SENIOR HOUSING PROPERTIES TRUST
Form 10-Q
November 03, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

Commission File Number 1-15319

SENIOR HOUSING PROPERTIES TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland	04-3445278

(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

Two Newton Place, 255 Washington Street, Suite 300, Newton, MA 02458-1634

(Address of Principal Executive Offices) (Zip Code)

617-796-8350

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

Number of registrant's common shares outstanding as of November 3, 2014: 203,885,292.

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In this Quarterly Report on Form 10-Q, the terms “the Company”, “we”, “us” and “our” refer to Senior Housing Properties Trust and its consolidated subsidiaries, unless otherwise noted.

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PART I. Financial Information

Item 1. Financial Statements.

SENIOR HOUSING PROPERTIES TRUST

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share and per share data)

(unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Real estate properties:		
Land	$ 680,994	$ 623,756
Buildings and improvements	5,503,074	4,639,869
	6,184,068	5,263,625
Less accumulated depreciation	(946,566)	(840,760)
	5,237,502	4,422,865
Cash and cash equivalents	80,750	39,233
Restricted cash	10,986	12,514
Deferred financing fees, net	32,021	27,975
Acquired real estate leases and other intangible assets, net	482,564	103,494
Other assets	145,299	158,585
Total assets	$ 5,989,122	$ 4,764,666
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unsecured revolving credit facility	$ —	$ 100,000
Unsecured term loan	350,000	—
Senior unsecured notes, net of discount	1,743,272	1,093,337
Secured debt and capital leases	669,011	699,427
Accrued interest	32,555	15,839
Assumed real estate lease obligations, net	125,493	12,528
Other liabilities	84,576	66,546
Total liabilities	3,004,907	1,987,677
Commitments and contingencies		

Shareholders’ equity:		
Common shares of beneficial interest, $.01 par value: 220,000,000 shares authorized, 203,872,829 and 188,167,643 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	2,039	1,882
Additional paid in capital	3,824,237	3,497,589
Cumulative net income	1,308,333	1,194,985
Cumulative other comprehensive income	1,736	8,412
Cumulative distributions	(2,152,130)	(1,925,879)
Total shareholders’ equity	2,984,215	2,776,989
Total liabilities and shareholders’ equity	$ 5,989,122	$ 4,764,666

See accompanying notes.

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SENIOR HOUSING PROPERTIES TRUST

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(amounts in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental income	$ 137,614	$ 112,319	$ 377,339	$ 336,468
Residents fees and services	79,259	74,946	237,740	224,634
Total revenues	216,873	187,265	615,079	561,102
Expenses:				
Property operating expenses	82,706	74,729	240,297	222,893
Depreciation	50,074	38,473	135,132	114,472
General and administrative	10,384	7,798	28,250	24,615
Acquisition related costs	15	396	2,649	2,590
Impairment of assets	—	—	—	5,675
Total expenses	143,179	121,396	406,328	370,245
Operating income	73,694	65,869	208,751	190,857
Interest and other income	78	42	336	612
Interest expense	(36,201)	(29,405)	(99,213)	(88,536)
Loss on early extinguishment of debt	—	(692)	—	(797)
Income from continuing operations before income tax expense and equity in earnings of an investee	37,571	35,814	109,874	102,136
Income tax expense	(156)	(125)	(502)	(405)
Equity in earnings of an investee	38	64	59	219
Income from continuing operations	37,453	35,753	109,431	101,950
Discontinued operations:				
(Loss) income from discontinued operations	(557)	1,231	1,484	3,762
Impairment of assets from discontinued operations	216	—	(117)	(27,896)
Income before gain on sale of properties	37,112	36,984	110,798	77,816
Gain on sale of properties	—	1,141	2,552	1,141
Net income	$ 37,112	$ 38,125	$ 113,350	$ 78,957
Other comprehensive income:				

Change in net unrealized (loss) / gain on investments	(5,404)	(2,166)	(6,684)	2,195
Share of comprehensive (loss) income of an investee	(33)	13	17	(68)
Comprehensive income	$ 31,675	$ 35,972	$ 106,683	$ 81,084
Weighted average shares outstanding	203,792	188,102	197,317	186,942
Income from continuing operations per share	0.18	0.19	0.56	0.55
Income (loss) from discontinued operations per share	—	0.01	0.01	(0.13)
Basic and diluted net income per share	$ 0.18	$ 0.20	$ 0.57	$ 0.42

See accompanying notes.

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SENIOR HOUSING PROPERTIES TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	$ 113,350	$ 78,957
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	135,132	115,274
Amortization of deferred financing fees and debt discounts	4,709	4,559
Straight line rental income	(6,814)	(5,256)
Amortization of acquired real estate leases and other intangible assets	(1,110)	2,793
Loss on early extinguishment of debt	—	797
Impairment of assets	117	33,571
Gain on sale of properties	(2,552)	(1,141)
Equity in earnings of an investee	(59)	(219)
Change in assets and liabilities:		
Restricted cash	1,528	(614)
Other assets	331	569
Accrued interest	16,716	6,006
Other liabilities	20,175	12,884
Cash provided by operating activities	281,523	248,180
Cash flows from investing activities:		
Real estate acquisitions and deposits	(1,146,840)	(148,775)
Real estate improvements	(53,197)	(36,820)
Investment in Affiliates Insurance Company	(825)	—
Proceeds from sale of properties	18,575	2,550
Cash used for investing activities	(1,182,287)	(183,045)
Cash flows from financing activities:		
Proceeds from issuance of common shares, net	322,962	261,813
Proceeds from issuance of unsecured senior notes, net of discount	648,914	—
Proceeds from unsecured term loan	350,000	—

Proceeds from borrowings on revolving credit facility	90,000	160,000
Repayments of borrowings on revolving credit facility	(190,000)	(225,000)
Repayment of other debt	(45,304)	(33,261)
Payment of deferred financing fees	(8,039)	(3,252)
Distributions to shareholders	(226,252)	(215,559)
Cash provided by (used for) financing activities	942,281	(55,259)
Increase (decrease) in cash and cash equivalents	41,517	9,876
Cash and cash equivalents at beginning of period	39,233	42,382
Cash and cash equivalents at end of period	$ 80,750	$ 52,258
Supplemental cash flow information:		
Interest paid	$ 77,788	$ 79,552
Income taxes paid	152	536
Non-cash investing activities:		
Acquisitions funded by assumed debt	(15,630)	(12,266)
Non-cash financing activities:		
Assumption of mortgage notes payable	15,630	12,266
Issuance of common shares	3,997	2,538

See accompanying notes.

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SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of Senior Housing Properties Trust and its subsidiaries, or we, us, or our, are unaudited. Certain information and disclosures required by U.S. generally accepted accounting principles, or GAAP, for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2013, or our Annual Report. In the opinion of our management, all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation have been included. All intercompany transactions and balances with or among our consolidated subsidiaries have been eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. Reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. These reclassifications were made to conform the prior periods' rental income, property operating expenses, discontinued operations, general and administrative expenses, interest and other income and impairment of assets to the current classification. These reclassifications had no effect on net income or shareholders' equity.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect reported amounts. Actual results could differ from those estimates. Significant estimates in the condensed consolidated financial statements include purchase price allocations, useful lives of fixed assets and impairment of real estate and intangible assets.

Note 2. Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This update amends the criteria for reporting discontinued operations to, among other things, raise the threshold for disposals to qualify as discontinued operations. This update is effective for interim and annual reporting periods, beginning after December 15, 2014, with early adoption permitted. We currently expect that, when adopted, this update will reduce the number of any future property dispositions to be presented as discontinued operations in our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. This update is effective for interim and annual reporting periods beginning after December 15, 2016. We are currently in the process of evaluating the impact, if any, the adoption of this ASU will have on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The update requires an entity to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the financial statements are available to be issued when applicable) and to provide related footnote disclosures in certain circumstances. The update is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter with early adoption permitted. The implementation of this update is not expected to cause any significant changes to our condensed consolidated financial statements.

Note 3. Real Estate Properties

At September 30, 2014, we owned 371 properties (398 buildings) located in 38 states and Washington, D.C. We have accounted, or expect to account for, the following acquisitions as business combinations unless otherwise noted.

