded partnership. There is a risk, however, that the right of a holder of OP Units to redeem the OP Units for cash or our common shares could cause interests in our operating partnership to be considered readily tradable on the substantial equivalent of a secondary market. Under the relevant Treasury Regulations, interests in a partnership will not be considered readily tradable on a secondary market or the substantial equivalent of a secondary market if the partnership qualifies for one of a limited number of specified "safe harbors," which are based on the specific facts and circumstances relating to the partnership. Although we intend to operate our operating partnership in a manner that will cause it not to be treated as a publicly traded partnership, we cannot provide any assurance that it will qualify for one of these safe harbors at all times.

If our operating partnership is a publicly traded partnership, it will be taxed as a corporation unless 90% or more of its operating gross income consists of certain passive-type income, including real property rents, gains from the sale or other disposition of real property, interest, and dividends (the "90% passive income exception"). We believe that our operating partnership will have sufficient qualifying income so that it would qualify for the 90% passive income exception and would be taxed as a partnership, even if it were a publicly traded partnership. The applicable income requirements in order for us to qualify as a REIT under the Code and the definition of qualifying income for purposes of the 90% passive income exception under the publicly traded partnership rules are very similar. Although differences exist under these two income tests, we do not believe that these differences would cause our operating partnership to fail to satisfy the 90% passive income exception.

We have not requested, and do not intend to request, a ruling from the IRS that our operating partnership will be classified as a partnership for U.S. federal income tax purposes. If for any reason our operating partnership were taxable as a corporation, rather than as a partnership, for U.S. federal income tax purposes, it would be required to pay an entity-level tax on its income at corporate rates, distributions to its partners, including us, would constitute dividends that would not be deductible in computing the operating partnership's taxable income, and its partners, including us, would be treated as shareholders for tax purposes. In this situation, the character of our assets and items of gross income could change and could preclude us from satisfying the REIT asset tests and possibly the REIT income tests. See "Gross Income Tests" and "Asset Tests." This, in turn, would prevent us from qualifying as a REIT, which could materially adversely affect the value of our common shares. In particular, if our operating partnership were taxable as a corporation, we would not qualify as a REIT because the value of our ownership interest in our

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operating partnership would exceed 5% of our assets and we would be considered to hold more than 10% of the voting securities (and more than 10% of the value of the outstanding securities) of such corporation. In addition, any change in a Partnership's status for tax purposes might be treated as a taxable event, in which case we might incur tax liability without any related cash distribution. See "Distribution Requirements."

Income Taxation of the Partnerships and their Partners

Partners, Not the Partnerships, Subject to Tax

A partnership is not a taxable entity for U.S. federal income tax purposes. Rather, we are required to take into account our allocable share of each Partnership's income, gains, losses, deductions, and credits for any taxable year of such Partnership ending within or with our taxable year, without regard to whether we have received or will receive any distribution from such Partnership.

Partnership Allocations

Although a partnership agreement generally will determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of the U.S. federal income tax laws governing partnership allocations. If an allocation is not recognized for U.S. federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Each Partnership's allocations of taxable income, gain, and loss are intended to comply with the requirements of the U.S. federal income tax laws governing partnership allocations.

Tax Allocations With Respect to Partnership Properties

Income, gain, loss, and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution, or the 704(c) Allocations. The amount of the unrealized gain or unrealized loss ("built-in gain" or "built-in loss") is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution (a "book-tax difference"). Any property purchased for cash initially will have an adjusted tax basis equal to its fair market value, resulting in no book-tax difference. A book-tax difference generally is decreased on an annual basis as a result of depreciation deductions to the contributing partner for book purposes but not for tax purposes. The 704(c) Allocations are solely for federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. In connection with our formation transactions, property which may have a built-in gain or a built-in loss was acquired by our operating partnership in exchange for OP Units. Our operating partnership has a carryover, rather than a fair market value, adjusted tax basis in such contributed assets equal to the adjusted tax basis of the contributors in such assets, resulting in a book-tax difference. As a result of that book-tax difference, we have a lower adjusted tax basis with respect to that portion of our operating partnership's assets than we would have with respect to assets having a tax basis equal to fair market value at the time of acquisition. This could result in lower depreciation deductions with respect to the portion of our operating partnership's assets attributable to such contributions.

The U.S. Treasury Department has issued regulations requiring partnerships to use a "reasonable method" for allocating items with respect to which there is a book-tax difference and outlining several reasonable allocation methods. Under certain available methods, the carryover basis of contributed properties in the hands of our operating partnership (1) could cause us to be allocated lower amounts of depreciation deductions for tax purposes than would be allocated to us if all contributed properties were to have a tax basis equal to their fair market value at the time of the contribution and (2) in the event of a sale of such properties, could cause us to be allocated taxable gain in excess of the economic or book gain allocated to us as a result of such sale, with a corresponding benefit to the contributing partners. An allocation described in (2) above might cause us to recognize taxable income in excess of cash proceeds in the event of a sale or other disposition of property, which may adversely affect our ability to comply with the REIT distribution requirements and may result in a greater portion of our distributions being taxed as dividends. Our operating partnership may use any allowable method to account for book-tax differences in a manner that allows us to minimize

any potential adverse consequences described above.
Sale of a Partnership's Property
Generally, any gain realized by a Partnership on the sale of property held by the Partnership for more than one year will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. Under Section 704(c) of the Code, any gain or loss recognized by a Partnership on the disposition of contributed properties will be allocated first to the partners of the Partnership who contributed such properties to the extent of their built-in gain or built-in loss

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on those properties for U.S. federal income tax purposes. The partners' built-in gain or built-in loss on such contributed properties will equal the difference between the partners' proportionate share of the book value of those properties and the partners' tax basis allocable to those properties at the time of the contribution as reduced for any decrease in the "book-tax difference." See "Income Taxation of the Partnerships and their Partners-Tax Allocations With Respect to Partnership Properties." Any remaining gain or loss recognized by the Partnership on the disposition of the contributed properties, and any gain or loss recognized by the Partnership on the disposition of the other properties, will be allocated among the partners in accordance with their respective percentage interests in the Partnership.