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SENIOR HOUSING PROPERTIES TRUST

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(dollar amounts in thousands, except per share data or as otherwise stated)

MOB Acquisitions:

In April 2014, we acquired one property (one building) leased to medical providers, medical related businesses, clinics and biotech laboratory tenants, or an MOB, for approximately $32,658, including the assumption of approximately $15,630 of mortgage debt, and excluding closing costs. This MOB is located in Texas and includes 125,240 square feet of leasable space. We funded this acquisition using cash on hand and borrowings under our revolving credit facility. In May 2014, we acquired one MOB (two buildings) for approximately $1,125,420, excluding closing costs. This MOB is located in Massachusetts and includes approximately 1,651,037 gross building square feet. We funded this acquisition using the proceeds of equity and debt offerings and borrowings under our revolving credit facility.

MOB Acquisitions since January 1, 2014:

ion	Number of Properties	Square Feet (000's)	Cash Paid plus Assumed Debt (1)	Land	Buildings and Improvements	Acquired Real Estate Leases	Acquired Real Estate Lease Obligations	Assumed Debt
Antonio, TX	1	125	$ 32,932	$ 3,141	$ 26,421	$ 4,393	$ 10	$ 15,63
on, MA	1	1,651	1,124,031	52,643	944,362	245,511	118,485	—
	2	1,776	$ 1,156,963	$ 55,784	$ 970,783	$ 249,904	$ 118,495	$ 15,63

(1) These amounts include the cash we paid plus debt we assumed, if any, as well as other settlement adjustments with respect to the acquisitions but exclude closing costs. The allocation of the purchase price of our acquisitions shown above is based upon preliminary estimates of the fair value of assets acquired and liabilities assumed. Consequently, amounts preliminarily allocated to assets acquired and liabilities assumed may change from those used in these condensed consolidated financial statements.

In July 2014, we entered into an agreement to acquire one senior living community for approximately $7,000, excluding closing costs. The senior living community is located in Jackson, Wisconsin and includes 52 assisted living units. In September 2014, we entered into an agreement to acquire one senior living community for approximately $40,430, excluding closing costs. The senior living community is located in Madison, Wisconsin and includes

176 independent and assisted living units. If these acquisitions are completed, we expect that a subsidiary of Five Star Quality Care, Inc. will manage these communities for our account pursuant to long term management agreements. In this Quarterly Report on Form 10-Q, we refer to Five Star Quality Care, Inc. and its applicable subsidiaries as Five Star.

In August 2014, we entered into an agreement to acquire the entities owning 23 MOBs for approximately $539,000, including the assumption of approximately $30,000 of mortgage debt. The MOBs contain approximately 2,200,000 square feet and are located in 12 states. The closing of this acquisition is subject to various conditions; accordingly, we may not purchase some or all of these properties, these purchases may be delayed or the terms of these purchases may change. See Note 10 for further information about this acquisition.

Impairment:

We periodically evaluate our properties for impairments. Impairment indicators may include declining tenant occupancy, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life, and legislative, market or industry changes that could permanently reduce the value of a property. If indicators of impairment are present, we evaluate the carrying value of the affected property by comparing it to the expected future undiscounted net cash flows to be generated from that property. If the sum of these expected future net cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value.

As of September 30, 2014, we had seven senior living communities with 552 living units and one MOB (four buildings) with 323,541 square feet categorized as properties held for sale. During the nine months ended September 30, 2014, we

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SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

recorded net impairment of assets charges of $117 to adjust the carrying value of four MOBs included in discontinued operations to their aggregate estimated net sale price. The eight properties are included in other assets in our condensed consolidated balance sheets and have a net book value (after impairment) of approximately $12,924 at September 30, 2014. As of December 31, 2013, we had 10 senior living communities with 744 units and four MOBs (seven buildings) with 831,499 square feet categorized as properties held for sale, which were similarly recorded and categorized at September 30, 2014, except that three of the senior living communities and three of the MOBs were sold during the first nine months of 2014, as noted below. These properties are included in other assets in our condensed consolidated balance sheets and had a net book value (after impairment) of approximately $27,888 at December 31, 2013. We decided to sell these properties because of what we believe to be unattractive conditions in the markets in which these properties are located or in which they operate. We classify all properties as held for sale in our condensed consolidated balance sheets that meet the applicable criteria for that treatment as set forth in the Property, Plant and Equipment Topic of the FASB Accounting Standards Codification, or the Codification.

Results of operations for properties sold or held for sale are included in discontinued operations in our condensed consolidated statements of operations once the criteria for discontinued operations in the Presentation of Financial Statements Topic of the Codification are met. The senior living properties which we are or were offering for sale as of the applicable periods do not meet the criteria for discontinued operations as they are included within combination leases with other properties that we expect to continue leasing. Summarized income statement information for the four MOBs (seven buildings) that meet the criteria for discontinued operations is included in discontinued operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Rental income	$ 111	$ 2,189	$ 3,837	$ 7,284
Property operating expenses	(668)	(958)	(2,353)	(2,723)
Depreciation and amortization	—	—	—	(799)
Income from discontinued operations	$ (557)	$ 1,231	$ 1,484	$ 3,762

In January 2014, we sold a senior living community with 36 units that was previously classified as held for sale for $2,400 and recorded a gain on the sale of this property of approximately $156.

In April 2014, we sold one MOB (one building) with 210,879 square feet that was included in discontinued operations for $5,000 and recorded no gain or loss on the sale.

In June 2014, we sold two senior living communities with 156 units that were previously classified as held for sale for $4,500 and recorded a gain on the sale of these properties of approximately $2,396.

In June 2014, we sold one MOB (one building) with 235,079 square feet that was included in discontinued operations for $6,000 and recorded no gain or loss on the sale.

In September 2014, we sold one MOB (one building) with 62,000 square feet that was included in discontinued operations for $675 and recorded no gain or loss on the sale.

In October 2014, we sold one senior living community with 70 units that was previously classified as held for sale for $2,850. Also in October 2014, we sold two senior living communities with 177 units that were previously classified as held for sale for $5,900. We will record the gain or loss on these sales during the period ending December 31, 2014 when all of the costs of the sales are known.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

Note 4. Unrealized Gain / Loss on Investments

As of September 30, 2014, we owned 250,000 common shares of Equity Commonwealth (formerly known as CommonWealth REIT), or EQC, and 4,235,000 common shares of Five Star which are carried at fair market value in other assets on our condensed consolidated balance sheets. Cumulative other comprehensive income shown in our condensed consolidated balance sheets includes the net unrealized gain or loss on investments determined as the net difference between the value at quoted market prices of our EQC and Five Star shares as of September 30, 2014 ($25.71 and $3.77 per share, respectively) and our weighted average costs at the time we acquired these shares, as adjusted to reflect any share splits or combinations ($26.00 and $3.36 per share, respectively).

Note 5. Indebtedness

Our principal debt obligations at September 30, 2014 were: (1) six public issuances of unsecured senior notes, including: (a) $250,000 principal amount at an annual interest rate of 4.30% due 2016, (b) $400,000 principal amount at an annual interest rate of 3.25% due 2019, (c) $200,000 principal amount at an annual interest rate of 6.75% due 2020, (d) $300,000 principal amount at an annual interest rate of 6.75% due 2021, (e) $250,000 principal amount at an annual interest rate of 4.75% due 2024 and (f) $350,000 principal amount at an annual interest rate of 5.625% due 2042; (2) our $350,000 principal amount term loan; and (3) $652,359 aggregate principal amount of mortgages secured by 47 of our properties (50 buildings) with maturity dates from 2015 to 2043. The 47 mortgaged properties (50 buildings) had a carrying value of $881,216 at September 30, 2014. We also had two properties subject to capital leases totaling $12,910 at September 30, 2014; these two properties had a carrying value of $18,375 at September 30, 2014.

We have a $750,000 unsecured revolving credit facility that is available for general business purposes, including acquisitions. The maturity date of our revolving credit facility is January 15, 2018 and, subject to the payment of an extension fee and meeting certain other conditions, we have an option to further extend the stated maturity date by an additional one year to January 15, 2019. The revolving credit facility agreement provides that we can borrow, repay and reborrow funds available under the revolving credit facility agreement until maturity, and no principal repayment is due until maturity. The revolving credit facility agreement includes a feature under which maximum borrowings under the facility may be increased to up to $1,500,000 in certain circumstances. The interest rate paid on borrowings under the revolving credit facility agreement is LIBOR plus a premium of 130 basis points, and the facility fee is 30 basis points per annum on the total amount of lending commitments. Both the interest rate premium and the facility fee are subject to adjustment based upon changes to our credit ratings. As of September 30, 2014, the interest rate payable on borrowings under our revolving credit facility was 1.45%, and the weighted average interest rate for borrowings under our revolving credit facility was 1.42% for both the three and nine months ended September 30,

2014. The weighted average interest rate for borrowings under our revolving credit facility was 1.64% and 1.68% for the three and nine months ended September 30, 2013, respectively. As of both September 30, 2014 and November 3, 2014, we had no amounts outstanding and $750,000 available for borrowing by us.

Our revolving credit facility agreement provides for acceleration of payment of all amounts outstanding upon the occurrence and continuation of certain events of default, such as a change of control of us, which includes Reit Management & Research LLC, or RMR, ceasing to act as our business manager and property manager.

In April 2014, we sold $400,000 of 3.25% senior unsecured notes due 2019 and $250,000 of 4.75% senior unsecured notes due 2024, raising net proceeds of approximately $644,889, after underwriting discounts but before expenses. Interest on the notes is payable semi-annually in arrears. We used the net proceeds of this offering for general business purposes, including funding the acquisitions described in Note 3.

On May 30, 2014, we entered into a term loan agreement with Wells Fargo Bank, National Association and a syndicate of other lenders, pursuant to which we obtained a $350,000 unsecured term loan. Our term loan matures on January 15, 2020, and is prepayable without penalty at any time. In addition, our term loan includes a feature under which maximum

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SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

borrowings may be increased to up to $700,000 in certain circumstances. Our term loan bears interest at a rate of LIBOR plus a premium of 140 basis points that is subject to adjustment based upon changes to our credit ratings. We used the net proceeds of our term loan to repay amounts outstanding under our revolving credit facility, to repay mortgage notes and for general business purposes. As of September 30, 2014, the interest rate payable for amounts outstanding under our term loan was 1.55%. The weighted average annual interest rate for amounts outstanding on our term loan was 1.55% for the three and nine months ended September 30, 2014.

Our public debt indentures and related supplements and our credit facility agreement contain a number of financial and other covenants, including covenants that restrict our ability to incur indebtedness or to make distributions under certain circumstances and require us to maintain financial ratios and a minimum net worth.

In connection with the acquisitions discussed in Note 3 above, in April 2014, we assumed $15,630 of mortgage debt, which we recorded at its fair value of $16,643. This mortgage has a contractual interest rate of 6.28% and matures in July 2022. We recorded the assumed mortgage at its fair value. We determined the fair value of the assumed mortgage using a market approach based upon Level 3 inputs (significant other unobservable inputs) in the fair value hierarchy.

In June 2014, we repaid mortgage notes that encumbered two of our properties that had an aggregate principal balance of $35,300 and a weighted average interest rate of 5.8%.

In October 2014, we prepaid at par our $14,700 loan incurred in connection with certain revenue bonds scheduled to mature on December 1, 2027. That loan had an interest rate of 5.875%.

In October 2014, we repaid a mortgage note that encumbered one of our properties that had a principal balance of $11,900 and an interest rate of 6.25%.

Note 6. Shareholders' Equity

On February 21, 2014, we paid a distribution to common shareholders of $0.39 per share, or approximately $73,386, that was declared on January 3, 2014 and was payable to shareholders of record on January 13, 2014.

On May 21, 2014, we paid a distribution to common shareholders of $0.39 per share, or approximately $73,397, that was declared on April 2, 2014 and was payable to shareholders of record on April 14, 2014.

On August 21, 2014, we paid a distribution to common shareholders of $0.39 per share, or approximately $79,469, that was declared on July 7, 2014 and was payable to shareholders of record on July 18, 2014.

On October 2, 2014, we declared a distribution payable to common shareholders of record on October 17, 2014, of $0.39 per share, or approximately $79,515. We expect to pay this distribution on or about November 21, 2014 using cash on hand and borrowings under our revolving credit facility.

During the nine months ended September 30, 2014 and the period from October 1, 2014 to November 3, 2014, we issued 85,986 and 12,463, respectively, of our common shares to RMR as part of the business management fee payable by us under our business management agreement. See Note 10 for further information regarding this agreement.

In April 2014, we issued 15,525,000 common shares in a public offering, raising net proceeds of approximately $323,318, after underwriting discounts but before expenses. We used the net proceeds from this offering to repay borrowings outstanding under our revolving credit facility and for general business purposes, including funding the acquisitions described in Note 3.

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

On June 5, 2014, we granted 2,500 common shares valued at $24.50 per share, the closing price of our common shares on the New York Stock Exchange, or NYSE, on that day, to each of our five Trustees.

On September 12, 2014, pursuant to our 2012 Equity Compensation Plan, we granted an aggregate of 81,700 of our common shares to our officers and certain employees of our manager, RMR, valued at $21.42 per share, the closing price of our common shares on the NYSE on that day.

Note 7. Fair Value of Assets and Liabilities

The following table presents certain of our assets and liabilities that are measured at fair value on a recurring and non recurring basis at September 30, 2014 categorized by the level of inputs used in the valuation of each asset or liability.

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets held for sale(1)	$ 12,924	$ —	$ 12,924	$ —
Investments in available for sale securities(2)	$ 22,393	$ 22,393	$ —	$ —
Unsecured senior notes(3)	$ 1,816,660	$ 1,816,660	$ —	$ —
Secured debt(4)	$ 726,242	$ —	$ —	$ 726,242

(1) Assets held for sale consist of eight properties (11 buildings) that we expect to sell that are reported at fair value less costs to sell. We used offers to purchase these properties made by third parties or comparable sales transactions (Level 2 inputs) to determine the fair value of these properties. We have recorded cumulative impairments of approximately $13,500 to these properties in order to reduce their book value to fair value.

(2) Our investments in available for sale securities include our 250,000 common shares of EQC and 4,235,000 common shares of Five Star. The fair values of these shares are based on quoted prices at September 30, 2014 in

active markets (Level 1 inputs).

(3) We estimate the fair values of our unsecured senior notes using an average of the bid and ask price of our outstanding six issuances of senior notes (Level 1 inputs) on or about September 30, 2014. The fair values of these senior note obligations exceed their aggregate book values of $1,743,272 by $73,387 because these notes were trading at premiums to their face amounts.

(4) We estimate the fair values of our secured debt by using discounted cash flow analyses and currently prevailing market terms at September 30, 2014 (Level 3 inputs). Because Level 3 inputs are unobservable, our estimated fair value may differ materially from the actual fair value.

In addition to the assets and liabilities described in the above table, our additional financial instruments include rents receivable, cash and cash equivalents, restricted cash and other unsecured debt. The fair values of these additional financial instruments approximate their carrying values at September 30, 2014 based upon their liquidity, short term maturity, variable rate pricing or our estimate of fair value using discounted cash flow analyses and prevailing interest rates.

Note 8. Segment Reporting

We have four operating segments, of which three are separately reportable operating segments: (1) triple net leased senior living communities that provide short term and long term residential care and dining services for residents that are leased to third parties, (2) managed senior living communities that provide short term and long term residential care and dining services for residents that are managed for our account and (3) MOBs. Our triple net leased and managed senior living communities both include independent living communities, assisted living communities, skilled nursing facilities,

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or SNFs, and some communities that offer a combination of the independent and assisted living and skilled nursing services. Properties in the MOB segment include buildings leased to medical providers, medical related businesses, clinics and biotech laboratory tenants. The "All Other" category in the following table includes amounts related to corporate business activities and the operating results of certain properties that offer fitness, wellness and spa services to members.