Our share of any gain realized by a Partnership on the sale of any property held by the Partnership as inventory or other property held primarily for sale to customers in the ordinary course of the Partnership's trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Such prohibited transaction income may have an adverse effect upon our ability to satisfy the income tests for REIT status. See "Gross Income Tests." We do not presently intend to acquire or hold or to allow any Partnership to acquire or hold any property that represents inventory or other property held primarily for sale to customers in the ordinary course of our or such Partnership's trade or business.

Legislative or Other Actions Affecting REITs

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. The REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department which may result in statutory changes as well as revisions to regulations and interpretations. Additionally, several of the tax considerations described herein are currently under review and are subject to change. Prospective shareholders are urged to consult with their tax advisors regarding the effect of potential changes to the federal tax laws on an investment in our common shares.

State and Local Taxes

We and/or our shareholders may be subject to taxation by various states and localities, including those in which we or a shareholder transacts business, owns property or resides. The state and local tax treatment may differ from the U.S. federal income tax treatment described above. Consequently, you should consult your tax advisors regarding the effect of state and local tax laws upon an investment in our common shares.

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UNDERWRITING

KeyBanc Capital Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the number of common shares set forth opposite its name below:

Underwriter	Number of Common Shares
KeyBanc Capital Markets Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
RBC Capital Markets, LLC	
Total	18,000,000

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the common shares sold under the underwriting agreement if any of these common shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the “Securities Act”), or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the common shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the common shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer’s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the common shares to the public at the public offering price set forth on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of $ per share. After the initial offering, the public offering price, concession or any other term of the offering may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their option to purchase additional common shares.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount	$	$	$
Proceeds, before expenses, to us	$	$	$

The expenses of the offering, not including the underwriting discount, are estimated at $0.7 million and are payable by us.

Option to Purchase Additional Shares

We have granted an option to the underwriters, exercisable for 30 days after the date of this prospectus supplement, to purchase up to 2,700,000 additional common shares at the public offering price, less the underwriting discount. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional common shares proportionate to that underwriter's initial amount reflected in the above table.

No Sales of Similar Securities

We, our executive officers and directors have agreed, subject to certain limited exceptions, not to sell or transfer any common shares or securities convertible into, exchangeable for, exercisable for, or repayable with common shares, for 45 days after the date of this prospectus supplement without first obtaining the written consent of KeyBanc Capital Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC. Specifically, we and these other persons have agreed, with certain limited exceptions, not to directly or indirectly

- offer, pledge, sell or contract to sell any common shares,
- sell any option or contract to purchase any common shares,
- purchase any option or contract to sell any common shares,
- grant any option, right or warrant for the sale of any common shares,
- lend or otherwise dispose of or transfer any common shares,
- request or demand that we file a registration statement related to the common shares, or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common shares whether any such swap or transaction is to be settled by delivery of common shares or other securities, in cash or otherwise.

This lock-up provision applies to common shares and to securities convertible into or exchangeable or exercisable for or repayable with common shares. It also applies to common shares owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

Limited exceptions to the restriction on us of sales of similar securities include: (A) the common shares sold pursuant to this offering, (B) any common shares issued by us upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof, (C) any common shares issued or options to purchase common shares or other types of equity awards granted pursuant to our existing employee benefit plans, (D) any common shares issued pursuant to any non-employee director stock plan or dividend reinvestment and share purchase plan for which a registration statement has been filed with the SEC prior to the date hereof, (E) any OP Units or other securities convertible into common shares issued by us or by our operating partnership in connection with an acquisition by us or any of our subsidiaries or affiliates of interests in assets or real property, or (F) any common shares issued in connection with the redemption or conversion of OP Units outstanding as of the date hereof.

New York Stock Exchange Listing

Our common shares are listed on the NYSE under the symbol “DOC.”

Price Stabilization, Short Positions

Until the distribution of the common shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common shares. However, the representatives may engage in transactions that stabilize the price of the common shares, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the underwriters may purchase and sell our common shares in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares described above. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option granted to them. "Naked" short sales are sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Stabilizing transactions consist of various bids for or purchases of common shares made by the underwriters in the open market prior to the completion of the offering.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common shares or preventing or retarding a decline in the market price of our common shares. As a result, the price of our common shares may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on the NYSE, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common shares. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail.

Other Relationships

Affiliates of KeyBanc Capital Markets Inc. serve as administrative agent and lender and lead arranger and co-book runner under our unsecured revolving credit facility. We have also obtained a bridge loan for the CHI Acquisition from an affiliate of KeyBanc Capital Markets Inc. Additionally, an affiliate of each of Merrill Lynch, Pierce Fenner & Smith Incorporated and RBC Capital Markets, LLC are lenders under our unsecured credit facility. Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

The underwriters and their affiliates may provide in the future investment banking, financial advisory or other financial services for us and our affiliates, for which they may receive advisory or transaction fees, as applicable, plus out-of-pocket expenses, of the nature and in amounts customary in the industry for these financial services.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.