	For the Three Months Ended September 30, 2014				
	Triple Net Leased Senior Living Communities	Managed Senior Living Communities	MOBs	All Other Operations	Consolidated
Revenues:					
Rental income	$ 55,266	$ —	$ 77,798	$ 4,550	$ 137,614
Residents fees and services	—	79,259	—	—	79,259
Total revenues	55,266	79,259	77,798	4,550	216,873
Expenses:					
Property operating expenses	—	61,330	21,376	—	82,706
Depreciation	15,372	8,006	25,748	948	50,074
General and administrative	—	—	—	10,384	10,384
Acquisition related costs	—	—	—	15	15
Total expenses	15,372	69,336	47,124	11,347	143,179
Operating income (loss)	39,894	9,923	30,674	(6,797)	73,694
Interest and other income	—	—	—	78	78
Interest expense	(6,446)	(2,416)	(1,484)	(25,855)	(36,201)
Income (loss) before income tax expense and equity in earnings of an investee	33,448	7,507	29,190	(32,574)	37,571
Income tax expense	—	—	—	(156)	(156)
Equity in earnings of an investee	—	—	—	38	38
Income (loss) from continuing operations	33,448	7,507	29,190	(32,692)	37,453
Discontinued operations:					
	—	—	(557)	—	(557)

Loss from discontinued operations					
Impairment of assets from discontinued operations	—	—	216	—	216
Net income (loss)	$ 33,448	$ 7,507	$ 28,849	$ (32,692)	$ 37,112
Total assets	$ 1,823,234	$ 899,545	$ 2,953,668	$ 312,675	$ 5,989,122

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	For the Three Months Ended September 30, 2013				
	Triple Net Leased Senior Living Communities	Managed Senior Living Communities	MOBs	All Other Operations	Consolidated
Revenues:					
Rental income	$ 57,073	$ —	$ 50,910	$ 4,336	$ 112,319
Residents fees and services	—	74,946	—	—	74,946
Total revenues	57,073	74,946	50,910	4,336	187,265
Expenses:					
Property operating expenses	—	57,708	17,021	—	74,729
Depreciation	16,760	7,251	13,514	948	38,473
General and administrative	—	—	—	7,798	7,798
Acquisition related costs	—	—	—	396	396
Total expenses	16,760	64,959	30,535	9,142	121,396
Operating income (loss)	40,313	9,987	20,375	(4,806)	65,869
Interest and other income	—	—	—	42	42
Interest expense	(6,546)	(3,054)	(1,369)	(18,436)	(29,405)
Loss on early extinguishment of debt	—	—	—	(692)	(692)
Income (loss) before income tax expense and equity in earnings of an investee	33,767	6,933	19,006	(23,892)	35,814
Income tax expense	—	—	—	(125)	(125)
Equity in earnings of an investee	—	—	—	64	64
Income (loss) from continuing operations	33,767	6,933	19,006	(23,953)	35,753
Discontinued operations:					
Income from discontinued operations	—	—	1,231	—	1,231
Income (loss) before gain on sale of properties	33,767	6,933	20,237	(23,953)	36,984
Gain on sale of properties	1,141	—	—	—	1,141
Net income (loss)	$ 34,908	$ 6,933	$ 20,237	$ (23,953)	$ 38,125

Total assets	$ 1,861,729	$ 967,187	$ 1,732,217	$ 246,197	$ 4,807,330

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	For the Nine Months Ended September 30, 2014				
	Triple Net Leased Senior Living Communities	Managed Senior Living Communities	MOBs	All Other Operations	Consolidated
Revenues:					
Rental income	$ 165,321	$ —	$ 198,589	$ 13,429	$ 377,339
Residents fees and services	—	237,740	—	—	237,740
Total revenues	165,321	237,740	198,589	13,429	615,079
Expenses:					
Property operating expenses	—	182,742	57,555	—	240,297
Depreciation	46,525	24,494	61,269	2,844	135,132
General and administrative	—	—	—	28,250	28,250
Acquisition related costs	—	—	—	2,649	2,649
Total expenses	46,525	207,236	118,824	33,743	406,328
Operating income (loss)	118,796	30,504	79,765	(20,314)	208,751
Interest and other income	—	—	—	336	336
Interest expense	(19,307)	(8,210)	(4,328)	(67,368)	(99,213)
Income (loss) before income tax expense and equity in earnings of an investee	99,489	22,294	75,437	(87,346)	109,874
Income tax expense	—	—	—	(502)	(502)
Equity in earnings of an investee	—	—	—	59	59
Income (loss) from continuing operations	99,489	22,294	75,437	(87,789)	109,431
Discontinued operations:					
Income from discontinued operations	—	—	1,484	—	1,484
Impairment of assets from discontinued operations	—	—	(117)	—	(117)
Income (loss) before gain on sale of properties	99,489	22,294	76,804	(87,789)	110,798
Gain on sale of properties	2,552	—	—	—	2,552
Net income (loss)	$ 102,041	$ 22,294	$ 76,804	$ (87,789)	$ 113,350
Total assets	$ 1,823,234	$ 899,545	$ 2,953,668	$ 312,675	$ 5,989,122

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	For the Nine Months Ended September 30, 2013				
	Triple Net Leased Senior Living Communities	Managed Senior Living Communities	MOBs	All Other Operations	Consolidated
Revenues:					
Rental income	$ 170,794	$ —	$ 152,492	$ 13,182	$ 336,468
Residents fees and services	—	224,634	—	—	224,634
Total revenues	170,794	224,634	152,492	13,182	561,102
Expenses:					
Property operating expenses	—	173,844	49,049	—	222,893
Depreciation	50,696	21,128	39,804	2,844	114,472
General and administrative	—	—	—	24,615	24,615
Acquisition related costs	—	—	—	2,590	2,590
Impairment of assets	4,371	—	—	1,304	5,675
Total expenses	55,067	194,972	88,853	31,353	370,245
Operating income (loss)	115,727	29,662	63,639	(18,171)	190,857
Interest and other income	—	—	—	612	612
Interest expense	(20,030)	(9,196)	(4,103)	(55,207)	(88,536)
Loss on early extinguishment of debt	—	—	—	(797)	(797)
Income (loss) before income tax expense and equity in earnings of an investee	95,697	20,466	59,536	(73,563)	102,136
Income tax expense	—	—	—	(405)	(405)
Equity in earnings of an investee	—	—	—	219	219
Income (loss) from continuing operations	95,697	20,466	59,536	(73,749)	101,950
Discontinued operations:					
Income from discontinued operations	—	—	3,762	—	3,762
Impairment of assets from discontinued operations	—	—	(27,896)	—	(27,896)
Income (loss) before gain on sale of properties	95,697	20,466	35,402	(73,749)	77,816
Gain on sale of properties	1,141	—	—	—	1,141
Net income (loss)	$ 96,838	$ 20,466	$ 35,402	$ (73,749)	$ 78,957

Total assets	$ 1,861,729	$ 967,187	$ 1,732,217	$ 246,197	$ 4,807,330

Note 9. Significant Tenant

Five Star is our former subsidiary. Rental income from Five Star represented 34.7% of our rental income for the three months ended September 30, 2014, and the properties Five Star leases from us represented 34.5% of our investments, at cost, as of September 30, 2014. As of September 30, 2014, Five Star also managed 44 senior living communities for our account.

Subject to the information in the following paragraph, financial information about Five Star may be found on the website of the Securities and Exchange Commission, or SEC, by entering Five Star's name at http://www.sec.gov/edgar/searchedgar/companysearch.html. Reference to Five Star's financial information on this

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external website is presented to comply with applicable accounting guidance of the SEC. Except for such financial information contained therein as is included herein under such guidance, Five Star's public filings and other information located in external websites are not incorporated by reference into these financial statements.

In April 2014, Five Star filed with the SEC an amended Annual Report on Form 10-K for the year ended December 31, 2012 and amended Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013 that restated its financial results for 2011, 2012 and the first and second quarters of 2013 to correct certain errors in its previously filed financial reports for those periods. In addition, in April 2014, Five Star filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and in September 2014, Five Star filed with the SEC its Annual Report on Form 10-K for the year ended December 31, 2013. In those filings, Five Star disclosed that it has material weaknesses in its internal control over financial reporting and that Five Star is currently in the process of developing a remediation plan for the material weaknesses. Five Star has not yet filed its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014. Five Star has publicly disclosed that it intends to file with the SEC its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014, June 30, 2014 and September 30, 2014 on or about the same day, and that it currently expected those filings to occur by December 31, 2014.

See Note 10 for further information relating to our leases and management arrangements with Five Star.

Note 10. Related Person Transactions

Five Star: Five Star was formerly our 100% owned subsidiary. Five Star is our largest tenant, we are Five Star's largest stockholder and Five Star manages certain senior living communities for us. In 2001, we distributed substantially all of Five Star's then issued and outstanding shares of common stock to our shareholders. As of September 30, 2014, we owned 4,235,000 shares of common stock of Five Star, or approximately 8.7% of Five Star's issued and outstanding shares of common stock. One of our Managing Trustees, Mr. Barry Portnoy, is a managing director of Five Star. RMR provides management services to both us and Five Star.

As of September 30, 2014, we leased 184 senior living communities to Five Star under four combination leases. Under Five Star's leases with us, Five Star pays us rent consisting of minimum annual rent amounts plus percentage rent based on increases in gross revenues at certain properties. We recognized total rental income from Five Star of $47,717 and $49,705 for the three months ended September 30, 2014 and 2013, respectively, and $142,842 and $148,732 for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, our rents receivable from Five Star were $15,907 and $17,960, respectively, and those amounts are included in other assets in our condensed consolidated balance sheets. We had deferred estimated percentage rent under our Five Star leases of $1,498 and $1,301 for the three months ended September 30, 2014 and 2013, respectively, and $4,317 and $3,823 for the nine months ended September 30, 2014 and 2013, respectively. We determine percentage rent due under our Five Star leases annually and recognize it at year end when all contingencies are met. During the nine months ended September 30, 2014 and 2013, pursuant to the terms of our leases with Five Star, we purchased $23,776 and $22,501, respectively, of improvements made to properties leased to Five Star, and, as a result, the annual rent payable to us by Five Star increased by approximately $1,902 and $1,800, respectively.

In June 2013, we and Five Star agreed to offer for sale 11 senior living communities we lease to Five Star. Five Star's rent payable to us will be reduced if and as these sales occur pursuant to terms set in our leases with Five Star. In August 2013, we sold one of these communities, a SNF, with 112 living units, for a sales price of $2,550, and as a result of this sale, Five Star's annual minimum rent payable to us decreased by $255, or 10% of the net proceeds of the sale to us, in accordance with the terms of the applicable lease. In January 2014, we sold one senior living community located in Texas with 36 assisted living units, for a sale price of $2,400, and as a result of this sale, Five Star's annual minimum rent payable to us decreased by $210, or 8.75% of the net proceeds of the sale to us, in accordance with the terms of the applicable lease. In June 2014, we sold two senior living communities located in Wisconsin with 156 SNF units, for a sale price of $4,500, and as a result of this sale, Five Star's annual minimum rent payable to us decreased by $452, or

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10% of the net proceeds of the sale to us, in accordance with the terms of the applicable lease. In October 2014, we sold a senior living community located in Virginia with 70 assisted living units for a sale price of $2,850 and, as a result of this sale, Five Star's annual minimum rent payable to us decreased by $285, or 10% of the net proceeds of the sale to us, in accordance with the terms of the applicable lease. Also in October 2014, we sold two senior living communities located in Arizona with 177 units for a sale price of $5,900 and, as a result of this sale, Five Star's annual minimum rent payable to us decreased by $590, or 10% of the net proceeds of the sale to us, in accordance with the terms of the applicable lease. We can provide no assurance that the remaining four senior living communities that we and Five Star have agreed to offer for sale will be sold, when any sales may occur or what the terms of any sales may provide.

On July 10, 2014, we and Five Star entered into the Fifth Amendment to the Amended and Restated Master Lease Agreement (Lease No. 4) pursuant to which Five Star exercised the first of its existing lease extension options under Lease No. 4, extending the term from April 30, 2017 to April 30, 2032, and we granted Five Star a third option for Five Star to extend the term of Lease No. 4 from May 1, 2047 to April 30, 2062.

Five Star began managing communities for our account in 2011. We lease certain of our senior living communities that are managed by Five Star to our taxable REIT subsidiaries, or TRSs, and Five Star manages these and other communities for us pursuant to long term management agreements. As of September 30, 2014, Five Star managed 44 senior living communities for our account.

In connection with these management agreements, we and Five Star have entered into four combination agreements, or pooling agreements: three pooling agreements combine our management agreements for communities that include assisted living units, or the AL Pooling Agreements, and a fourth pooling agreement combines our management agreements for communities consisting only of independent living units, or the IL Pooling Agreement. The management agreements that are included in each of our pooling agreements are on substantially similar terms. Our first AL Pooling Agreement includes 20 identified communities and our second AL Pooling Agreement includes 19 identified communities. The third AL Pooling Agreement currently includes the management agreement for a community we acquired in November 2013. The IL Pooling Agreement currently includes management agreements for two communities that have only independent living units. The senior living community in New York and one senior living community in California described below that Five Star manages for our account are not included in any of our pooling agreements. Each of the AL Pooling Agreements and the IL Pooling Agreement aggregates the determination of fees and expenses of the various communities that are subject to such pooling agreement, including determinations of our return on our invested capital and Five Star's incentive fees. We incurred management fees paid to Five Star of $2,438 and $2,290 for the three months ended September 30, 2014 and 2013, respectively, and $7,295 and $6,866 for the nine months ended September 30, 2014 and 2013, respectively. These amounts are included in property operating expenses in our condensed consolidated statements of income and comprehensive income.

Our second AL Pooling Agreement previously included the management agreement for our assisted living community known as Villa Valencia, which is located in California. On July 10, 2014, we entered into an agreement with Five Star, pursuant to which the management agreement for Villa Valencia was removed from the second AL Pooling Agreement as of July 1, 2014. We expect that the management agreement affecting the Villa Valencia community will not be included in any pooling agreement until after extensive renovations planned at that community are completed.

On July 10, 2014, we entered into an amendment to our management agreements with Five Star that include assisted living communities to (1) extend the term of each of the management agreements between us and Five Star for Villa Valencia and the 19 assisted living communities currently included in the second AL Pooling Agreement from December 31, 2031 to December 31, 2033 and (2) extend the term of the management agreement between us and Five Star for the senior living community known as Willow Pointe, which is currently included in the third AL Pooling Agreement, from December 31, 2031 to December 31, 2035. On July 10, 2014, we also entered into an amendment to our management agreements with Five Star that include only independent living communities to extend the term of the

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management agreements between us and Five Star for two independent living communities from December 31, 2031 to December 31, 2032.

We own a senior living community in New York with 310 living units, a portion of which is managed by Five Star pursuant to a long term management agreement with us with respect to the living units at this community that are not subject to the requirements of New York healthcare licensing laws. In order to accommodate certain requirements of New York healthcare licensing laws, one of our TRSs subleases the portion of this community that is subject to those requirements to an entity, D&R Yonkers LLC, which is owned by our President and Chief Operating Officer and Treasurer and Chief Financial Officer. Five Star manages this portion of the community pursuant to a long term management agreement with D&R Yonkers LLC. Under the sublease agreement, D&R Yonkers LLC is obligated to pay rent only from available revenues generated by the subleased community. Our TRS is obligated to advance any rent shortfalls to D&R Yonkers LLC, and D&R Yonkers LLC is obligated to repay one of our TRSs only from available revenues generated by the subleased community.

We may enter into additional management arrangements with Five Star for our senior living communities and we may add the management agreements to our existing pooling agreements or enter into additional pooling agreements with Five Star. For example, as noted in Note 3, we entered into purchase agreements to purchase two senior living communities in Wisconsin for a total of $47,430. If these acquisitions are completed, we expect to lease these communities to one of our TRSs and to enter into long term management agreements with Five Star to manage these communities on terms similar to those management arrangements we currently have with Five Star for communities that include assisted living units. We further expect that these management agreements would be added to the third AL Pooling Agreement. These acquisitions are subject to various conditions and there can be no assurance that these acquisitions will be completed.

RMR: We have no employees. Personnel and various services we require to operate our business are provided to us by RMR. We have two agreements with RMR to provide management and administrative services to us: (1) a business management agreement, which relates to our business generally, and (2) a property management agreement, which relates to the property level operations of our MOBs.

One of our Managing Trustees, Mr. Barry Portnoy, is Chairman, majority owner and an employee of RMR. Our other Managing Trustee, Mr. Adam Portnoy, is the son of Mr. Barry Portnoy, and an owner, President, Chief Executive Officer and a director of RMR. Each of our executive officers is also an officer of RMR, and our President and Chief Operating Officer, Mr. David Hegarty, is a director of RMR. Certain of Five Star's executive officers are officers of RMR. A majority of our Independent Trustees also serve as independent directors or independent trustees of other public companies to which RMR provides management services. Mr. Barry Portnoy and Mr. Adam Portnoy serve as managing directors or managing trustees of a majority of the companies to which RMR or its affiliates provide management services. In addition, officers of RMR serve as officers of those companies.

Pursuant to our business management agreement with RMR, we recognized business management fees of $8,077 and $6,847 for the three months ended September 30, 2014 and 2013, respectively, and $22,492 and $20,088 for the nine months ended September 30, 2014 and 2013, respectively. These amounts are included in general and administrative expenses in our condensed consolidated financial statements. In accordance with the terms of our business management agreement, we issued 98,449 of our common shares to RMR for the nine months ended September 30, 2014 as payment for a portion of the base business management fee we recognized for such period.

In connection with our property management agreement with RMR, the aggregate property management and construction supervision fees we recognized were $2,211 and $1,678 for the three months ended September 30, 2014 and 2013, respectively, and $5,928 and $4,937 for the nine months ended September 30, 2014 and 2013, respectively. These amounts are included in property operating expenses or have been capitalized, as appropriate, in our condensed consolidated financial statements.

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On May 9, 2014, we and RMR entered into amendments to our business management agreement and property management agreement. As amended, RMR may terminate the agreements upon 120 days' written notice. Prior to the amendments, RMR could terminate the agreements upon 60 days' written notice and could also terminate the property management agreement upon five business days' notice if we underwent a change of control. The amendments also provide for certain termination payments by us to RMR in the event that we terminate the agreements other than for cause. Also, as amended, RMR agrees to provide certain transition services to us for 120 days following an applicable termination by us or notice of termination by RMR.

SIR: On August 30, 2014, we entered into a Purchase and Sale Agreement and Joint Escrow Instructions, or the Purchase Agreement, with SC Merger Sub LLC, or Merger Sub, a Maryland limited liability company and wholly owned subsidiary of Select Income REIT, a Maryland real estate investment trust, or SIR, pursuant to which we have agreed to acquire the entities owning 23 healthcare properties, or the healthcare properties, which we classify as properties leased to MOBs, for approximately $539,000, including the assumption of approximately $30,000 of mortgage debt. The healthcare properties contain approximately 2,200,000 square feet and are located in 12 states. SIR has announced that it has agreed to acquire Cole Corporate Income Trust, Inc., a Maryland corporation, or CCIT, that, through its subsidiaries, owns the healthcare properties we have agreed to acquire from SIR. SIR's acquisition of CCIT would be pursuant to an agreement and plan of merger among SIR, Merger Sub and CCIT, which provides for the merger of CCIT with and into Merger Sub, with Merger Sub surviving as SIR's wholly owned subsidiary, or the Merger. The Merger is expected to be completed in the first half of 2015 and our acquisition of the 23 healthcare properties is expected to close substantially concurrently with the closing of the Merger.

One of our Managing Trustees, Mr. Barry Portnoy, is a managing trustee of SIR and of Government Properties Income Trust, a Maryland real estate investment trust, or GOV, that is SIR's largest shareholder. Our other Managing Trustee, Mr. Adam Portnoy, is the son of Mr. Barry Portnoy and a managing trustee of both SIR and GOV. Two of our Independent Trustees also serve as independent trustees of GOV and one of our Independent Trustees also serves as an independent trustee of SIR. As of September 30, 2014, GOV, RMR and Messrs. Barry Portnoy and Adam Portnoy reported that they collectively beneficially owned 22,066,212.364 common shares of SIR, or approximately 36.8% of the issued and outstanding common shares of SIR. These shareholders of SIR have entered into voting agreements with CCIT and American Realty Capital Properties, Inc., a Maryland corporation and parent of the manager of CCIT, or ARCP, pursuant to which they have agreed, upon and subject to the terms and conditions of such agreements, to vote all common shares of SIR beneficially owned by them in favor of the issuance of additional SIR common shares to CCIT stockholders pursuant to the Merger Agreement. These voting agreements also contain standstill provisions pursuant to which ARCP has agreed, among other things, not to make unsolicited proposals to acquire us, SIR or GOV for a period of 36 months.

AIC: We, RMR, Five Star, and four other companies to which RMR provides management services currently own Affiliates Insurance Company, or AIC, an Indiana insurance company. All of our Trustees and most of the trustees and directors of the other AIC shareholders currently serve on the board of directors of AIC. RMR provides management and administrative services to AIC pursuant to a management and administrative services agreement with AIC.

On March 25, 2014, as a result of the removal, without cause, of all of the trustees of EQC, EQC underwent a change in control, as defined in the shareholders agreement among us, the other shareholders of AIC and AIC. As a result of that change in control and in accordance with the terms of the shareholders agreement, on May 9, 2014, we and those other shareholders purchased pro rata the AIC shares EQC owned. Pursuant to that purchase, we purchased 2,857 AIC shares from EQC for $825. Following these purchases, we and the other remaining six shareholders each owned approximately 14.3% of AIC.

In June 2014, we and the other shareholders of AIC renewed our participation in an insurance program arranged by AIC. In connection with that renewal, we purchased a one-year property insurance policy providing $500,000 of coverage,

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with respect to which AIC is a reinsurer of certain coverage amounts. We paid AIC a premium, including taxes and fees, of approximately $3,118 in connection with that policy, which amount may be adjusted from time to time as we acquire or dispose of properties that are included in the policy.

As of September 30, 2014, we had invested $6,034 in AIC. Although we own less than 20% of AIC, we use the equity method to account for this investment because we believe that we have significant influence over AIC as all of our Trustees are also directors of AIC. Our investment in AIC had a carrying value of $6,806 and $5,913 as of September 30, 2014 and December 31, 2013, respectively, which amounts are included in other assets on our condensed consolidated balance sheet. We recognized income of $38 and $64 for the three months ended September 30, 2014 and 2013, respectively, and $59 and $219 for the nine months ended September 30, 2014 and 2013, respectively, related to our investment in AIC.

Directors' and Officers' Liability Insurance: In June 2014, we, RMR, Five Star and three other companies to which RMR provides management services extended our and their combined directors' and officers' liability insurance policy, and we extended our separate directors' and officers' liability insurance policy, in each case for an interim period. We paid an aggregate premium of approximately $51 for these extensions. Further information about those policies is contained in Note 5 to our audited financial statements contained in our Annual Report. In September 2014, we purchased a two year combined directors' and officers' insurance policy with RMR and five other companies managed by RMR that provides $10,000 in aggregate primary coverage, including certain errors and omission coverage. At that time, we also purchased separate additional one year directors' and officers' liability insurance policies that provide $20,000 of aggregate excess coverage plus $5,000 of excess non-indemnifiable coverage. The total premium payable by us for these policies purchased in September 2014 was approximately $651.

Note 11. Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, and as such, are generally not subject to federal and most state income taxation on our operating income provided we distribute our taxable income to our shareholders and meet certain organization and operating requirements. We do, however, lease certain managed senior living communities to our wholly owned TRSs that, unlike most of our subsidiaries, file a separate consolidated federal corporate income tax return and are subject to federal and state income taxes. Our consolidated income tax provision includes the income tax provision related to the operations of our TRSs and certain state income taxes we incur despite our REIT status. During the three and nine months ended September 30, 2014, we recognized income tax expense of $156 and $502, respectively. During the three and nine months ended September 30, 2013 we recognized income tax expense of $125 and $405, respectively.

Note 12. Pro Forma Information

During the nine months ended September 30, 2014, we acquired two properties for an aggregate purchase price of $1,158,078, excluding closing costs. During the second quarter of 2014, we sold 15,525,000 of our common shares in a public offering raising net proceeds of approximately $323,318 after underwriting discounts but before expenses. During the second quarter of 2014, we also sold $400,000 of 3.25% senior unsecured notes due 2019 and $250,000 of 4.75% senior unsecured notes due 2024, raising net proceeds of approximately $644,889, after underwriting discounts but before expenses.

The following table presents our pro forma results of operations for the nine months ended September 30, 2014, as if these acquisitions and financing activities had occurred on January 1, 2014. This pro forma data is not necessarily indicative of what our actual results of operations would have been for the periods presented, nor does it represent the results of operations for any future period. Differences could result from numerous factors, including future changes in our portfolio of investments, changes in interest rates, changes in our capital structure, changes in property level

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollar amounts in thousands, except per share data or as otherwise stated)

operating expenses, changes in property level revenues, including rents expected to be received on our existing leases or leases we may enter into during and after 2014, and for other reasons.

	Nine Months Ended September 30, 2014
Total revenues	$ 649,949
Net income	$ 110,583
Net income per share	$ 0.54

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and our Annual Report. We are a REIT organized under Maryland law. At September 30, 2014, we owned 371 properties (398 buildings) located in 38 states and Washington, D.C., including eight properties (11 buildings) classified as held for sale. On that date, the undepreciated carrying value of our properties, net of impairment losses, was $6.2 billion, excluding properties classified as held for sale. As of September 30, 2014, 97% of our net operating income, or NOI, came from properties where a majority of the charges are paid from our residents' and tenants' private resources.

PORTFOLIO OVERVIEW (1)

The following tables present an overview of our portfolio (dollars in thousands, except per living unit / bed or square foot data):

(As of September 30, 2014)	Number of Properties	Number of Units/Beds or Square Feet		Investment Carrying Value(2)	% of Total Investment		Investment per Unit / Bed or Square Foot(3)	Q3 2014 NOI(4)	% of Q3 2014 NOI	
Facility Type										
Independent living(5)	62	15,176		$ 1,903,152	30.8	%	$ 125,405	$ 40,273	30.0	%
Assisted living(5)	155	11,495		1,363,247	22.0	%	$ 118,595	28,361	21.1	%
Nursing homes(5)	45	4,763		202,311	3.3	%	$ 42,476	4,561	3.4	%
Subtotal senior living communities	262	31,434		3,468,710	56.1	%	$ 110,349	73,195	54.5	%
MOBs	98	9,141,579	sq. ft.	2,542,710	41.0	%	$ 278	56,422	42.1	%
Wellness centers	10	812,000	sq. ft.	180,017	2.9	%	$ 222	4,550	3.4	%
Total	370			$ 6,191,437	100.0	%		$ 134,167	100.0	%

Tenant / Operator / Managed Properties								
Five Star (Lease No. 1)	89	6,590		696,499	11.3 %	$ 105,690	14,761	10.9 %
Five Star (Lease No. 2)	49	7,044		689,955	11.2 %	$ 97,949	15,656	11.7 %
Five Star (Lease No. 3)	17	3,281		354,271	5.7 %	$ 107,977	8,584	6.4 %
Five Star (Lease No. 4)	29	3,335		390,134	6.3 %	$ 116,982	8,716	6.5 %
Subtotal Five Star	184	20,250		2,130,859	34.5 %	$ 105,228	47,717	35.5 %
Sunrise / Marriott(6)	4	1,619		126,326	2.0 %	$ 78,027	3,133	2.3 %
Brookdale	18	894		61,122	1.0 %	$ 68,369	1,754	1.3 %
6 private senior living companies (combined)	12	1,620		95,313	1.5 %	$ 58,835	2,662	2.0 %
Subtotal triple net leased senior living communities	218	24,383		2,413,620	39.0 %	$ 98,988	55,266	41.1 %
Managed senior living communities(7)	44	7,051		1,055,090	17.1 %	$ 149,637	17,929	13.4 %
Subtotal senior living communities	262	31,434		3,468,710	56.1 %	$ 110,349	73,195	54.5 %
MOBs	98	9,141,579	sq. ft.	2,542,710	41.0 %	$ 278	56,422	42.1 %
Wellness centers	10	812,000	sq. ft.	180,017	2.9 %	$ 222	4,550	3.4 %
Total	370			$ 6,191,437	100.0 %		$ 134,167	100.0 %

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Tenant / Managed Property Operating Statistics(8)

	Rent Coverage(9)		Occupancy	
	2014	2013	2014	2013
Five Star (Lease No. 1)	NA	1.19x	84.0 %	84.8 %
Five Star (Lease No. 2)	NA	1.15x	81.7 %	81.1 %
Five Star (Lease No. 3)	NA	1.66x	87.2 %	88.6 %
Five Star (Lease No. 4)	NA	1.16x	87.4 %	85.6 %
Subtotal Five Star	NA	1.25x	84.3 %	84.2 %
Sunrise / Marriott(6)	1.97x	1.91x	92.0 %	92.9 %
Brookdale	2.52x	2.51x	94.6 %	95.3 %
6 private senior living companies (combined)	1.89x	2.01x	85.5 %	84.2 %
Subtotal triple net leased senior living communities	NA	1.37x	85.2 %	85.1 %
Managed senior living communities(7)	NA	NA	88.0 %	87.3 %
Subtotal senior living communities	NA	1.37x	85.9 %	85.6 %
MOBs	NA	NA	95.6 %	94.1 %
Wellness centers	2.09x	2.21x	100.0 %	100.0 %
Total	NA	1.42x		

(1)

(1) Excludes properties classified in discontinued operations.

(2) Amounts are before depreciation, but after impairment write downs, if any. Amounts include carrying values as of September 30, 2014 for senior living communities classified as held for sale in the amount of $7,369 which is included in Other Assets on the Condensed Consolidated Balance Sheets.

(3) Represents investment carrying value divided by the number of living units, beds or square feet at September 30, 2014, as applicable.

(4) NOI is defined and calculated by reportable segment and reconciled to net income below in this Item 2.

(5) Senior living properties are categorized by the type of living units or beds which constitute the largest number of the living units or beds at the property.

(6) Marriott International, Inc. guarantees the lessee's obligations under these leases.

(7) These 44 managed senior living communities are managed by Five Star. The occupancy for the twelve month period ended, or, if shorter, from the date of acquisitions through September 30, 2014 was 88.3%.

(8) Operating data for MOBs are presented as of September 30, 2014 and 2013; operating data for other properties, tenants and managers are presented based upon the operating results provided by our tenants and managers for the 12 months ended June 30, 2014 and 2013, or the most recent prior period for which tenant operating results are available to us. Rent coverage is calculated as operating cash flow from our tenants' operations of our properties, before subordinated charges, if any, divided by rents payable to us. We have not independently verified our tenants' operating data. The table excludes data for periods prior to our ownership of some of these properties.

(9) Five Star has not filed its 2014 first and second quarter Quarterly Reports on Form 10-Q with the SEC. As a result, we do not provide rent coverage for the 12 months ended June 30, 2014 for this tenant or the portfolio as a whole.

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The following tables set forth information regarding our lease expirations as of September 30, 2014 (dollars in thousands):

	Annualized Rental Income(1) (2)								
Year	Triple Net Leased Senior Living Communities	MOBs	Wellness Centers	Total	Percent of Total Annualized Rental Income Expiring		Cumulative Percentage of Annualized Rental Income Expiring	
2014	$ —	$ 7,749	$ —	$ 7,749	1.4	%	1.4	%
2015	1,867	20,633	—	22,500	4.1	%	5.5	%
2016	—	21,157	—	21,157	3.8	%	9.3	%
2017	9,275	28,381	—	37,656	6.8	%	16.1	%
2018	14,609	24,686	—	39,295	7.2	%	23.3	%
2019	599	35,173	—	35,772	6.5	%	29.8	%
2020	—	18,951	—	18,951	3.4	%	33.2	%
2021	1,424	6,680	—	8,104	1.5	%	34.7	%
2022	—	7,425	—	7,425	1.3	%	36.0	%
Thereafter	203,926	129,965	17,853	351,744	64.0	%	100.0	%
Total	$ 231,700	$ 300,800	$ 17,853	$ 550,353	100.0	%		

Average remaining lease term for all senior living community, MOB and wellness center properties (weighted by annualized rental income): 9.6 years

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(1) Annualized rental income is rents pursuant to existing leases as of September 30, 2014, including estimated percentage rents, straight line rent adjustments, estimated recurring expense reimbursements for certain net and modified gross leases and excluding lease value amortization at certain of our MOBs and wellness centers. Excludes properties classified in discontinued operations.

(2) Excludes rent received from our managed senior living communities leased to our TRSs. If the NOI from our TRSs (three months ended September 30, 2014, annualized) were included in the foregoing table, the percent of total annualized rental income expiring would be: 2014 — 1.2%; 2015 — 3.6%; 2016 — 3.4%, 2017 — 6.1%; 2018 — 6.3% 2019 — 5.8%; 2020 — 3.0%; 2021 — 1.3%; 2022 — 1.2% and thereafter — 68.1%. In addition, if our leases to our TRSs a included, the average remaining lease term for all properties (weighted by annualized rental income) would be 10.5 years.

Percent of Total	Cumulative Percentage of

Year	Number of Tenants (1) Senior Living Communities(2)	MOBs	Wellness Centers	Total	Number of Tenancies Expiring		Number of Tenancies Expiring	
2014	—	74	—	74	11.7	%	11.7	%
2015	2	107	—	109	17.2	%	28.9	%
2016	—	83	—	83	13.1	%	42.0	%
2017	1	97	—	98	15.5	%	57.5	%
2018	1	78	—	79	12.5	%	70.0	%
2019	1	56	—	57	9.0	%	79.0	%
2020	—	35	—	35	5.5	%	84.5	%
2021	1	20	—	21	3.3	%	87.8	%
2022	—	20	—	20	3.2	%	91.0	%
Thereafter	6	48	2	56	9.0	%	100.0	%
Total	12	618	2	632	100.0	%		

(1) Excludes properties classified in discontinued operations.

(2) Excludes our managed senior living communities leased to our TRSs as tenants.

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Number of Living Units / Beds or Square Feet with Leases Expiring (1)

	Living Units / Beds(2)			Square Feet				
	Triple Net Leased Senior Living Communities (Units / Beds)	Percent of Total Living Units / Beds Expiring	Cumulative Percentage of Living Units / Beds Expiring	MOBs (Square Feet)	Wellness Centers (Square Feet)	Total Square Feet	Percent of Total Square Feet Expiring	Cumulat Percent (Total Sq Feet Exp
	—	— %	— %	221,999	—	221,999	2.3 %	2.3
	243	1.0 %	1.0 %	816,643	—	816,643	8.5 %	10.8
	—	— %	1.0 %	895,865	—	895,865	9.4 %	20.2
	894	3.7 %	4.7 %	1,057,022	—	1,057,022	11.1 %	31.3
	1,619	6.6 %	11.3 %	737,934	—	737,934	7.7 %	39.0
	175	0.7 %	12.0 %	1,128,316	—	1,128,316	11.8 %	50.8
	—	— %	12.0 %	858,984	—	858,984	9.0 %	59.8
	361	1.5 %	13.5 %	249,630	—	249,630	2.6 %	62.4
	—	— %	13.5 %	251,238	—	251,238	2.6 %	65.0
er	21,091	86.5 %	100.0 %	2,525,425	812,000	3,337,425	35.0 %	100.0
	24,383	100.0 %		8,743,056	812,000	9,555,056	100.0 %	

(1) Excludes properties classified in discontinued operations.

(2) Excludes 7,051 living units from our managed senior living communities leased to our TRSs. If the number of living units included in our TRS leases were included in the foregoing table, the percent of total living units / beds expiring would be: 2014 — 0.0%, 2015 — 0.8%; 2016 — 0.0%; 2017 — 2.8%; 2018 — 5.2%; 2019 — 0.6%; 2020 — 0.0
1.1%; 2022 — 0.0% and thereafter — 89.5%.

During the three months ended September 30, 2014, we entered into MOB lease renewals for 53,000 square feet and new leases for 25,000 square feet. The weighted average annual rental rate for leases entered into during the quarter was $37.76 per square foot, and these rental rates were, on a weighted average basis, 3.7% below previous rents charged for the same space. Average lease terms for leases entered into during the third quarter of 2014 were 6.3 years based on square footage. Commitments for tenant improvement, leasing commission costs and concessions for leases we entered into during the third quarter of 2014 totaled $2.5 million, or $31.49 per square foot on average (approximately $5.00 per square foot per year of the lease term).

RESULTS OF OPERATIONS (dollars and square feet in thousands, unless otherwise noted)

We have four operating segments, of which three are separately reportable operating segments: (1) triple net leased senior living communities that provide short term and long term residential care and dining services for residents that are leased to third parties, (2) managed senior living communities that provide short term and long term residential care and dining services for residents that are managed for our account and (3) MOBs. Our triple net leased and managed senior living communities both include independent living communities, assisted living communities, SNFs and some communities that offer a combination of the independent and assisted living and skilled nursing services. Properties in the MOB segment include buildings leased to medical providers, medical related businesses, clinics and

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biotech laboratory tenants. The "All Other" category in the following table includes amounts related to corporate business activities and the operating results of certain properties that offer fitness, wellness and spa services to members.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Triple net leased senior living communities	$ 55,266	$ 57,073	$ 165,321	$ 170,794
Managed senior living communities	79,259	74,946	237,740	224,634
MOBs	77,798	50,910	198,589	152,492
All other operations	4,550	4,336	13,429	13,182
Total revenues	$ 216,873	$ 187,265	$ 615,079	$ 561,102
Net income:				
Triple net leased senior living communities	$ 33,448	$ 34,908	$ 102,041	$ 96,838
Managed senior living communities	7,507	6,933	22,294	20,466
MOBs	28,849	20,237	76,804	35,402
All other operations	(32,692)	(23,953)	(87,789)	(73,749)
Net income	$ 37,112	$ 38,125	$ 113,350	$ 78,957

The following sections analyze and discuss the results of operations of each of our segments for the periods presented.

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013 (dollars in thousands):

Unless otherwise indicated, references in this section to changes or comparisons of results, income or expenses refer to comparisons of the third quarter 2014 results against the comparable 2013 period.

Triple net leased senior living communities:

	All Properties As of and for the Three Months Ended September 30,		Comparable Properties (1) As of and for the Three Months Ended September 30,	
	2014	2013	2014	2013
Total properties	218	223	218	218
# of units / beds	24,383	24,939	24,383	24,383
Tenant operating data(2)				
Occupancy	85.2 %	85.1 %	85.2 %	85.6 %
Rent coverage(3)	NA	1.37x	NA	1.39x

(1) Consists of triple net leased senior living communities we have owned continuously since July 1, 2013.

(2) All tenant operating data presented are based upon the operating results provided by our tenants for the 12 months ended June 30, 2014 and 2013 or the most recent prior period for which tenant operating results are available to us. Rent coverage is calculated as operating cash flow from our triple-net lease tenants' operations of our properties, before subordinated charges, if any, divided by triple-net lease minimum rents payable to us. We have not independently verified our tenants' operating data. The table excludes data for periods prior to our ownership of some of these properties.

(3) As noted above, Five Star has not filed its 2014 first and second quarter Quarterly Reports on Form 10-Q. As a result, we do not provide rent coverage for the 12 months ended June 30, 2014 for this tenant or the portfolio as a whole.

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Triple net leased senior living communities, all properties: