MEDICAL PROPERTIES TRUST INC
Form POS AM
February 08, 2006

Table of Contents

Registration No. 333-121883
As filed with the Securities and Exchange Commission on February 8, 2006.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Post-Effective
Amendment No. 4 to
Form S-11
FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

Medical Properties Trust, Inc.
(Exact name of registrant as specified in its governing instruments)
1000 Urban Center Drive, Suite 501, Birmingham, Alabama 35242
(205) 969-3755
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)
Edward K. Aldag, Jr.
Chairman, President, Chief Executive Officer and Secretary
Medical Properties Trust, Inc.
1000 Urban Center Drive, Suite 501, Birmingham, Alabama 35242
(205) 969-3755
(Name, address, including zip code, and telephone number, including area code, of agent for service)
with a copy to:

Thomas O. Kolb
Matthew S. Heiter
Irene Graves
Baker, Donelson, Bearman, Caldwell & Berkowitz, PC
Suite 1600
420 20th Street North
Birmingham, Alabama 35203
(205) 328-0480

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Filed pursuant to Rule 424(b)(3)
Registration No. 333-121883

PROSPECTUS

25,411,039 Shares of Common Stock

This prospectus relates to 25,411,039 shares of common stock of Medical Properties Trust, Inc. that the selling stockholders named in this prospectus may offer for resale from time to time. The registration of these shares does not necessarily mean the selling stockholders will offer or sell all or any of these shares of common stock. We will not receive any of the proceeds from the sale of any shares of common stock by the selling stockholders, but will incur expenses in connection with the offering.

The selling stockholders from time to time may offer and resell the shares held by them directly or through agents or broker-dealers on terms to be determined at the time of sale. To the extent required, the names of any agent or broker-dealer and applicable commissions or discounts and any other required information with respect to any particular offer will be set forth in a prospectus supplement that will accompany this prospectus. A prospectus supplement also may add, update or change information contained in this prospectus.

Our common stock is listed on the New York Stock Exchange under the symbol MPW. The last reported sales price on February 6, 2006 was $9.66.

See Risk Factors beginning on page 17 of this prospectus for the most significant risks relevant to an investment in our common stock, including, among others:

We were formed in August 2003 and have a limited operating history; our management has a limited history of operating a REIT and a public company and may therefore have difficulty in successfully and profitably operating our business.

We may be unable to acquire or develop the facilities we have under letter of commitment or contract or facilities we have identified as potential candidates for acquisition or development as quickly as we expect or at all, which could harm our future operating results and adversely affect our ability to make distributions to our stockholders.

Our real estate investments are concentrated in net-leased healthcare facilities, making us more vulnerable economically than if our investments were more diversified across several industries or property types.

Our facilities and properties under development are currently leased to eight tenants, five of which were recently organized and have limited or no operating histories, and the failure of any of these tenants to meet its obligations to us, including payment of rent, payment of commitment and other fees and repayment of loans we have made or intend to make to them, would have a material adverse effect on our revenues and our ability to make distributions to our stockholders.

Development and construction risks, including delays in construction, exceeding original estimates and failure to obtain financing, could adversely affect our ability to make distributions to our stockholders.

Reductions in reimbursement from third-party payors, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent or loan payments to us.

The healthcare industry is heavily regulated and existing and new laws or regulations, changes to existing laws or regulations, loss of licensure or certification or failure to obtain licensure or certification could result in the inability of our tenants to make lease or loan payments to us.

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

Our loans to Vibra could be recharacterized as equity, in which case our rental income from Vibra would not be qualifying income under the REIT rules and we could lose our REIT status.

Common stock eligible for future sale, including up to 25,411,039 shares of common stock that may be resold by our existing stockholders upon effectiveness of the resale registration statement of which this prospectus is a part, may result in increased selling which may have an adverse effect on our stock price.

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

The date of this prospectus is February 8, 2006.

TABLE OF CONTENTS

Table of Contents

SUMMARY

The following summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including Risk Factors and our financial statements and pro forma financial information and related notes appearing elsewhere in this prospectus, before making a decision to invest in our common stock. In this prospectus, unless the context suggests otherwise, references to MPT, the company, we, us and our mean Medical Properties Trust, Inc., including our operating partnership, MPT Operating Partnership, L.P., its general partner and our wholly-owned limited liability company, Medical Properties Trust, LLC, as well as our other direct and indirect subsidiaries.

Our Company

We are a self-advised real estate company that acquires, develops and leases healthcare facilities providing state-of-the-art healthcare services. We lease our facilities to healthcare operators pursuant to long-term net-leases, which require the tenant to bear most of the costs associated with the property. From time to time, we also make loans to our tenants and other parties. We were formed in August 2003 and completed a private placement of our common stock in April 2004 in which we raised net proceeds of approximately $233.5 million. In July 2005 we completed the initial public offering of our common stock in which we raised net proceeds of approximately $125.7 million, after deducting the underwriting discount and offering expenses. Our current portfolio consists of 14 facilities that are in operation and three facilities that are under development.

We focus on acquiring and developing rehabilitation hospitals, long-term acute care hospitals, regional and community hospitals, women s and children s hospitals, skilled nursing facilities and ambulatory surgery centers as well as other specialized single-discipline and ancillary facilities. We believe that these types of facilities will capture an increasing share of expenditures for healthcare services. We believe that our strategy for acquisition and development of these types of net-leased facilities, which generally require a physician s order for patient admission, distinguishes us as a unique investment alternative among real estate investment trusts, or REITs.

We believe that the U.S. healthcare delivery system is becoming decentralized and is evolving away from the traditional one stop, large-scale acute care hospital. We believe that this change is the result of a number of trends, including increasing specialization and technological innovation within the healthcare industry and the desire of both physicians and patients to utilize more convenient facilities. We also believe that demographic trends in the U.S., including, in particular, an aging population, will result in continued growth in the demand for healthcare services, which in turn will lead to an increasing need for a greater supply of modern healthcare facilities. In response to these trends, we believe that healthcare operators increasingly prefer to conserve their capital for investment in operations and new technologies rather than investing in real estate and, therefore, increasingly prefer to lease, rather than own, their facilities. Given these trends and the size, scope and growth of this dynamic industry, we believe that there are significant opportunities to acquire and develop net-leased healthcare facilities at attractive, risk-adjusted returns.

Our management team has extensive experience in acquiring, owning, developing, managing and leasing healthcare facilities; managing investments in healthcare facilities; acquiring healthcare companies; and managing real estate companies. Our management team also has substantial experience in healthcare operations and administration, which includes many years of service in executive positions for hospitals and other healthcare providers, as well as in physician practice management and hospital/physician relations. We believe that our management s ability to combine traditional real estate investment expertise with an understanding of healthcare operations enables us to successfully implement our strategy.

We have made an election to be taxed as a REIT under the Internal Revenue Code, or the Code, commencing with our taxable year that began on April 6, 2004 and ended on December 31, 2004.

Table of Contents

Our principal executive offices are located at 1000 Urban Center Drive, Suite 501, Birmingham, Alabama 35242. Our telephone number is (205) 969-3755. Our Internet address is www.medicalpropertiestrust.com. The information on our website does not constitute a part of this prospectus.

Our Portfolio

Our Current Portfolio of Facilities

Our current portfolio of facilities consists of 17 healthcare facilities, 14 of which are in operation and three of which are under development. Four rehabilitation hospitals and two long-term acute care hospitals that are in operation were acquired in 2004 and are leased to subsidiaries of Vibra Healthcare, LLC, or Vibra, formerly known as Highmark Healthcare, LLC, a recently formed specialty healthcare provider with operations in six states. We refer to these facilities in this prospectus as the Vibra Facilities. A seventh facility in operation, a community hospital which has an integrated medical office building, is leased to Desert Valley Hospital, Inc., or DVH. We refer to this facility in this prospectus as the Desert Valley Facility. Another facility in operation, a long-term acute care hospital facility, is leased to Gulf States Long Term Acute Care of Covington, L.L.C., or Gulf States of Covington. We refer to this facility in this prospectus as the Covington Facility. Our ninth facility in operation, a rehabilitation hospital, is leased to Northern California Rehabilitation Hospital, LLC, a Vibra subsidiary. We refer to this facility in this prospectus as the Redding Facility. Our tenth facility in operation, a long-term acute care hospital, is leased to Gulf States Long Term Acute Care of Denham Springs, L.L.C., or Gulf States of Denham Springs. We refer to this facility in this prospectus as the Denham Springs Facility. Our eleventh facility in operation, a community hospital, is leased to an affiliate of DVH, Veritas Health Services, Inc., or Veritas. We refer to this facility in this prospectus as the Chino Facility. Our twelfth facility in operation, a community hospital, is leased to another affiliate of DVH, Prime Healthcare Services II, LLC, or Prime II. We refer to this facility in this prospectus as the Sherman Oaks Facility. All of the leases for the hospitals described above have initial terms of 15 years.

Our current portfolio of facilities also includes a community hospital, which we refer to in this prospectus as the West Houston Hospital, and an adjacent medical office building, which we refer to in this prospectus as the West Houston MOB, each of which we developed. We refer to the West Houston Hospital and the West Houston MOB together in this prospectus as the West Houston Facilities. The West Houston Facilities are leased to Stealth, L.P., or Stealth, a recently organized healthcare facility operator. The initial lease term for the West Houston Hospital began when construction commenced in July 2004 and will end in November 2020. The initial lease term for the West Houston MOB began when construction commenced in July 2004 and will end in October 2015.

One facility under development is a women s hospital with an integrated medical office building, which we refer to in this prospectus as the Bucks County Facility, and is leased to Bucks County Oncoplastic Institute, LLC, or BCO, a recently organized healthcare facility operator. The initial lease term for the Bucks County Facility will begin when construction commences and will end 15 years after completion of construction. We target completion of construction for the Bucks County Facility for August 2006. Our second facility under development is a community hospital, which we refer to in this prospectus as the Monroe Facility, and is leased to Monroe Hospital, LLC, or Monroe Hospital, a recently organized healthcare facility operator. The initial lease term for the Monroe Facility began when construction commenced in October 2005 and will end 15 years after completion of construction. We target completion of construction for the Monroe Facility for October 2006. With respect to our third facility under development, we have entered into a ground sublease with, and an agreement to provide a construction loan to, North Cypress Medical Center Operating Company, Ltd., or North Cypress, a recently-organized healthcare facility operator, for the development of a community hospital. The facility will be developed on property in which we currently have a ground lease interest. We refer to this facility in this prospectus as the North Cypress Facility. We expect to acquire the land we are ground leasing after the hospital has been partially completed. Upon completion of construction, subject to certain limited conditions, we will purchase the facility for an amount equal to the cost of construction and lease the facility to the operator

Table of Contents

for a 15 year lease term. In the event we do not purchase the facility, the ground sublease will continue and the construction loan will become due. In that event, we expect to seek to convert the construction loan to a 15 year term loan secured by the facility. We anticipate the North Cypress Facility will be completed in December 2006. The leases for all of the facilities in our current portfolio provide for contractual base rent and an annual rent escalator. The leases for the Vibra Facilities and the Bucks County Facility also provide for percentage rent, which means that, in addition to base rent, we will receive periodic rent payments based on an agreed percentage of the tenant s gross revenue.

The following tables set forth information, as of the date of this prospectus, regarding our current portfolio of facilities:

Operating Facilities

Location	Type	Tenant	Number of Beds[1]	2004 Annualized Base Rent	2005 Contractual Base Rent[2]	2006 Contractual Base Rent[2]	Gross Purchase Price or Development Cost[3]	Lease Expiration
Houston, Texas	Community hospital	Stealth, L.P.	105[4]	$	$ [5]	$ 4,749,005[5]	$ 43,099,310[6]	November 2020[7]
Bowling Green, Kentucky	Rehabilitation hospital	Vibra Healthcare, LLC[8]	60	3,916,695	4,294,990	4,790,113	38,211,658	July 2019
Marlton, New Jersey[9]	Rehabilitation [10] hospital	Vibra Healthcare, LLC[8]	76	3,401,791	3,730,354	4,160,390	32,267,622	July 2019
Victorville, California [11]	Community hospital/medical office building	Desert Valley Hospital, Inc.	83		2,341,005	2,856,000	28,000,000	February 2020
New Bedford, Massachusetts	Long-term acute care hospital	Vibra Healthcare, LLC[8]	90	2,262,979	2,426,320	2,767,624	22,077,847	August 2019
Chino, California	Community hospital	Veritas Health Services, Inc.	126		180,753	2,103,682	21,000,000	November 2020
Houston, Texas	Medical office building	Stealth, L.P.	n/a		503,130[5]	2,049,415[5]	20,855,119[6]	October 2015 [7]
Redding, California[12]	Rehabilitation hospital	Vibra Healthcare, LLC[8]	88		950,250[13]	1,913,949[13]	20,750,000	June 2020
			153			2,100,000	20,000,000	

Sherman Oaks, California	Community hospital	Prime Healthcare Services II, LLC						December 2020
Fresno, California	Rehabilitation hospital	Vibra Healthcare, LLC[8]	62	1,914,829	2,099,773	2,341,835	18,681,255	July 2019
Covington, Louisiana	Long-term acute care hospital	Gulf States Long-Term Acute Care of Covington, L.L.C.	58		674,188	1,207,500	11,500,000	June 2020
Thornton, Colorado	Rehabilitation hospital	Vibra Healthcare, LLC[8]	117	870,377	933,200	1,064,471	8,491,481	August 2019
Kentfield, California	Long-term acute care hospital	Vibra Healthcare, LLC[8]	60	783,339	858,998	958,024	7,642,332	July 2019
Denham Springs, Louisiana	Long-term acute care hospital	Gulf States Long Term Acute Care of Denham Springs, L.L.C.	59		105,000	645,750	6,000,000	October 2020
Total			1,137	$ 13,150,010	$ 19,097,961	$ 33,707,758	$ 298,576,624	

Table of Contents

(1) Based on the number of licensed beds.

(2) Based on leases in place as of the date of this prospectus.

(3) Includes acquisition costs.

(4) Seventy-one of the 105 beds will be acute care beds operated by Stealth, L.P. and the remaining 34 beds will be long-term acute care beds operated by Triumph Southwest, L.P.

(5) Based on leases in place as of the date of this prospectus and estimated total development costs. Does not include rents that accrued during the construction period and are payable over the remaining lease term following the completion of construction.

(6) Estimated total development costs.

(7) At any time during the term of the lease, the tenant has the right to terminate the lease and purchase the facility from us at a purchase price equal to the greater of (i) that amount determined under a formula which would provide us an internal rate of return of at least 18% or (ii) appraised value assuming the lease is still in place.

(8) The tenant in each case is a separate, wholly-owned subsidiary of Vibra Healthcare, LLC.

(9) Our interest in this facility is held through a ground lease on the property. The purchase price shown for this facility does not include our payment obligations under the ground lease, the present value of which we have calculated to be $920,579. The calculation of the base rent to be received from Vibra for this facility takes into account the present value of the ground lease payments.

(10) Thirty of the 76 beds are pediatric rehabilitation beds operated by HBA Management, Inc.

(11) At any time after February 28, 2007, the tenant has the option to purchase the facility at a purchase price equal to the sum of (i) the purchase price of the facility, and (ii) that amount determined under a formula that would provide us an internal rate of return of 10% per year, increased by 2% of such percentage each year, taking into account all payments of base rent received by us.

(12) Our interest in this facility is held in part through a ground lease on the property. During the term of the ground lease, the tenant will pay the ground lease rent directly to the ground lessor or, at our request, directly to us.

(13) Of the $20,750,000 million purchase price for this facility, payment of $2.0 million is being deferred pending completion, to our satisfaction, of a conversion of certain beds at the facility to long-term acute care beds and an additional $750,000 of the purchase price is being deferred and will be paid out of a special reserve account to cover the cost of renovations. The 2005 contractual base rent and the 2006 contractual base rent are calculated based on a purchase price of $18.0 million.

Facilities Under Development

Location	Type	Tenant	Number of Beds[1]	2004 Annualized Contractual Base Rent	2005 Contractual Base Rent	2006 Contractual Base Rent	Projected Development Cost[2]	Lease Expiration

					Base Rent	Base Rent		
Houston, Texas	Community hospital	North Cypress Medical Center Operating Company, Ltd.	64	$	$ (3)	$ (3)	$ 64,028,000	(4)
Bensalem, Pennsylvania	Women s hospital/medical office building (5)	Bucks County Oncoplastic Institute, LLC	30		(6)	1,627,820(6)	38,000,000	August 2021(7)
Bloomington, Indiana	Community Hospital(8)	Monroe Hospital LLC	32	(9)	(9)	954,063	35,500,000	October 2021 (10)
Total			126	$	$	$ 2,581,883	$ 137,528,000	

(1) Based on the number of proposed beds.

(2) Includes acquisition costs.

(3) During construction of the North Cypress Facility, interest will accrue on the construction loan at a rate of 10.5%. The interest accruing during the construction period will be added to the principal balance of the construction loan. In addition, during the term of the ground sublease, North Cypress will pay us monthly ground sublease rent in an annual amount equal to our ground lease rent plus 10.5% of funds advanced by us under the construction loan.

(4) Expected to be completed in December 2006. If we purchase the facility upon completion of construction, we will lease it back to North Cypress for an initial term of 15 years.

(5) Expected to be completed in October 2006.

(6) Based on the lease in place as of the date of this prospectus, estimated total development costs and estimated date of completion. Assumes completion of construction in October 2006.

(7) Following completion, the lease term will extend for a period of 15 years.

(8) Expected to be completed in October 2006.

(9) Based on the lease in place as of the date of this prospectus, estimated total development costs and estimated date of completion. Assumes completion of construction in October 2006.

(10) Following completion, the lease term will extend for a period of 15 years.

Our Current Loans and Fees Receivable

On December 23, 2005, we made a $40.0 million mortgage loan to Alliance Hospital, Ltd., or Alliance, an unrelated third party. We refer to this mortgage loan in this prospectus as the Alliance Loan. The Alliance Loan is secured by a community hospital facility located in Odessa, Texas, which is approximately 20 miles from Midland, Texas. The facility is licensed for 78 beds, 28 of which are operated by HEALTHSOUTH Rehabilitation Hospital of Odessa, Inc. The Alliance Loan has a term of 15 years and is payable interest only during the term of the loan, with the full principal amount due at the end of

Table of Contents

the 15 year term. The aggregate annual base interest is set at an initial annual rate of ten percent. Beginning on January 1, 2007 and on each January 1 thereafter, Alliance will be required to pay additional interest equal to the greater of (i) 3.5% or (ii) the rate of the CPI increase for the prior year multiplied by the previous year s annualized base interest. As security for Alliance s obligations under the mortgage loan, all principal, base interest and additional interest on the first $30.0 million of the loan amount is guaranteed on a pro rata basis by the shareholders of SRI-SAI Enterprises, Inc., the general partner of Alliance, until such time as Alliance meets certain financial conditions. Additionally, we have received a first mortgage on the facility and a first or second priority security interest in all of Alliance s personal property other than accounts receivable, along with other security. The Alliance Loan is cross-defaulted with all other agreements between us or our affiliates, on one hand, and Alliance or its affiliates on the other hand. The Alliance Loan also contains representations, financial and other affirmative and negative covenants, events of default and remedies typical for this type of loan. As consideration for entering into this arrangement, Alliance paid us a commitment fee equal to one half of one percent of the loan amount on the closing date.

At the time we acquired the Vibra Facilities, we made a secured acquisition loan to Vibra, the parent entity of our current tenants in those facilities, to enable Vibra to acquire the healthcare operations at these locations. The principal balance of this loan is approximately $41.4 million and is to be repaid over 15 years. Payment of the acquisition loan is secured by pledges of membership interests in Vibra and its subsidiaries. In addition, we have obtained guaranty agreements from Brad E. Hollinger, the principal owner of Vibra, Vibra Management, LLC and Senior Real Estate Holdings, LLC, D/B/A The Hollinger Group, or The Hollinger Group, that obligate them to make loan payments in the event that Vibra fails to do so. However, we do not believe that these parties have sufficient financial resources to satisfy a material portion of the loan obligations. Mr. Hollinger s guaranty is limited to $5.0 million, and Vibra Management, LLC and The Hollinger Group do not have substantial assets. Vibra pays interest on this loan at an annual rate of 10.25% with interest only for the first three years and the principal balance amortizes over the remaining 12 year period. The acquisition loan may be prepaid at any time without penalty. In connection with the Vibra transactions, Vibra agreed to pay us commitment fees of approximately $1.5 million. We also made secured loans totaling approximately $6.2 million to Vibra and its subsidiaries for working capital purposes. The commitment fees were paid, and the working capital loans were repaid, on February 9, 2005.

On June 9, 2005, in connection with our acquisition of the Denham Springs Facility, we made a loan of $6.0 million to Denham Springs Healthcare Properties, L.L.C., $500,000 of which was held in escrow pending the resolution of certain environmental issues related to the facility. The loan accrued interest at a rate of 10.5% per year, adjusted each January 1 by an amount equal to the greater of (i) 2.5% or (ii) the percentage by which the CPI increases from November to November, provided that the increase in CPI for 2005 was to be prorated. The loan was to be repaid over 15 years with interest only during the 15 years and a balloon payment due and payable at the expiration of the 15 years. On October 31, 2005, upon favorable resolution of the environmental issues related to the facility, we purchased the facility for a purchase price of $6.0 million, which was paid by delivering the note evidencing the loan and releasing to Denham Springs Healthcare Properties. L.L.C. the remaining balance of all funds escrowed under the loan.

In connection with the development of the West Houston Facilities, Stealth has agreed to pay us a commitment fee of approximately $932,125, to be paid over 15 years beginning in November 2005. The commitment fee is based on a percentage of total development costs and may be adjusted upon determination of actual development costs. We have agreed to make a working capital loan to Stealth of up to $1.62 million, to be repaid over 15 years. Stealth has borrowed $1.3 million under this loan as of the date of this prospectus. The promissory notes evidencing the loan and commitment fee provide for interest at an annual rate of 10.75% and are unsecured, but the promissory notes are cross-defaulted with our related facility leases with Stealth. Stealth is obligated to pay us a project inspection fee for construction coordination services of $100,000 in the case of the West Houston Hospital and $50,000 in the case of the adjacent West Houston MOB. These fees are to be paid, with interest at the rate of 10.75% per year, over

Table of Contents

a 15 year period beginning in November 2005. The obligation to pay these fees is evidenced by promissory notes and is unsecured, but the promissory notes are cross-defaulted with our related facility leases with Stealth. Any of the fees or the working capital loan may be prepaid at any time without penalty, except that a minimum prepayment of $500,000 is required for the working capital loan.

In connection with our development of the Bucks County Facility, BCO has agreed to pay us a commitment fee of $345,000. The commitment fee is to be paid interest only beginning with the first calendar month following the completion of construction, with a balloon payment 15 years later. BCO is also obligated to pay us a $75,000 construction inspection fee, which will be paid interest only beginning with the first calendar month following the completion of construction, with a balloon payment 15 years later. Interest on these fees is set at 10.75% per annum. We also loaned BCO approximately $4.0 million, the loan proceeds of which we hold in a separate account as security for repayment of the loan and BCO s obligations under the lease. This loan is to be repaid no later than the date BCO receives a certificate of occupancy for the Bucks County Facility, and bears interest at the rate of 20% per annum, which interest is due monthly. The obligation to pay these fees is unsecured and the obligation to repay the loan is secured by the loan proceeds which we hold in a separate account. The promissory notes evidencing the fees and the loan are cross defaulted with our lease with BCO. These fees and loans may be prepaid at any time without penalty.

In connection with our development of the Monroe Facility, Monroe Hospital has agreed to pay us a commitment fee of $177,500. The commitment fee is to be paid interest only beginning with the first calendar month following the completion of construction, with a balloon payment 15 years later. Monroe Hospital is also obligated to pay us a $55,000 inspection fee, which will be paid interest only beginning with the first calendar month following the completion of construction, with a balloon payment 15 years later. Interest on these fees is set at 10.50% per annum. The obligation to pay these fees is unsecured, but the promissory notes evidencing the fees are cross defaulted for our lease with Monroe Hospital.

Our Pending Acquisition

We intend to expand our portfolio by acquiring an additional net-leased healthcare facility that we have under letter of commitment and consider to be a probable acquisition as of the date of this prospectus, which we refer to in this prospectus as our Pending Acquisition Facility. Under the terms of the letter of commitment relating to this facility, we expect the lease for this facility to provide for contractual base rent and an annual rent escalator. Letters of commitment constitute agreements of the parties to consummate the acquisition transactions and enter into leases on the terms set forth in the letters of commitment subject to the satisfaction of certain conditions, including the execution of mutually-acceptable definitive agreements. The following table contains information regarding our Pending Acquisition Facility:

Operating Facility

Location	Type	Tenant	Number of Beds[1]	Year One Contractual Interest	Loan Amount	Lease Expiration
Hammond, Louisiana*[2]	Long-term acute care hospital	Hammond Rehabilitation Hospital, LLC	40	$ 840,000[3]	$ 8,000,000	June 2021

* Under letter of commitment.

(1) Based on the number of licensed beds.

(2) On April 1, 2005, we entered into a letter of commitment with Hammond Healthcare Properties, LLC, or Hammond Properties, and Hammond Rehabilitation Hospital, LLC, or Hammond Hospital, pursuant to which we have agreed to lend Hammond Properties $8.0 million and have agreed to a put-call option pursuant to which, during the 90 day period commencing on the first anniversary of the date of the loan closing, we expect to purchase from Hammond Properties a long-term acute care hospital located in Hammond, Louisiana for a purchase price between $10.3 million and $11.0 million. If we purchase the facility, we will lease it back to Hammond Hospital for an initial term of 15 years. The lease would be a net lease and would provide for contractual base rent and, beginning January 1, 2007, an annual rent escalator.

(3) Based on one year contractual interest at the rate of 10.5% per year on the $8.0 million mortgage loan to Hammond Properties. We expect to exercise our option to purchase the Hammond Facility in 2006. For the one year period following our purchase of the facility, contractual base rent would equal $1,079,925, based on 10.5% of an estimated purchase price of $10,285,000.

Table of Contents

Our Acquisition and Development Pipeline

We have also identified a number of opportunities to acquire or develop additional healthcare facilities. In some cases, we are actively negotiating agreements or letters of intent with the owners or prospective tenants. In other instances, we have only identified the potential opportunity and had preliminary discussions with the owner or prospective tenant. We cannot assure you that we will complete any of these potential acquisitions or developments.

Our Debt

We employ leverage in our capital structure in amounts we determine from time to time. At present, we intend to limit our debt to approximately 50-60% of the aggregate cost of our facilities, although we may exceed those levels from time to time. We expect our borrowings to be a combination of long-term, fixed-rate, non-recourse mortgage loans, variable-rate secured term and revolving credit facilities, and other fixed and variable-rate short to medium-term loans.

In October 2005, we entered into a credit agreement with Merrill Lynch Capital which replaced the loan agreement dated December 31, 2004 between us and Merrill Lynch Capital. The credit agreement provides for secured revolving loans of up to $100.0 million in aggregate principal amount. The principal amount may be increased to $175.0 million at our request. The amounts borrowed are secured by mortgages on real property owned by certain of our subsidiaries and are guaranteed by us. The facilities that we use to secure the amounts under the credit agreement make up the borrowing base. The borrowing base, and therefore borrowings, are limited based on (i) the appraised value of the borrowing base and (ii) rent income from and financial performance of the operator lessees of the borrowing base. Interest on borrowings under the credit agreement will accrue monthly at one month LIBOR (4.44% at January 9, 2006), plus a spread which increases as amounts borrowed increase as a percentage of the borrowing base. We must also pay certain fees based on the amount borrowed in any monthly period. The credit agreement expires in October 2009, and may be extended by us for one additional year upon payment of a fee. The credit agreement contains representations, financial and other affirmative and negative covenants, events of default and remedies typical for this type of facility.

We have also entered into construction loan agreements with Colonial Bank pursuant to which we can borrow up to $43.4 million to fund construction costs for the West Houston Facilities. Each construction loan has a term of up to 18 months and an option on our part to convert the loan to a 30-month term loan upon completion of construction of the West Houston Facility securing that loan. Construction of the West Houston MOB was completed in October 2005, and construction of the West Houston Hospital was completed in November 2005. We have not yet exercised the option to convert the construction loans to term loans. The loans are secured by mortgages on the West Houston Facilities, as well as assignments of rents and leases on those facilities, and require us to comply with certain financial covenants. The loans bear interest at one month LIBOR plus 225 basis points during the construction period and one month LIBOR plus 250 basis points thereafter. The Colonial Bank loans are cross-defaulted. As of the date of this prospectus, there is $35.5 million outstanding under the Colonial Bank loans.

Competitive Strengths

We believe that the following competitive strengths will enable us to execute our business strategy successfully:

Experienced Management Team. Our management team s experience enables us to offer innovative acquisition and net-lease structures that we believe will appeal to a variety of healthcare operators. We believe that our management s depth of experience in both traditional real estate investment and healthcare operations positions us favorably to take advantage of the available opportunities in the healthcare real estate market.

Comprehensive Underwriting Process. Our underwriting process focuses on both real estate investment and healthcare operations. Our acquisition and development selection process includes a

Table of Contents

comprehensive analysis of a targeted healthcare facility s profitability, cash flow, occupancy and patient and payor mix, financial trends in revenues and expenses, barriers to competition, the need in the market for the type of healthcare services provided by the facility, the strength of the location and the underlying value of the facility, as well as the financial strength and experience of the tenant and the tenant s management team. Through our detailed underwriting of healthcare acquisitions, which includes an analysis of both the underlying real estate and ongoing or expected healthcare operations at the property, we expect to deliver attractive risk-adjusted returns to our stockholders.

Active Asset Management. We actively monitor the operating results of our tenants by reviewing periodic financial reporting and operating data, as well as visiting each facility and meeting with the management of our tenants on a regular basis. Integral to our asset management philosophy is our desire to build long-term relationships with our tenants and, accordingly, we have developed a partnering approach which we believe results in the tenant viewing us as a member of its team.

Favorable Lease Terms. We lease our facilities to healthcare operators pursuant to long-term net-lease agreements. A net-lease requires the tenant to bear most of the costs associated with the property, including property taxes, utilities, insurance and maintenance. Our current net-leases are for terms of at least 10 years, provide for annual base rental increases and, in the case of the Vibra Facilities and the Bucks County Facility, percentage rent. Similarly, we anticipate that our future leases will generally provide for base rent with annual escalators, tenant payment of operating costs and, when feasible and in compliance with applicable healthcare laws and regulations, percentage rent.

Diversified Portfolio Strategy. We focus on a portfolio of several different types of healthcare facilities in a variety of geographic regions. We also intend to diversify our tenant base as we acquire and develop additional healthcare facilities.

Access to Investment Opportunities. We believe our network of relationships in both the real estate and healthcare industries provides us access to a large volume of potential acquisition and development opportunities. The net proceeds of our initial public offering will enhance our ability to capitalize on these and other investment opportunities.

Local Physician Investment. When feasible and in compliance with applicable healthcare laws and regulations, we expect to offer physicians an opportunity to invest in the facilities that we own, thereby strengthening our relationship with the local physician community.

Summary Risk Factors

You should carefully consider the matters discussed in the section Risk Factors beginning on page 17 prior to deciding whether to invest in our common stock. Some of these risks include:

We were formed in August 2003 and have a limited operating history; our management has a limited history of operating a REIT and a public company and may therefore have difficulty in successfully and profitably operating our business.

We may be unable to acquire the Pending Acquisition Facility or facilities we have identified as potential candidates for acquisition or development as quickly as we expect or at all, which could harm our future operating results and adversely affect our ability to make distributions to our stockholders.

We expect to continue to experience rapid growth and may not be able to adapt our management and operational systems to integrate the net-leased facilities we have acquired and are developing or those that we expect to acquire and develop without unanticipated disruption or expense.

Our real estate investments will be concentrated in net-leased healthcare facilities, making us more vulnerable economically than if our investments were more diversified across several industries or property types.

Table of Contents

Failure by our tenants or other parties to whom we make loans to repay loans currently outstanding or loans we are obligated to make, or to pay us commitment and other fees that they are obligated to pay, in an aggregate amount of approximately $152.7 million, would have a material adverse effect on our revenues and our ability to make distributions to our stockholders.

Our facilities and properties under development are currently leased to only eight tenants, five of which were recently organized and have limited or no operating histories, and the failure of any of these tenants to meet its obligations to us, including payment of rent, payment of commitment and other fees and repayment of loans we have made or intend to make to them, would have a material adverse effect on our revenues and our ability to make distributions to our stockholders.

Development and construction risks, including delays in construction, exceeding original estimates and failure to obtain financing, could adversely affect our ability to make distributions to our stockholders.

Reductions in reimbursement from third-party payors, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent or loan payments to us.

The healthcare industry is heavily regulated and existing and new laws or regulations, changes to existing laws or regulations, loss of licensure or certification or failure to obtain licensure or certification could result in the inability of our tenants to make lease or loan payments to us.

Our use of debt financing will subject us to significant risks, including foreclosure and refinancing risks and the risk that debt service obligations will reduce the amount of cash available for distribution to our stockholders. We have entered into loan agreements pursuant to which we may borrow up to $143.4 million, approximately $100.5 million of which was outstanding as of the date of this prospectus. Our charter and other organizational documents do not limit the amount of debt we may incur.

Provisions of Maryland law, our charter and our bylaws may prevent or deter changes in management and third-party acquisition proposals that you may believe to be in our best interest, depress our stock price or cause dilution.

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

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

Our loans to Vibra could be recharacterized as equity, in which case our rental income from Vibra would not be qualifying income under the REIT rules and we could lose our REIT status.

Common stock eligible for future sale, including up to 25,411,039 shares that may be resold by our existing stockholders upon effectiveness of the resale registration statement of which this prospectus is a part, may result in increased selling which may have an adverse effect on our stock price.

Market Opportunity

According to the United States Department of Commerce, Bureau of Economic Analysis, healthcare is one of the largest industries in the U.S., and was responsible for approximately 15.3% of U.S. gross domestic product in 2003. Healthcare spending has consistently grown at rates greater than overall spending growth and inflation. We expect this trend to continue. According to the United States Department of Health and Human Services, Centers for Medicare and Medicaid Services, or CMS, healthcare expenditures are projected to increase by more than 7% in 2004 and 2005

to $1.8 trillion and $1.9 trillion, respectively, and are expected to reach $3.1 trillion by 2012.

To satisfy this growing demand for healthcare services, a significant amount of new construction of healthcare facilities has been undertaken, and we expect significant construction of additional healthcare

Table of Contents

facilities in the future. In 2003 alone, $24.5 billion was spent on the construction of healthcare facilities, according to CMS. This represented more than a 9% increase over the $22.4 billion in healthcare construction spending for 2002. We believe that a significant part of this healthcare construction spending was for the types of facilities that we target.

Our Target Facilities

The market for healthcare real estate is extensive and includes real estate owned by a variety of healthcare operators. We focus on acquiring, developing and net leasing to healthcare operators facilities that are designed to address what we view as the latest trends in healthcare delivery methods. These facilities include:

Rehabilitation Hospitals: Rehabilitation hospitals provide inpatient and outpatient rehabilitation services for patients recovering from multiple traumatic injuries, organ transplants, amputations, cardiovascular surgery, strokes, and complex neurological, orthopedic, and other conditions. In addition to Medicare certified rehabilitation beds, rehabilitation hospitals may also operate Medicare certified skilled nursing, psychiatric, long-term or acute care beds. These hospitals are often the best medical alternative to traditional acute care hospitals where under the Medicare prospective payment system there is pressure to discharge patients after relatively short stays.

Long-term Acute Care Hospitals: Long-term acute care hospitals focus on extended hospital care, generally at least 25 days, for the medically-complex patient. Long-term acute care hospitals have arisen from a need to provide care to patients in acute care settings, including daily physician observation and treatment, before they are able to move to a rehabilitation hospital or return home. These facilities are reimbursed in a manner more appropriate for a longer length of stay than is typical for an acute care hospital.

Regional and Community Hospitals: We define regional and community hospitals as general medical/surgical hospitals whose practicing physicians generally serve a market specific area, whether urban, suburban or rural. We intend to limit our ownership of these facilities to those with market, ownership, competitive or technological characteristics that provide barriers to entry for potential competitors.

Women s and Children s Hospitals: These hospitals serve the specialized areas of obstetrics and gynecology, other women s healthcare needs, neonatology and pediatrics. We anticipate substantial development of facilities designed to meet the needs of women and children and their physicians as a result of the decentralization and specialization trends described above.

Ambulatory Surgery Centers: Ambulatory surgery centers are freestanding facilities designed to allow patients to have outpatient surgery, spend a short time recovering at the center, then return home to complete their recoveries. Ambulatory surgery centers offer a lower cost alternative to general hospitals for many surgical procedures in an environment that is more convenient for both patients and physicians. Outpatient procedures commonly performed include those related to gastrointestinal, general surgery, plastic surgery, ear, nose and throat/audiology, as well as orthopedics and sports medicine.

Other Single-Discipline Facilities: The decentralization and specialization trends in the healthcare industry are also creating demands and opportunities for physicians to practice in hospital facilities in which the design, layout and medical equipment are specifically developed, and healthcare professional staff are educated, for medical specialties. These facilities include heart hospitals, ophthalmology centers, orthopedic hospitals and cancer centers.

Medical Office Buildings: Medical office buildings are office and clinic facilities occupied and used by physicians and other healthcare providers in the provision of healthcare services to their patients. The medical office buildings that we target generally are or will be master-leased and adjacent to or integrated with our other targeted healthcare facilities.

10

Table of Contents

Skilled Nursing Facilities. Skilled nursing facilities are healthcare facilities that generally provide more comprehensive services than assisted living or residential care homes. They are primarily engaged in providing skilled nursing care for patients who require medical or nursing care or rehabilitation services. Typically these services involve managing complex and serious medical problems such as wound care, coma care or intravenous therapy. They offer both short and long-term care options for patients with serious illnesses and medical conditions. Skilled nursing facilities also provide rehabilitation services that are typically utilized on a short-term basis after hospitalization for injury or illness.

Our Formation Transactions

The following is a summary of our formation transactions:

We were formed as a Maryland corporation on August 27, 2003 to succeed to the business of Medical Properties Trust, LLC, a Delaware limited liability company, which was formed by certain of our founders in December 2002. In connection with our formation, we issued our founders 1,630,435 shares of our common stock in exchange for nominal cash consideration and the membership interests of Medical Properties Trust, LLC. Upon completion of our private placement in April 2004, 1,108,527 shares of the 1,630,435 shares of common stock held by our founders were redeemed for nominal value and they now collectively hold 1,047,088 shares of our common stock.

Our operating partnership, MPT Operating Partnership, L.P., was formed in September 2003. Our wholly-owned subsidiary, Medical Properties Trust, LLC, is the sole general partner of our operating partnership. We currently own all of the limited partnership interests in our operating partnership.

MPT Development Services, Inc., a Delaware corporation that we formed in January 2004, operates as our wholly-owned taxable REIT subsidiary.

In April 2004 we completed a private placement of 25,300,000 shares of common stock at an offering price of $10.00 per share. Friedman, Billings, Ramsey & Co., Inc., which served as a lead underwriter in our initial public offering, acted as the initial purchaser and sole placement agent. The total net proceeds to us, after deducting fees and expenses of the offering, were approximately $233.5 million.

On July 13, 2005, we completed an initial public offering of 12,066,823 shares of common stock, priced at $10.50 per share. Of these shares of common stock, 701,823 shares were sold by selling stockholders and 11,365,000 shares were sold by us. Friedman, Billings, Ramsey & Co., Inc. served as the sole book-running manager and J.P. Morgan Securities Inc. served as co-lead manager for the offering. Wachovia Capital Markets, LLC and Stifel, Nicolaus & Company, Incorporated served as co-managers for the offering. The underwriters exercised an option to purchase an additional 1,810,023 shares of common stock to cover over-allotments on August 5, 2005. We raised net proceeds of approximately $125.7 million pursuant to the offering, after deducting the underwriting discount and offering expenses.

The net proceeds of our private placement and initial public offering, together with borrowed funds, have been or will be used to acquire our current portfolio of 17 facilities. Thus far, we have spent approximately $234.6 million for the 12 existing facilities that we acquired, and funded approximately $56.0 million of a projected total of $63.1 million of development costs for the West Houston Facilities, approximately $9.6 million of a projected total of $38.0 million of development costs for the Bucks County Facility, approximately $11.1 million of a projected total of $35.5 million of development costs for the Monroe Facility and approximately $18.7 million pursuant to the North Cypress construction loan. In addition, we have loaned approximately $47.6 million to Vibra to acquire the operations at the Vibra Facilities and for working capital purposes, $6.2 million of which has been repaid.

Table of Contents

Our Structure

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our facilities are owned by our operating partnership, MPT Operating Partnership, L.P., and limited partnerships, limited liability companies or other subsidiaries of our operating partnership. Through our wholly-owned limited liability company, Medical Properties Trust, LLC, we are the sole general partner of our operating partnership and we presently own all of the limited partnership units of our operating partnership. In the future, we may issue limited partnership units to third parties from time to time in connection with facility acquisitions or developments. In addition, we may sell equity interests in subsidiaries of our operating partnership in connection with facility acquisitions or developments.

MPT Development Services, Inc., our taxable REIT subsidiary, is authorized to engage in development, management, lending, including but not limited to acquisition and working capital loans to our tenants, and other activities that we are unable to engage in directly under applicable REIT tax rules. The following chart illustrates our structure upon completion of our initial public offering:

(1) We own and in the future expect to own interests in our facilities through wholly owned or majority owned subsidiaries of our operating partnership, MPT Operating Partnership, L.P. Our operating partnership is a limited partner of MPT West Houston MOB, L.P. and MPT West Houston Hospital, L.P., which own, respectively, the West Houston MOB and the West Houston Hospital. MPT West Houston MOB, LLC and MPT West Houston Hospital, LLC, both of which are wholly-owned by our operating partnership, are, respectively, the general partners of these entities. Physicians and others associated with our tenant or subtenants of the West Houston MOB own approximately 24% of the aggregate equity interests in MPT West Houston MOB, L.P. Stealth, the tenant of the West Houston Hospital, owns a 6% limited partnership interest in MPT West Houston Hospital, L.P.

Table of Contents

Registration Rights Agreement and Resale Blackout Periods

In connection with a registration rights agreement we entered into in April 2004 with the purchasers of common stock in our April 2004 private placement, we agreed to file the registration statement of which this prospectus is a part. We will be permitted to suspend the use, from time to time, of this prospectus (and therefore suspend sales of common stock under this prospectus), for periods referred to as blackout periods, if a majority of the independent members of our board of directors determines in good faith that it is in our best interests to suspend the use and we provide selling stockholders written notice of the suspension. The cumulative blackout periods in any rolling 12-month period may not exceed an aggregate of 90 days and furthermore may not exceed 60 days in any rolling 90-day period.

Restrictions on Ownership of Our Common Stock

The Code imposes limitations on the concentration of ownership of REIT shares. Our charter generally prohibits any stockholder from actually or constructively owning more than 9.8% of our outstanding shares of common stock. The ownership limitation in our charter is more restrictive than the restrictions on ownership of our common stock imposed by the Code. Our board may, in its sole discretion, waive this ownership limitation with respect to particular stockholders if our board is presented with evidence satisfactory to it that the ownership will not then or in the future jeopardize our status as a REIT.

Distribution Policy

We intend to distribute to our stockholders each year all or substantially all of our REIT taxable income so as to avoid paying corporate income tax and excise tax on our REIT income and to qualify for the tax benefits afforded to REITs under the Code. The actual amount and timing of distributions, if any, will be at the discretion of our board of directors and will depend upon our actual results of operations and a number of other factors discussed in the section Distribution Policy.

The table below is a summary of our distributions.

Declaration Date	Record Date	Date of Distribution	Distribution per Share of Common Stock
November 18, 2005	December 15, 2005	January 19, 2006	$ 0.18
August 18, 2005	September 15, 2005	September 29, 2005	$ 0.17
May 19, 2005	June 20, 2005	July 14, 2005	$ 0.16
March 4, 2005	March 16, 2005	April 15, 2005	$ 0.11
November 11, 2004	December 16, 2004	January 11, 2005	$ 0.11
September 2, 2004	September 16, 2004	October 11, 2004	$ 0.10

The two distributions declared in 2004, aggregating $0.21 per share, were comprised of approximately $0.13 per share in ordinary income and $0.08 per share in return of capital. For federal income tax purposes, our distributions were limited in 2004 to our tax basis earnings and profits of $0.13 per share. Accordingly, for tax purposes, $0.08 per share of the distributions we paid in January 2005 will be treated as a 2005 distribution; the tax character of this amount, along with that of the April 15, 2005, July 14, 2005 and September 29, 2005 distributions, will be determined subsequent to determination of our 2005 taxable income.

Tax Status

As long as we maintain our REIT status, we will generally not incur federal income tax on our income to the extent that we distribute this income to our stockholders. However, we will be subject to tax at normal corporate rates on net income or capital gains not distributed to stockholders. Moreover, our taxable REIT subsidiary will be subject to federal and state income taxation on its taxable income.

Table of Contents

Summary Financial Information

You should read the following pro forma and historical information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical and pro forma consolidated financial statements and related notes thereto included elsewhere in this prospectus.

The following table sets forth our summary financial and operating data on an historical and pro forma basis. Our summary historical balance sheet information as of December 31, 2004, and the historical statement of operations and other data for the year ended December 31, 2004, have been derived from our historical financial statements audited by KPMG LLP, independent registered public accounting firm, whose report with respect thereto is included elsewhere in this prospectus. The historical balance sheet information as of September 30, 2005 and the historical statement of operations and other data for the nine months ended September 30, 2005 have been derived from our unaudited historical balance sheet as of September 30, 2005 and from our unaudited statement of operations for the nine months ended September 30, 2005 included elsewhere in this prospectus. The unaudited historical financial statements include all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair presentation of our financial condition and results of operations as of such dates and for such periods under accounting principles generally accepted in the U.S.

The unaudited pro forma consolidated balance sheet data as of September 30, 2005 are presented as if completion of our probable acquisition had occurred on September 30, 2005.

The unaudited pro forma consolidated statement of operations and other data for the nine months ended September 30, 2005 are presented as if acquisition of the Desert Valley Facility, the Covington Facility, the Chino Facility, the Denham Springs Facility and the Redding Facility along with the completion of our probable acquisitions had occurred on January 1, 2005, and our December 31, 2004 unaudited pro forma consolidated statement of operations are presented as if our acquisition of the current portfolio of facilities (the six Vibra Facilities, the Desert Valley Facility, the Covington Facility, the Chino Facility, the Denham Springs Facility and the Redding Facility), our making of the Vibra loans and completion of our probable acquisitions had occurred on January 1, 2004. The pro forma information does not give effect to any of our facilities under development or probable development transactions. The pro forma information is not necessarily indicative of what our actual financial position or results of operations would have been as of the dates or for the periods indicated, nor does it purport to represent our future financial position or results of operations.

Table of Contents

	For the Nine Months Ended September 30, 2005		For the Year Ended December 31, 2004	
	Pro Forma	Historical	Pro Forma	Historical
Operating information:				
Revenues				
Rent income	$ 26,273,517	$ 18,364,389	$ 32,808,106	$ 8,611,344
Interest income from loans	6,368,607	3,562,857	9,037,049	2,282,115
Total revenues	32,642,124	21,927,246	41,845,155	10,893,459
Operating expenses				
Depreciation and amortization	4,645,242	2,986,790	6,193,653	1,478,470
General and administrative	5,595,416	5,595,416	5,057,284	5,057,284
Total operating expenses	10,357,499	8,699,047	12,023,286	7,214,601
Operating income	22,284,625	13,228,199	29,821,869	3,678,858
Net other income (expense)	(2,132,363)	(32,363)	(1,902,509)	897,491
Net income	20,152,262	13,195,836	27,919,360	4,576,349
Net income per share, basic	0.67	0.44	1.45	0.24
Net income per share, diluted	0.67	0.44	1.45	0.24
Weighted average shares outstanding basic	29,975,971	29,975,971	19,310,833	19,310,833
Weighted average shares outstanding diluted	29,999,381	29,999,381	19,312,634	19,312,634

	As of September 30, 2005		As of December 31, 2004
	Pro Forma	Historical	Historical
Balance Sheet information:			
Gross investment in real estate assets	$ 328,342,475	$ 266,106,299	$ 151,690,293
Net investment in real estate	323,877,215	261,641,039	150,211,823
Construction in progress	78,435,280	78,484,104	24,318,098
Cash and cash equivalents	36,896,094	100,826,702	97,543,677
Loans receivable	86,895,611	52,895,611	50,224,069(1)
Total assets	463,898,155	431,592,587	306,506,063
Total debt	80,366,667	40,366,667	56,000,000
Total liabilities	111,633,245	72,133,245	73,777,619
Total stockholders equity	350,127,410	357,321,842	231,728,444
Total liabilities and stockholders equity	463,898,155	431,592,587	306,506,063

	For the Nine Months Ended September 30, 2005	For the Year Ended December 31, 2004

	Pro Forma	Historical	Pro Forma	Historical
Other information:				
Funds from operations[2]	$ 24,797,504	$ 16,182,626	$ 34,113,013	$ 6,054,819
Cash Flows:				
Provided by operating activities		16,094,005		9,918,898
Used for investing activities		(107,692,381)		(195,600,642)
Provided by financing activities		94,881,401		283,125,421

(1) Includes $1.5 million in commitment fees payable to us by Vibra.

(2) Funds from operations, or FFO, represents net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. Management considers funds from operations a useful additional measure of performance for an equity REIT because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that funds from operations provides a meaningful supplemental indication of our performance. We compute funds from operations in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the

Table of Contents

methodology for calculating funds from operations utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent amounts available for management s discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. Funds from operations should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as indicators of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity.

The following table presents a reconciliation of FFO to net income for the nine months ended September 30, 2005 and for the year ended December 31, 2004 on an actual and pro forma basis.

	For the Nine Months Ended September 30, 2005		For the Year Ended December 31, 2004	
	2005	**2004**	**2005**	**2004**
Funds from operations:				
Net income	$ 20,152,262	$ 13,195,836	$ 27,919,360	$ 4,576,349
Depreciation and amortization	4,645,242	2,986,790	6,193,653	1,478,470
Funds from operations FFO	$ 24,797,504	$ 16,182,626	$ 34,113,013	$ 6,054,819

Table of Contents

RISK FACTORS

An investment in our common stock involves a number of risks. Before making an investment decision, you should carefully consider all of the risks described below and the other information contained in this prospectus. If any of the risks discussed in this prospectus actually occurs, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the value of our common stock could decline and you may lose all or part of your investment.

Risks Relating to Our Business and Growth Strategy

We were formed in August 2003 and have a limited operating history; our management has a limited history of operating a REIT and a public company and may therefore have difficulty in successfully and profitably operating our business.

We have only recently been organized and have a limited operating history. We are subject to the risks generally associated with the formation of any new business, including unproven business models, untested plans, uncertain market acceptance and competition with established businesses. Our management has limited experience in operating a REIT and a public company. Therefore, you should be especially cautious in drawing conclusions about the ability of our management team to execute our business plan.

We may not be successful in deploying the net proceeds of our initial public offering for their intended uses as quickly as we intend or at all, which could harm our cash flow and ability to make distributions to our stockholders.

Upon completion of our initial public offering, we experienced a capital infusion from the net offering proceeds, which we have used or intend to use to develop additional net-leased facilities and to make a loan to an affiliate of one of our prospective tenants. If we are unable to use the net proceeds in this manner, we will have no specific designated use for a substantial portion of the net proceeds from our initial public offering. In that case, or in the event we allocate a portion of the net proceeds to other uses during the pendency of the developments, you would be unable to evaluate the manner in which we invest the net proceeds or the economic merits of the assets acquired with the proceeds. We may not be able to invest this capital on acceptable terms or timeframes, or at all, which may harm our cash flow and ability to make distributions to our stockholders.

We may be unable to acquire or develop the Pending Acquisition Facility, which could harm our future operating results and adversely affect our ability to make distributions to our stockholders.

Our future success depends in large part on our ability to continue to grow our business through the acquisition or development of additional facilities. We cannot assure you that we will acquire or develop the Pending Acquisition Facility on the terms described, or at all, because the transaction is subject to a variety of conditions, including execution of mutually-acceptable definitive agreements, our satisfactory completion of due diligence, receipt of appraisals and other third-party reports, receipt of government and third-party approvals and consents, approval by our board of directors and other customary closing conditions. We have incurred losses of approximately $600,000 in connection with acquisitions that we were unable to complete, consisting primarily of legal fees, costs of third-party reports and travel expenses. If we are unsuccessful in completing the acquisition or development of additional facilities in the future, we will incur similar costs without achieving corresponding revenues, our future operating results will not meet expectations and our ability to make distributions to our stockholders will be adversely affected.

We may not consummate the transactions contemplated by our other arrangements, which could adversely affect our ability to make distributions to our stockholders.

We have entered into letter agreements with DVH to fund a $20.0 million expansion of the Desert Valley Facility and with DSI to fund $50.0 million of acquisitions and development facilities. Our funding of the expansion of the Desert Valley Facility is subject to receipt of a development agreement from DVH

Table of Contents

which we may not receive until February 28, 2006. DVH is not obligated to present us with a development agreement, and, if it does not, we have no obligation to provide funding to DVH for the expansion. If we enter into a development agreement, we may not begin construction on the expansion for several months after that time and the expansion could take up to approximately one year to complete. Any acquisition or development of facilities pursuant to the DSI commitment is subject to DSI s identification, and our approval, of acquisition or development facilities. DSI is not required to identify facilities for acquisition or development and, if it does not, we have no obligation to provide funding to DSI. We have also entered into an arrangement to develop a hospital facility in Oklahoma for an estimated total development cost of $32.5 million, subject to adjustment, and entered into an arrangement to acquire and leaseback a facility in Pennsylvania and to make related loans for certain improvements to the real estate and for working capital purposes for an estimated total cost of $9.2 million, subject to adjustment. Each of these transactions is subject to our completion of due diligence and a number of additional conditions. Thus we may not engage in any of these transactions in the near future, or at all, and may not in the near future, or ever, generate any revenues from these arrangements.

We may be unable to acquire or develop any of the facilities we have identified as potential candidates for acquisition or development, which could harm our future operating results and adversely affect our ability to make distributions to our stockholders.

We have identified numerous other facilities that we believe would be suitable candidates for acquisition or development; however, we cannot assure you that we will be successful in completing the acquisition or development of any of these facilities. Consummation of any of these acquisitions or developments is subject to, among other things, the willingness of the parties to proceed with a contemplated transaction, negotiation of mutually acceptable definitive agreements, satisfactory completion of due diligence and satisfaction of customary closing conditions. If we are unsuccessful in completing the acquisition or development of additional facilities in the future, our future operating results will not meet expectations and our ability to make distributions to our stockholders will be adversely affected.

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

We are currently experiencing a period of rapid growth. We cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems, or hire and retain sufficient operational staff, to integrate and manage the facilities we have acquired and are developing and those that we may acquire or develop. Our failure to successfully integrate and manage our current portfolio of facilities or any future acquisitions or developments could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

We may be unable to access capital, which would slow our growth.

Our business plan contemplates growth through acquisitions and developments of facilities. As a REIT, we are required to make cash distributions which reduces our ability to fund acquisitions and developments with retained earnings. We are dependent on acquisition financings and access to the capital markets for cash to make investments in new facilities. Due to market or other conditions, there will be times when we will have limited access to capital from the equity and debt markets. During such periods, virtually all of our available capital will be required to meet existing commitments and to reduce existing debt. We may not be able to obtain additional equity or debt capital or dispose of assets, on favorable terms, if at all, at the time we need additional capital to acquire healthcare properties on a competitive basis or to meet our obligations. Our ability to grow through acquisitions and developments will be limited if we are unable to obtain debt or equity financing, which could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

Table of Contents

Dependence on our tenants for rent may adversely impact our ability to make distributions to our stockholders.

We expect to qualify as a REIT and, accordingly, as a REIT operating in the healthcare industry, we are not permitted by current tax law to operate or manage the businesses conducted in our facilities. Accordingly, we rely almost exclusively on rent payments from our tenants for cash with which to make distributions to our stockholders. We have no control over the success or failure of these tenants businesses. Significant adverse changes in the operations of any facility, or the financial condition of any tenant, could have a material adverse effect on our ability to collect rent payments and, accordingly, on our ability to make distributions to our stockholders. Facility management by our tenants and their compliance with state and federal healthcare laws could have a material impact on our tenants operating and financial condition and, in turn, their ability to pay rent to us. Failure on the part of a tenant to comply materially with the terms of a lease could give us the right to terminate our lease with that tenant, repossess the applicable facility, cross default certain other leases with that tenant and enforce the payment obligations under the lease. However, we then would be required to find another tenant-operator.

On March 31, 2005, the leases for the Vibra Facilities were amended to provide (i) that the testing of certain financial covenants will be deferred until the quarter beginning July 1, 2006 and ending September 30, 2006, (ii) that these same financial covenants will be tested on a consolidated basis for all of the Vibra Facilities, (iii) that the reduction, based on loan principal reductions, in the rate of percentage rent will be made on a monthly rather than annual basis and (iv) that Vibra will escrow insurance premiums and taxes at our request. Prior to execution of this amendment, Vibra was not in compliance with certain of the financial covenants in all of its leases with us.

The transfer of most types of healthcare facilities is highly regulated, which may result in delays and increased costs in locating a suitable replacement tenant. The sale or lease of these properties to entities other than healthcare operators may be difficult due to the added cost and time of refitting the properties. If we are unable to re-let the properties to healthcare operators, we may be forced to sell the properties at a loss due to the repositioning expenses likely to be incurred by non-healthcare purchasers. Alternatively, we may be required to spend substantial amounts to adapt the facility to other uses. There can be no assurance that we would be able to find another tenant in a timely fashion, or at all, or that, if another tenant were found, we would be able to enter into a new lease on favorable terms. Defaults by our tenants under our leases may adversely affect the timing of and our ability to make distributions to our stockholders.

Failure by our tenants or other parties to whom we make loans to repay loans currently outstanding or loans we are obligated to make, or to pay us commitment or other fees that they are obligated to pay, in an aggregate amount of approximately $152.7 million, would have a material adverse effect on our revenues and our ability to make distributions to our stockholders.

In connection with the acquisition of the Vibra Facilities, our taxable REIT subsidiary made a secured loan to Vibra of approximately $41.4 million to acquire the operations at the Vibra Facilities. Payment of this loan is secured by pledges of equity interests in Vibra and its subsidiaries that are tenants of ours. All leases and other agreements between us, or our affiliates, on the one hand, and the tenant and Mr. Hollinger, or their affiliates, on the other hand, including leases for the Vibra Facilities, the lease for the Redding Facility and the Vibra loan, are cross-defaulted. If Vibra defaulted on this loan, our primary recourse would be to foreclose on the equity interests in Vibra and its affiliates. This recourse may be impractical because of limitations imposed by the REIT tax rules on our ability to own these interests. Failure to adhere to these limitations could cause us to lose our REIT status. We have obtained guaranty agreements for the Vibra loan from Mr. Hollinger, Vibra Management, LLC and The Hollinger Group that obligate them to make loan payments in the event that Vibra fails to do so. However, we do not believe that these parties have sufficient financial resources to satisfy a material portion of the loan obligations. Mr. Hollinger s guaranty is limited to $5.0 million and Vibra Management, LLC and The Hollinger Group do not have substantial assets. Vibra has entered into a $20.0 million credit facility with Merrill Lynch, and that loan is secured by an interest in Vibra s receivables. There was approximately

Table of Contents

$12.9 million outstanding under the facility on September 30, 2005. At March 31, 2005, Vibra was not in compliance with a facility rent coverage covenant under its Merrill Lynch credit facility. The Merrill Lynch credit facility documents were subsequently amended to retroactively change the rent coverage covenant from a by-facility rent coverage to a consolidated rent coverage calculation, so that Vibra was in compliance with the amended covenant at March 31, 2005. Our loan is subordinate to Merrill Lynch with respect to Vibra s receivables.

We have also agreed to make a working capital loan to Stealth of up to $1.62 million. Stealth has borrowed $1.3 million under this loan as of the date of this prospectus. Stealth also owes us commitment and other fees of approximately $1.1 million. Payment of these fees and loan amounts is unsecured. We have also agreed to make a construction loan to North Cypress for approximately $64.0 million to fund the construction of a community hospital in Houston, Texas, secured by the hospital improvements, $18.7 million of which has been loaned to North Cypress as of the date of this prospectus. BCO owes us commitment and other fees of $420,000. BCO also owes us approximately $4.0 million in connection with a loan we made to BCO, the loan proceeds of which we have retained in a separate bank account as security for BCO s loan repayment obligations and its obligations under the lease for the Bucks County Facility. Monroe Hospital owes us commitment and other fees of approximately $232,500.

On December 23, 2005, we made a $40.0 million mortgage loan to Alliance. As security for Alliance s obligations under the mortgage loan, all principal, base interest and additional interest on the first $30.0 million of the loan amount is guaranteed on a pro rata basis by the shareholders of SRI-SAI Enterprises, Inc., the general partner of Alliance, until such time as Alliance meets certain financial conditions. Additionally, we have received a first mortgage on the facility and a first or second priority security interest in all of Alliance s personal property other than accounts receivable, along with other security. We are dependent upon the ability of Vibra, Stealth, North Cypress, BCO, Monroe Hospital and Alliance to repay these loans and fees, and their failure to meet these obligations would have a material adverse effect on our revenues and our ability to make distributions to our stockholders.

Accounting rules may require consolidation of entities in which we invest and other adjustments to our financial statements.

The Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51 (ARB No. 51), in January 2003, and a further interpretation of FIN 46 in December 2003 (FIN 46-R, and collectively FIN 46). FIN 46 clarifies the application of ARB No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, referred to as variable interest entities. FIN 46 generally requires consolidation by the party that has a majority of the risk and/or rewards, referred to as the primary beneficiary. FIN 46 applies immediately to variable interest entities created after January 31, 2003. Under certain circumstances, generally accepted accounting principles may require us to account for loans to thinly capitalized companies such as Vibra as equity investments. The resulting accounting treatment of certain income and expense items may adversely affect our results of operations, and consolidation of balance sheet amounts may adversely affect any loan covenants.

The bankruptcy or insolvency of our tenants under our leases could seriously harm our operating results and financial condition.

Five of our tenants, North Cypress, Stealth, BCO, Monroe Hospital and Vibra are, and some of our prospective tenants may be, newly organized, have limited or no operating history and may be dependent on loans from us to acquire the facility s operations and for initial working capital. Any bankruptcy filings by or relating to one of our tenants could bar us from collecting pre-bankruptcy debts from that tenant or their property, unless we receive an order permitting us to do so from the bankruptcy court. A tenant bankruptcy could delay our efforts to collect past due balances under our leases and loans, and could ultimately preclude collection of these sums. If a lease is assumed by a tenant in bankruptcy, we expect

Table of Contents

that all pre-bankruptcy balances due under the lease would be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. Any secured claims we have against our tenants may only be paid to the extent of the value of the collateral, which may not cover any or all of our losses. Any unsecured claim we hold against a bankrupt entity may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims. We may recover none or substantially less than the full value of any unsecured claims, which would harm our financial condition.

Our facilities and properties under development are currently leased to only eight tenants, five of which were recently organized and have limited or no operating histories, and failure of any of these tenants and the guarantors of their leases to meet their obligations to us would have a material adverse effect on our revenues and our ability to make distributions to our stockholders.

Our existing facilities and the properties we have under development are currently leased to Vibra, Prime Healthcare Services, Inc., or Prime, Gulf States, North Cypress, BCO, Monroe Hospital and Stealth or their subsidiaries or affiliates. If any of our tenants were to experience financial difficulties, the tenant may not be able to pay its rent. Vibra, North Cypress, BCO, Monroe Hospital and Stealth were recently organized, have limited or no operating histories and Vibra was dependent on us for an aggregate amount of $47.6 million in loans to acquire operations at the Vibra Facilities, for the funds to purchase the Redding Facility which it sold to us at the same time that it purchased that facility and for its initial working capital needs. As of September 30, 2005, Vibra had total assets of approximately $84.4 million (of which approximately $29.7 million was goodwill and other intangible assets), total liabilities of approximately $92.6 million, a deficit in owner s capital of approximately $8.2 million, and for the nine months ended September 30, 2005 had a loss from operations of approximately $6.0 million and a net loss of approximately $4.4 million. Each lease for the Vibra Facilities is guaranteed by Brad E. Hollinger, chief executive officer of The Hollinger Group, Vibra, Vibra Management, LLC and The Hollinger Group. The lease for the Redding Facility is guaranteed by Vibra, Vibra Management, LLC and The Hollinger Group. However, we do not believe that these parties have sufficient financial resources to satisfy a material portion of the total lease obligations. Mr. Hollinger has not guaranteed the Redding Facility lease and Mr. Hollinger s guaranty of the leases for the Vibra Facilities is limited to $5.0 million, Vibra Management, LLC and The Hollinger Group do not have substantial assets, and Vibra s assets are substantially comprised of the operations at the Vibra Facilities and at the Redding Facility.

Stealth has provided to us unaudited financial statements reflecting that, as of September 30, 2005, it had tangible assets of approximately $7.7 million, including cash of approximately $4.7 million, liabilities of approximately $1.7 million and owners equity of approximately $6.0 million. Stealth incurred substantial pre-opening and start-up costs upon completion of construction of its facilities. We cannot assure you that, should Stealth s equity be insufficient to cover its costs, it could access additional debt or equity financing.

The lease for the Desert Valley Facility is guaranteed by Prime, Desert Valley Medical Group, Inc., or DVMG, and Prime A Investments, LLC, or Prime A. The Chino Facility lease is guaranteed by Prime, Prime Healthcare Services, LLC, DVH and DVMG. The Sherman Oaks Facility lease is fully guaranteed by Prime, DVH, DVMG and Prime A until two years after the commencement of the lease term, at which time the guarantee will be limited to $5.0 million. This guaranty will be terminated if Prime II achieves certain financial targets for two consecutive fiscal years. DVH has provided to us unaudited financial statements reflecting that, as of September 30, 2005, it had tangible assets of approximately $20.1 million, liabilities of approximately $19.4 million and stockholders equity of approximately $0.7 million, and for the nine months ended September 30, 2005, had net income of approximately $14.1 million. Prime has provided to us unaudited financial statements showing that, as of September 30, 2005, it had consolidated tangible assets of approximately $53.8 million, consolidated liabilities of approximately $23.2 million, and consolidated tangible net worth of approximately $30.6 million and for the nine months ended September 30, 2005, had consolidated net income of approximately $15.1 million.

Table of Contents

The leases for the Covington Facility and the Denham Springs Facility are guaranteed by Gulf States and Team Rehab, L.L.C., or Team Rehab. Gulf States has provided to us unaudited financial statements reflecting that, as of September 30, 2005, it had tangible assets of approximately $19.1 million, liabilities of approximately $9.9 million and stockholders equity of approximately $9.2 million, and for the nine months ended September 30, 2005 had net income of approximately $0.8 million. Team Rehab has provided to us unaudited financial statements reflecting that, as of September 30, 2005, it had tangible assets of approximately $13.5 million, liabilities of approximately $3.1 million and owner s equity of approximately $10.4 million, and for the nine months ended September 30, 2005 had net income of approximately $7.3 million. Guarantors of our leases with DVH and Gulf States may not have sufficient assets for us to recover amounts due to us under those leases. The failure of our tenants and their guarantors to meet their obligations to us would have a material adverse effect on our revenues and our ability to make distributions to our stockholders. North Cypress is newly formed and has had no significant operations to date. The ground sublease and the facility leases related to the North Cypress Facility require that, as of the commencement date of each lease, the tenant shall have received from its equity owners at least $15.0 million in cash equity. Until the necessary letter of credit in an amount equal to one year s base rent is posted, our lease for the Buck s County Facility is guaranteed to the extent of $5.0 million by 14 guarantors. The guarantors have delivered financial statements which we believe reflect the necessary financial wherewithal to satisfy their guaranty obligations. Monroe Hospital has provided to us unaudited financial statements reflecting that, as of September 30, 2005, it had tangible assets of $12.2 million, including cash of approximately $3.2 million, liabilities of approximately $3.4 million and owners equity of approximately $8.9 million. The treasurer of Monroe Hospital also certified at closing that the equity owners of Monroe Hospital contributed to Monroe Hospital cash or cash equivalents in a total amount of $9.75 million.

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

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

- private investors;
- healthcare providers, including physicians;
- other REITs;
- real estate partnerships;
- financial institutions; and
- local developers.

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

Table of Contents

Our use of debt financing will subject us to significant risks, including refinancing risk and the risk of insufficient cash available for distribution to our stockholders.

Our charter and other organizational documents do not limit the amount of debt we may incur. We have targeted our debt level at up to approximately 50-60% of our aggregate facility acquisition and development costs. However, we may modify our target debt level at any time without stockholder or board of director approval. We cannot assure you that our use of financial leverage will prove to be beneficial. In October 2005 we entered into a $100.0 million credit agreement with Merrill Lynch Capital, the principal amount of which may be increased to $175.0 million at our request. We have also entered into construction loan agreements with Colonial Bank pursuant to which we can borrow up to $43.4 million. As of the date of this prospectus, we had $100.5 million of long-term debt outstanding.

We may borrow from other lenders in the future, or we may issue corporate debt securities in public or private offerings. The loans from Merrill Lynch Capital and Colonial Bank are secured by the Vibra Facilities and the West Houston Facilities, respectively. Some of our other borrowings in the future may be secured by additional facilities we may acquire or develop. In addition, in connection with debt financing from Merrill Lynch Capital and Colonial Bank we are, and in connection with other debt financing in the future we may be, subject to covenants that may restrict our operations. We cannot assure you that we will be able to meet our debt payment obligations or restrictive covenants and, to the extent that we cannot, we risk the loss of some or all of our facilities to foreclosure. In addition, debt service obligations will reduce the amount of cash available for distribution to our stockholders.

We anticipate that much of our debt will be non-amortizing and payable in balloon payments. Therefore, we will likely need to refinance at least a portion of that debt as it matures. There is a risk that we may not be able to refinance then-existing debt or that the terms of any refinancing will not be as favorable as the terms of the then-existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital or sales of facilities, our cash flow may not be sufficient to repay all maturing debt in years when significant balloon payments come due. Additionally, we may incur significant penalties if we choose to prepay the debt.

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

As of the date of this prospectus, we had approximately $100.5 million in variable interest rate debt. We may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements that involve risk, including the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that these arrangements may result in higher interest rates than we would otherwise have. Moreover, no hedging activity can completely insulate us from the risks associated with changes in interest rates. Failure to hedge effectively against interest rate changes may materially adversely affect results of operations and our ability to make distributions to our stockholders.

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

Most of our current tenants have, and some prospective tenants will have, the option to purchase the facilities we lease to them. At the expiration of each lease for the Vibra Facilities, each tenant will have the option to purchase the facility at a purchase price equal to the greater of (i) the appraised value of the facility, determined assuming the lease is still in place, or (ii) the purchase price we paid for the facility, including acquisition costs, increased by 2.5% per year from the date of purchase. At any time after February 28, 2007, so long as DVH, and its affiliates are not in default under any lease with us or any of the leases with its subtenants, DVH will have the option, upon 90 days prior written notice, to purchase the Desert Valley Facility at a purchase price equal to the sum of (i) the purchase price of the facility, and (ii) that amount determined under a formula that would provide us an internal rate of return of 10% per year, increased by 2% of such percentage each year, taking into account all payments of base rent received by us. These same purchase rights also apply if we provide DVH with notice of the exercise of

Table of Contents

our right to change management as a result of a default, provided DVH gives us notice within five days following receipt of such notice. If during the term of the lease we receive from the previous owner or any of its affiliates, a written offer to purchase the Desert Valley Facility and we are willing to accept the offer, so long as DVH and its affiliates are not in default under any lease with us or any of the subleases with its subtenants, we must first present the offer to DVH and allow DVH the right to purchase the facility upon the same price, terms and conditions as set forth in the offer; however, if the offer is made after February 28, 2007, in lieu of exercising its right of first refusal, DVH may exercise its option to purchase as provided above. So long as Gulf States is not in default under any lease with us or in default under any sublease, Gulf States will have the option to purchase the Covington Facility or the Denham Springs Facility (i) at the expiration of the initial term and each extension term of the respective lease, to be exercised by 60 days written notice prior to the expiration of the initial term and each extension term, and (ii) within five days of written notification from us exercising our right to terminate the engagement of the tenant s or its affiliate s management company as the management company for the facility as a result of an event of default under the respective lease. The purchase price for either of the Covington Facility or the Denham Springs Facility purchase options will be equal to the greater of (i) the appraised value of the facility based on a 15 year lease in place, or (ii) the purchase price paid by us for the facility, increased annually by an amount equal to the greater of (A) 2.5% per annum from the date of the lease, or (B) the rate of increase in the CPI on each January 1. If we elect to purchase the North Cypress Facility upon completion of construction, at the expiration of the facility lease the tenant will have the option, so long as no event of default has occurred, to purchase our interest in the property leased pursuant to the facility lease at a purchase price equal to the greater of (i) the appraised value of the leased property or (ii) the purchase price paid by us to tenant pursuant to the purchase and sale agreement relating to the hospital improvements plus our interest in any capital additions funded by us, as increased by the amount equal to the greater of (A) 2.5% from the date of the facility lease execution or (B) the rate of increase in the CPI as of each January 1 which has passed during the lease term; provided that in no event shall the purchase price be less than the fair market value of the property leased. After the first full 12 month period after construction of the West Houston MOB and the West Houston Hospital, respectively, as long as Stealth is not in default under either of its leases with us or any of the leases with its physician subtenants, it has the right to purchase the West Houston MOB or the West Houston Hospital at a price equal to the greater of (i) that amount determined under a formula that would provide us an internal rate of return of at least 18% and (ii) the appraised value based on a 15 year lease in place. Upon written notice to us within 90 days of the expiration of the applicable lease, as long as Stealth is not in default under either of its leases with us or any of the leases with its physician subtenants, Stealth will have the option to purchase the West Houston MOB or the West Houston Hospital at a price equal to the greater of (i) the total development costs (including any capital additions funded by us, but excluding any capital additions funded by Stealth) increased by 2.5% per year, and (ii) the appraised value based on a 15 year lease in place. The Stealth leases also provide that under certain limited circumstances, Stealth will have the right to present us with a choice of one out of three proposed exchange facilities to be substituted for the leased facility. At the expiration of the lease for the Bucks County Facility, BCO will have the option, upon 60 days prior written notice, to purchase the facility at a purchase price equal to the greater of (i) the appraised value of the facility, which assumes the lease remains in effect for 15 years, or (ii) the total development costs, including any capital additions funded by us, as increased by an amount equal to the greater of (A) 2.5% per annum from the date of the lease, or (B) the rate of increase in the CPI on each January 1. If we do not approve a change of control transaction involving BCO, BCO will also have the option, exercisable for 30 days after our failure to approve the change of control, to purchase the facility at the greater of (i) the above formula for the end-of-lease-term purchase option or (ii) an amount that would provide us an internal rate of return of 13%. At the expiration of the lease for the Monroe Facility, Monroe Hospital will have the option, upon 60 days prior written notice, to purchase the facility at a purchase price equal to the greater of (i) the appraised value of the facility, which assumes the lease remains in effect for 15 years, or (ii) the total development costs, including any capital additions funded by us, as increased by an amount equal to the greater of (A) 2.5% per annum from the date of the lease, or (B) the rate of increase in the CPI on each January 1. At any time after November 30, 2008, so long as Veritas and its affiliates are not in default under any lease with us or any of the leases with its

24

Table of Contents

subtenants, Veritas or Prime Healthcare Services, LLC will have the option, upon 90 days prior written notice, to purchase the Chino Facility at a purchase price equal to the sum of (i) the purchase price of the facility, and (ii) that amount determined under a formula that would provide us an internal rate of return of 11% per year, taking into account all payments of base rent received by us. In addition, if we receive notice that the lease for the parking lot adjacent to the Chino Facility will not be renewed beyond December 2013, that our rights under the parking lot lease are or will be terminated, or that the parking lot may not be used for parking for the facility, we have the right, upon 90 days prior written notice, or the put notice, to cause Veritas to purchase the Chino Facility and our interest in the parking lot lease at a purchase price equal to the sum of (i) the purchase price of the facility, and (ii) that amount determined under a formula that would provide us an internal rate of return of 11% per year, taking into account all payments of base rent received by us. Upon receipt of the put notice, however, Veritas has the right, within 30 days following the put notice, to substitute one or more properties to be used for parking for the facility. We are not obligated to accept any substitute property which does not satisfy applicable zoning and use laws, ordinances, rules or regulations or which, in our sole discretion, would create an undue burden or inconvenience for parking at the facility. At any time after the tenth anniversary of the commencement of the lease term for the Sherman Oaks Facility, so long as Prime II and its affiliates are not in default under any lease with us or any of the leases with its subtenants, Prime A will have the option, upon 90 days prior written notice, to purchase the facility at a purchase price equal to the sum of (i) the purchase price of the facility (including any additional financing by us) and (ii) that amount determined under a formula that would provide us an internal rate of return of 11% per year, taking into account all payments of base rent received by us, but in no event would this amount be less than the purchase price. Prime A also has the right at any time while the guaranty is outstanding to petition to purchase the facility for the same purchase price, and we would then have the option to release the guaranty or sell the property. Finally, if there is a non-monetary default, other than an intentional default, that occurs before the tenth anniversary of the lease date, and we desire to terminate the lease, Prime A would also have the option to purchase the facility, but at an internal rate of return to us of 12.5%.

All of our arrangements which provide or will provide tenants the option to purchase the facilities we lease to them are subject to regulatory requirements that such purchases be at fair market value. We cannot assure you that the formulas we have developed for setting the purchase price will yield a fair market value purchase price. Any purchase not at fair market value may present risks of challenge from healthcare regulatory authorities.

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

Property owned in limited liability companies and partnerships in which we are not the sole equity holder may limit our ability to act exclusively in our interests.

We own, and in the future expect to own, interests in our facilities through wholly or majority owned subsidiaries of our operating partnership. Stealth, L.P., the tenant of our West Houston Hospital, owns a 6% limited partnership interest in MPT West Houston Hospital, L.P., which owns the West Houston Hospital. Physicians and others associated with our tenant or subtenants of the West Houston MOB own approximately 24% of the aggregate equity interests in MPT West Houston MOB, L.P., the entity that owns our West Houston MOB. We may offer limited liability company and limited partnership interests to tenants, subtenants and physicians in the future. Investments in partnerships, limited liability companies or other entities with co-owners may, under certain circumstances, involve risks not present were a co-owner not involved, including the possibility that partners or other co-owners might become bankrupt or fail to fund their share of required capital contributions. Partners or other co-owners may have economic or other business interests or goals that are inconsistent with our business interests or goals, and may be in a

Table of Contents

position to take actions contrary to our policies or objectives. Such investments may also have potential risks pertaining to healthcare regulatory compliance, particularly when partners or other co-owners are physicians, and of impasses on major decisions, such as sales or mergers, because neither we nor our partners or other co-owners would have full control over the partnership, limited liability company or other entity. Disputes between us and our partners or other co-owners may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business. Consequently, actions by or disputes with our partners or other co-owners might result in subjecting facilities owned by the partnership, limited liability company or other entity to additional risk. In addition, we may in certain circumstances be liable for the actions of our partners or other co-owners. The occurrence of any of the foregoing events could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, U.S. military action and the public s reaction to the threat of terrorism or military action could adversely affect our results of operations and the market on which our common stock will trade.

There may be future terrorist threats or attacks against the United States or U.S. businesses. These attacks may directly impact the value of our facilities through damage, destruction, loss or increased security costs. Losses due to wars or terrorist attacks may be uninsurable, or insurance may not be available at a reasonable price. More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economies.

Risks Relating to Real Estate Investments

Our real estate investments are and will continue to be concentrated in net-leased healthcare facilities, making us more vulnerable economically than if our investments were more diversified.

We have acquired and are developing and expect to continue acquiring and developing net-leased healthcare facilities. We are subject to risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of our business strategy to invest in net-leased healthcare facilities. A downturn in the real estate industry could materially adversely affect the value of our facilities. A downturn in the healthcare industry could negatively affect our tenants ability to make lease or loan payments to us and, consequently, our ability to meet debt service obligations or make distributions to our stockholders. These adverse effects could be more pronounced than if we diversified our investments outside of real estate or outside of healthcare facilities.

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

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

Table of Contents

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

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

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

We are developing a women s hospital and integrated medical office building in Bensalem, Pennsylvania which we expect to be completed in August 2006, developing a community hospital in Bloomington, Indiana which we expect to be completed in October 2006 and financing the development of a community hospital in Houston, Texas which we expect to be completed in December 2006. We expect to develop additional facilities in the future. Our development and related construction activities may subject us to the following risks:

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

We expect to fund our development projects over time. Additionally, the time frame required for development and construction of these facilities means that we may have to wait years for a significant cash return. Because we are required to make cash distributions to our stockholders, if the cash flow from operations or refinancings is not sufficient, we may be forced to borrow additional money to fund distributions. We cannot assure you that we will complete our current construction projects on time or within budget or that future development projects will not be subject to delays and cost overruns. Risks associated with our development projects may reduce anticipated rental revenue which could affect the timing of, and our ability to make, distributions to our stockholders.

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

Acquisitions and developments entail risks that investments will fail to perform in accordance with expectations and that estimates of the costs of improvements necessary to acquire and develop facilities will prove inaccurate, as well as general investment risks associated with any new real estate investment. We anticipate that future acquisitions and developments will largely be financed through externally generated funds such as borrowings under credit facilities and other secured and unsecured debt financing and from issuances of equity securities. Because we must distribute at least 90% of our REIT taxable income, excluding net capital gain, each year to maintain our qualification as a REIT, our ability to rely upon income from operations or cash flow from operations to finance our growth and acquisition activities

Table of Contents

will be limited. Accordingly, if we are unable to obtain funds from borrowings or the capital markets to finance our acquisition and development activities, our ability to grow would likely be curtailed, amounts available for distribution to stockholders could be adversely affected and we could be required to reduce distributions, thereby jeopardizing our ability to maintain our status as a REIT.

Newly-developed or newly-renovated facilities do not have the operating history that would allow our management to make objective pricing decisions in acquiring these facilities (including facilities that may be acquired from certain of our executive officers, directors and their affiliates). The purchase prices of these facilities will be based in part upon projections by management as to the expected operating results of the facilities, subjecting us to risks that these facilities may not achieve anticipated operating results or may not achieve these results within anticipated time frames.

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

We have purchased general liability insurance (lessor s risk) that provides coverage for bodily injury and property damage to third parties resulting from our ownership of the healthcare facilities that are leased to and occupied by our tenants. Our leases generally require our tenants to carry general liability, professional liability, loss of earnings, all risk, and extended coverage insurance in amounts sufficient to permit the replacement of the facility in the event of a total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism, that may be uninsurable or not insurable at a price we or our tenants can afford. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace a facility after it has been damaged or destroyed. Under such circumstances, the insurance proceeds we receive might not be adequate to restore our economic position with respect to the affected facility. If any of these or similar events occur, it may reduce our return from the facility and the value of our investment.

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

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

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

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

Table of Contents

Our performance and the price of our common stock will be affected by risks associated with the real estate industry.

Factors that may adversely affect the economic performance and price of our common stock include:

- changes in the national, regional and local economic climate, including but not limited to changes in interest rates;
- local conditions such as an oversupply of, or a reduction in demand for, rehabilitation hospitals, long-term acute care hospitals, ambulatory surgery centers, medical office buildings, specialty hospitals, skilled nursing facilities, regional and community hospitals, women s and children s hospitals and other single-discipline facilities.
- attractiveness of our facilities to healthcare providers and other types of tenants; and
- competition from other rehabilitation hospitals, long-term acute care facilities, medical office buildings, outpatient treatment facilities, ambulatory surgery centers and specialty hospitals, skilled nursing facilities, regional and community hospitals, women s and children s hospitals and other single-discipline facilities.

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

Our operating expenses could be higher than anticipated due to the cost of complying with existing and future environmental and occupational health and safety laws and regulations. Various environmental laws may impose liability on a current or prior owner or operator of real property for removal or remediation of hazardous or toxic substances. Current or prior owners or operators may also be liable for government fines and damages for injuries to persons, natural resources and adjacent property. These environmental laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence or disposal of the hazardous or toxic substances. The cost of complying with environmental laws could materially adversely affect amounts available for distribution to our stockholders and could exceed the value of all of our facilities. In addition, the presence of hazardous or toxic substances, or the failure of our tenants to properly dispose of or remediate such substances, including medical waste generated by physicians and our other healthcare tenants, may adversely affect our tenants or our ability to use, sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenue and our financing ability. We have obtained on all facilities we have acquired and are developing and intend to obtain on all future facilities we acquire Phase I environmental assessments. However, even if the Phase I environmental assessment reports do not reveal any material environmental contamination, it is possible that material environmental liabilities may exist of which we are unaware.

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

Costs associated with complying with the Americans with Disabilities Act of 1993 may adversely affect our financial condition and operating results.

Under the Americans with Disabilities Act of 1993, all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. While our facilities are generally in compliance with these requirements, a determination that we are not in compliance with the Americans with Disabilities Act of 1993 could result in imposition of fines or an award of damages to private litigants. In addition, changes in governmental rules and regulations or enforcement policies

Table of Contents

affecting the use and operation of the facilities, including changes to building codes and fire and life-safety codes, may occur. If we are required to make substantial modifications at our facilities to comply with the Americans with Disabilities Act of 1993 or other changes in governmental rules and regulations, this may have a material adverse effect on our financial condition and results of operations and could adversely affect our ability to make distributions to our stockholders.

Our facilities may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs of remediating the problem.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our facilities could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected facilities or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants and others if property damage or health concerns arise.

Our interests in facilities through ground leases expose us to the loss of the facility upon breach or termination of the ground lease and may limit our use of the facility.

We have acquired interests in two of our facilities, at least in part, and one facility under development, by acquiring leasehold interests in the land on which the facility is or the facility under development will be located rather than an ownership interest in the property, and we may acquire additional facilities in the future through ground leases. As lessee under ground leases, we are exposed to the possibility of losing the property upon termination, or an earlier breach by us, of the ground lease. Ground leases may also restrict our use of facilities. Our current ground lease in Marlton, New Jersey limits use of the property to operation of a 76 bed rehabilitation hospital. Our current ground lease for the Redding Facility limits use of the property to operation of a hospital offering the following services: skilled nursing; physical rehabilitation; occupational therapy; speech pathology; social services; assisted living; day health programs; long-term acute care services; psychiatric services; geriatric clinic services; outpatient services related to the foregoing service categories; and other post-acute services. These restrictions and any similar future restrictions in ground leases will limit our flexibility in renting the facility and may impede our ability to sell the property.

Risks Relating to the Healthcare Industry

Reductions in reimbursement from third-party payors, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent payments to us.

Sources of revenue for our tenants and operators may include the federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. In addition, the failure of any of our tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government-sponsored payment programs.

The healthcare industry continues to face various challenges, including increased government and private payor pressure on healthcare providers to control or reduce costs. We believe that our tenants will continue to experience a shift in payor mix away from fee-for-service payors, resulting in an increase in the percentage of revenues attributable to managed care payors, government payors and general industry trends

Table of Contents

that include pressures to control healthcare costs. Pressures to control healthcare costs and a shift away from traditional health insurance reimbursement have resulted in an increase in the number of patients whose healthcare coverage is provided under managed care plans, such as health maintenance organizations and preferred provider organizations. In addition, due to the aging of the population and the expansion of governmental payor programs, we anticipate that there will be a marked increase in the number of patients reliant on healthcare coverage provided by governmental payors. These changes could have a material adverse effect on the financial condition of some or all of our tenants, which could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders.

The healthcare industry is heavily regulated and existing and new laws or regulations, changes to existing laws or regulations, loss of licensure or certification or failure to obtain licensure or certification could result in the inability of our tenants to make lease payments to us.

The healthcare industry is highly regulated by federal, state and local laws, and is directly affected by federal conditions of participation, state licensing requirements, facility inspections, state and federal reimbursement policies, regulations concerning capital and other expenditures, certification requirements and other such laws, regulations and rules. In addition, establishment of healthcare facilities and transfers of operations of healthcare facilities are subject to regulatory approvals not required for establishment of or transfers of other types of commercial operations and real estate. Sanctions for failure to comply with these regulations and laws include, but are not limited to, loss of or inability to obtain licensure, fines and loss of or inability to obtain certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. The failure of any tenant to comply with such laws, requirements and regulations could affect its ability to establish or continue its operation of the facility or facilities and could adversely affect the tenant s ability to make lease payments to us which could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders. In addition, restrictions and delays in transferring the operations of healthcare facilities, in obtaining new third-party payor contracts including Medicare and Medicaid provider agreements, and in receiving licensure and certification approval from appropriate state and federal agencies by new tenants may affect our ability to terminate lease agreements, remove tenants that violate lease terms, and replace existing tenants with new tenants. Furthermore, these matters may affect new tenants ability to obtain reimbursement for services rendered, which could adversely affect their ability to pay rent to us and to pay principal and interest on their loans from us.

Adverse trends in healthcare provider operations may negatively affect our lease revenues and our ability to make distributions to our stockholders.

We believe that the healthcare industry is currently experiencing:

changes in the demand for and methods of delivering healthcare services;

changes in third-party reimbursement policies;

significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas;

continuing pressure by private and governmental payors to reduce payments to providers of services; and

increased scrutiny by federal and state authorities of billing, referral and other practices.

These factors may adversely affect the economic performance of some or all of our tenants and, in turn, our revenues. Accordingly, these factors could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders.

Table of Contents

Our tenants are subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant s ability to make lease and loan payments to us.

The federal government and numerous state governments have passed laws and regulations that attempt to eliminate healthcare fraud and abuse by prohibiting business arrangements that induce patient referrals or the ordering of specific ancillary services. In addition, the Balanced Budget Act of 1997 strengthened the federal anti-fraud and abuse laws to provide for stiffer penalties for violations. Violations of these laws may result in the imposition of criminal and civil penalties, including possible exclusion from federal and state healthcare programs. Imposition of any of these penalties upon any of our tenants could jeopardize any tenant s ability to operate a facility or to make lease and loan payments, thereby potentially adversely affecting us.

In the past several years, federal and state governments have significantly increased investigation and enforcement activity to detect and eliminate fraud and abuse in the Medicare and Medicaid programs. In addition, legislation has been adopted at both state and federal levels which severely restricts the ability of physicians to refer patients to entities in which they have a financial interest. It is anticipated that the trend toward increased investigation and enforcement activity in the area of fraud and abuse, as well as self-referrals, will continue in future years and could adversely affect our prospective tenants and their operations, and in turn their ability to make lease and loan payments to us.

We cannot assure you that we will meet all the conditions for the safe harbor for space rental in structuring lease arrangements involving facilities in which local physicians are investors and tenants, and it is unlikely that we will meet all conditions for the safe harbor in those instances in which percentage rent is contemplated and we have physician investors. In addition, federal regulations require that our tenants with purchase options pay fair market value purchase prices for facilities in which we have physician investment. We cannot assure you that all of our purchase options will be at fair market value. Any purchase not at fair market value may present risks of challenge from healthcare regulatory authorities.

Vibra has accepted, and prospective tenants may accept, an assignment of the previous operator s Medicare provider agreement. Vibra and other new-operator tenants that take assignment of Medicare provider agreements might be subject to federal or state regulatory, civil and criminal investigations of the previous owner s operations and claims submissions. While we conduct due diligence in connection with the acquisition of such facilities, these types of issues may not be discovered prior to purchase. Adverse decisions, fines or recoupments might negatively impact our tenants financial condition.

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

Local physician investment in our operating partnership or our subsidiaries that own our facilities could subject our lease arrangements to scrutiny under fraud and abuse and physician self-referral laws. Under the federal Ethics in Patient Referrals Act of 1989, or Stark Law, and regulations adopted thereunder, if our lease arrangements do not satisfy the requirements of an applicable exception, that noncompliance could adversely affect the ability of our tenants to bill for services provided to Medicare beneficiaries pursuant to referrals from physician investors and subject us and our tenants to fines, which could impact their ability to make lease and loan payments to us. On March 26, 2004, CMS issued Phase II final rules under the Stark Law, which, together with the 2001 Phase I final rules, set forth CMS current interpretation and application of the Stark Law prohibition on referrals of designated health services, or DHS. These rules provide us additional guidance on application of the Stark Law through the implementation of bright-line tests, including additional regulations regarding the indirect compensation exception, but do not eliminate the risk that our lease arrangements and business strategy of physician investment may violate the Stark Law. Finally, the Phase II rules implemented an 18-month moratorium on physician ownership or investment in specialty hospitals imposed by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Although the moratorium imposed by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 expired on June 8, 2005, a bill introduced in the Senate essentially would make the moratorium on physician ownership or investment in specialty hospitals permanent with limited exceptions. If enacted, the law would have a retroactive effective date of June 8, 2005. We intend to use our good faith efforts to structure our lease arrangements

Table of Contents

to comply with these laws; however, if we are unable to do so, this failure may restrict our ability to permit physician investment or, where such physicians do participate, may restrict the types of lease arrangements into which we may enter, including our ability to enter into percentage rent arrangements.

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

Certain healthcare facilities in which we invest may also be subject to state laws which require regulatory approval in the form of a certificate of need prior to initiation of certain projects, including, but not limited to, the establishment of new or replacement facilities, the addition of beds, the addition or expansion of services and certain capital expenditures. State certificate of need laws are not uniform throughout the United States and are subject to change. We cannot predict the impact of state certificate of need laws on our development of facilities or the operations of our tenants.

In addition, certificate of need laws often materially impact the ability of competitors to enter into the marketplace of our facilities. Finally, in limited circumstances, loss of state licensure or certification or closure of a facility could ultimately result in loss of authority to operate the facility and require re-licensure or new certificate of need authorization to re-institute operations. As a result, a portion of the value of the facility may be related to the limitation on new competitors. In the event of a change in the certificate of need laws, this value may markedly decrease.

Risks Relating to Our Organization and Structure

Maryland law, our charter and our bylaws contain provisions which may prevent or deter changes in management and third-party acquisition proposals that you may believe to be in your best interest, depress our stock price or cause dilution.

Our charter contains ownership limitations that may restrict business combination opportunities, inhibit change of control transactions and reduce the value of our stock. To qualify as a REIT under the Code, no more than 50% in value of our outstanding stock, after taking into account options to acquire stock, may be owned, directly or indirectly, by five or fewer persons during the last half of each taxable year, other than our first REIT taxable year. Our charter generally prohibits direct or indirect ownership by any person of more than 9.8% in value or in number, whichever is more restrictive, of outstanding shares of any class or series of our securities, including our common stock. Generally, common stock owned by affiliated owners will be aggregated for purposes of the ownership limitation. Any transfer of our common stock that would violate the ownership limitation will be null and void, and the intended transferee will acquire no rights in such stock. Instead, such common stock will be designated as shares-in-trust and transferred automatically to a trust effective on the day before the purported transfer of such stock. The beneficiary of that trust will be one or more charitable organizations named by us. The ownership limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of common stock might receive a premium for their common stock over the then-current market price or which such holders otherwise might believe to be in their best interests. The ownership limitation provisions also may make our common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 9.8% of either the value or number of the outstanding shares of our common stock. Our board of directors, in its sole discretion, may waive or modify, subject to limitations, the ownership limit with respect to one or more stockholders if it is satisfied that ownership in excess of their limit will not jeopardize our status as a REIT. See Description of Capital Stock Restrictions on Ownership and Transfer.

Certain provisions of Maryland law may limit the ability of a third party to acquire control of our company. Certain provisions of the Maryland General Corporation Law, or the MGCL, could have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control

Table of Contents

under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as a person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes special appraisal rights and special stockholder voting requirements on these combinations; and

- control share provisions that provide that control shares of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of the holders of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have opted out of these provisions of the MGCL pursuant to provisions in our charter. However, we may, by amendment to our charter with approval of our stockholders, opt in to the business combination and control share provisions of the MGCL in the future.

Additionally, Title 8, Subtitle 3 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter and our amended and restated bylaws, or bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not presently have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change of control of our company under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-current market price of our common stock.

Maryland law does not impose heightened standards or greater scrutiny on directors in takeover situations. The MGCL provides that an act of a director relating to or affecting an acquisition or potential acquisition of control of a corporation may not be subject to a higher duty or greater scrutiny than is applied to any other act of a director. Therefore, directors of a Maryland corporation are not required to act in the same manner as directors of a Delaware corporation in takeover situations.

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

Our board of directors may issue additional shares that may cause dilution and could deter change of control transactions that you may believe to be in your best interest. Our charter authorizes our board, without stockholder approval, to:

- issue up to 10,000,000 shares of preferred stock, having preferences, conversion or other rights, voting powers, restrictions, limitations as to distribution, qualifications, or terms or conditions of redemption as determined by the board;

- amend the charter to increase or decrease the aggregate number of shares of capital stock or the number of shares of stock of any class or series that we have the authority to issue;

- cause us to issue additional authorized but unissued shares of common stock or preferred stock; and

34

Table of Contents

classify or reclassify any unissued shares of common or preferred stock by setting or changing in any one or more respects, from time to time before the issuance of such shares, the preferences, conversion or other rights and other terms of such classified or reclassified shares, including the issuance of additional shares of common stock or preferred stock that have preference rights over the common stock with respect to dividends, liquidation, voting and other matters.

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

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

We may experience conflicts of interest with our officers and directors, which could result in our officers and directors acting other than in our best interest.

As described below, our officers and directors may have conflicts of interest in connection with their duties to us and the limited partners of our operating partnership and with allocation of their time between our business and affairs and their other business interests. In addition, from time to time, we may acquire or develop facilities in transactions involving prospective tenants in which our directors or officers have an interest. In transactions of this nature, there will be conflicts between our interests and the interests of the director or officer involved, and that director or officer may be in a position to influence the terms of those transactions.

In the event we purchase properties from executive officers or directors in exchange for units of limited partnership in our operating partnership, the interests of those persons with the interests of the company may conflict. Where a unitholder has unrealized gains associated with his limited partnership interests in our operating partnership, these holders may incur adverse tax consequences in the event of a sale or refinancing of those properties. Therefore the interest of these executive officers or directors of our company could be different from the interests of the company in connection with the disposition or refinancing of a property. Conflicts of interest with our officers and directors could result in our officers and directors acting other than in our best interest.

The MGCL provides that a transaction between a corporation and any of its directors is not void solely because of a conflict of interest so long as (i) the material facts are made known to the other directors and the transaction is approved by a majority of disinterested directors, even if less than a quorum; (ii) the material facts are made known to stockholders and the transaction is approved by a majority of votes cast by disinterested stockholders; or (iii) the transaction is fair and reasonable to the corporation.

Our executive officers have agreements that provide them with benefits in the event their employment is terminated by us without cause, by the executive for good reason, or under certain circumstances following a change of control transaction that you may believe to be in your best interest.

We have entered into agreements with certain of our executive officers that provide them with severance benefits if their employment is terminated by us without cause, by them for good reason (which includes, among other reasons, failure to be elected to the board for Mr. Aldag and failure to have their agreements automatically renewed for Messrs. Aldag, McLean, Hamner, McKenzie and Stewart), or under certain circumstances following a change of control of our company. Certain of these benefits and the related tax indemnity could prevent or deter a change of control of our company that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

Table of Contents

The vice chairman of our board of directors, William G. McKenzie, has other business interests that may hinder his ability to allocate sufficient time to the management of our operations, which could jeopardize our ability to execute our business plan.

Our employment agreement with the vice chairman of our board of directors, Mr. McKenzie, permits him to continue to own, operate and control facilities that he owned as of the date of his employment agreement and requires that he only provide a limited amount of his time per month to our company. In addition, the terms of Mr. McKenzie s employment agreement permit him to compete against us with respect to these previously owned healthcare facilities.

All management rights are vested in our board of directors and our stockholders have limited rights.

Our board of directors is responsible for our management and strategic business direction, and management is responsible for our day-to-day operations. Our major policies, including our policies with respect to REIT qualification, acquisitions and developments, leasing, financing, growth, operations, debt limitation and distributions, are determined by our board of directors. Our board of directors may amend or revise these and other policies from time to time without a vote of our stockholders. Investment and operational policy changes could adversely affect the market price of our common stock and our ability to make distributions to our stockholders.

The ability of our board of directors to revoke our REIT status without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we would become subject to federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on total return to our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors and officers liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws and indemnification agreements require us to indemnify our directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers. See Certain Provisions of Maryland Law and of Our Charter and Bylaws Indemnification and Limitation of Directors and Officers Liability. Directors may be removed with or without cause by the affirmative vote of the holders of two-thirds of the votes entitled to be cast in the election of directors.

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

We are organized as an UPREIT, which means that we hold our assets and conduct substantially all of our operations through an operating limited partnership, and may in the future issue limited partnership units to third parties. Persons holding operating partnership units would have the right to vote on certain amendments to the partnership agreement of our operating partnership, as well as on certain other matters. Persons holding these voting rights may exercise them in a manner that conflicts with the interests of our stockholders. Circumstances may arise in the future, such as the sale or refinancing of one of our facilities,

Table of Contents

when the interests of limited partners in our operating partnership conflict with the interests of our stockholders. As the general partner of our operating partnership, we have fiduciary duties to the limited partners of our operating partnership that may conflict with fiduciary duties our officers and directors owe to our stockholders. These conflicts may result in decisions that are not in your best interest.

Through a wholly-owned subsidiary, we are the general partner of our operating partnership and our operating partnership, through wholly-owned subsidiaries, is the general partner of other subsidiaries which own our facilities and, should any of these wholly-owned general partners be disregarded, then we or our operating partnership could become liable for the debts and other obligations of our subsidiaries beyond the amount of our investment.

Through our wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of our operating partnership, and also currently own 100% of the limited partnership interests in the operating partnership. In addition, our operating partnership, through other wholly-owned subsidiaries, is the general partner of other subsidiaries which own our facilities. If any of our wholly-owned subsidiaries which act as general partner were disregarded, we would be liable for the debts and other obligations of the subsidiaries that own our facilities. In such event, if any of these subsidiaries were unable to pay their debts and other obligations, we would be liable for such debts and other obligations beyond the amount of our investment in these subsidiaries. These obligations could include unforeseen contingent liabilities.

Tax Risks Associated With Our Status as a REIT

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

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

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

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income; therefore we would be subject to federal income tax at regular corporate rates and we might need to borrow money or sell assets in order to pay any such tax;

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

- unless we are entitled to relief under statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify.

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

Table of Contents

Failure to make required distributions would subject us to tax.

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

85% of our ordinary income for that year;

95% of our capital gain net income for that year; and

100% of our undistributed taxable income from prior years.

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

We will pay some taxes and therefore may have less cash available for distribution to our stockholders.

We will be required to pay some U.S. federal, state and local taxes on the income from the operations of our taxable REIT subsidiary, MPT Development Services, Inc. A taxable REIT subsidiary is a fully taxable corporation and may be limited in its ability to deduct interest payments made to us. In addition, we will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our taxable REIT subsidiary and us are not comparable to similar arrangements among unrelated parties. To the extent that we are or our taxable REIT subsidiary is required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to stockholders.

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

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego attractive business or investment opportunities. Overall, no more than 20% of the value of our assets may consist of securities of one or more taxable REIT subsidiaries, and no more than 25% of the value of our assets may consist of securities that are not qualifying assets under the test requiring that 75% of a REIT s assets consist of real estate and other related assets. Further, a taxable REIT subsidiary may not directly or indirectly operate or manage a healthcare facility. For purposes of this definition a healthcare facility means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a service provider that is eligible for participation in the Medicare program under Title XVIII of the Social Security Act with respect to the facility. Thus, compliance with the REIT requirements may limit our flexibility in executing our business plan.

Our loan to Vibra could be recharacterized as equity, in which case our rental income from Vibra would not be qualifying income under the REIT rules and we could lose our REIT status.

In connection with the acquisition of the Vibra Facilities, our taxable REIT subsidiary made a loan to Vibra in an aggregate amount of approximately $41.4 million to acquire the operations at the Vibra Facilities. Our taxable REIT subsidiary also made a loan of approximately $6.2 million to Vibra and its subsidiaries for working capital purposes, which has been paid in full. The acquisition loan bears interest at

Table of Contents

an annual rate of 10.25%. Our operating partnership loaned the funds to our taxable REIT subsidiary to make these loans. The loan from our operating partnership to our taxable REIT subsidiary bears interest at an annual rate of 9.25%.

The Internal Revenue Service, or IRS, may take the position that the loans to Vibra should be treated as equity interests in Vibra rather than debt, and that our rental income from Vibra should not be treated as qualifying income for purposes of the REIT gross income tests. If the IRS were to successfully treat the loans to Vibra as equity interests in Vibra, Vibra would be a related party tenant with respect to our company and the rent that we receive from Vibra would not be qualifying income for purposes of the REIT gross income tests. As a result, we could lose our REIT status. In addition, if the IRS were to successfully treat the loans to Vibra as interests held by our operating partnership rather than by our taxable REIT subsidiary and to treat the loans as other than straight debt, we would fail the 10% asset test with respect to such interests and, as a result, could lose our REIT status, which would subject us to corporate level income tax and adversely affect our ability to make distributions to our stockholders.

Risks Relating to an Investment in Our Common Stock

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

On July 13, 2005, we completed an initial public offering of our common stock, which is listed on the New York Stock Exchange. While there has been significant trading in our common stock since the initial public offering, we cannot assure you that an active trading market in our common stock will be sustained. Even if active trading of our common stock continues, the market price of our common stock may be highly volatile and be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above your purchase price.

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

- actual or anticipated variations in our quarterly operating results or distributions;
- changes in our funds from operations or earnings estimates or publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares of common stock to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community; and
- general market and economic conditions.

Broad market fluctuations could negatively impact the market price of our common stock.

In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies operating performances. These broad market fluctuations could reduce the market price of our common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with

39

Table of Contents

comparable market capitalizations, which could lead to a material decline in the market price of our common stock.

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

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

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

One of the factors that investors may consider in deciding whether to buy or sell our securities is our distribution rate as a percentage of our price per share of common stock, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution or interest rate on our securities or seek securities paying higher distributions or interest. The market price of our common stock likely will be based primarily on the earnings that we derive from rental income with respect to our facilities and our related distributions to stockholders, and not from the underlying appraised value of the facilities themselves. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common stock. In addition, rising interest rates would result in increased interest expense on our variable-rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and make distributions.

Table of Contents

A WARNING ABOUT FORWARD LOOKING STATEMENTS

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

- our business strategy;
- our projected operating results;
- our ability to acquire or develop net-leased facilities;
- availability of suitable facilities to acquire or develop;
- our ability to enter into, and the terms of, our prospective leases;
- our ability to use effectively the proceeds of our initial public offering;
- our ability to obtain future financing arrangements;
- estimates relating to, and our ability to pay, future distributions;
- our ability to compete in the marketplace;
- market trends;
- projected capital expenditures; and
- the impact of technology on our facilities, operations and business.

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

- the factors referenced in this prospectus, including those set forth under the sections captioned Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations; Our Business and Our Portfolio;
- general volatility of the capital markets and the market price of our common stock;
- changes in our business strategy;
- changes in healthcare laws and regulations;
- availability, terms and development of capital;
- availability of qualified personnel;

changes in our industry, interest rates or the general economy; and

the degree and nature of our competition.

When we use the words believe, expect, may, potential, anticipate, estimate, plan, will, could, i expressions, we are identifying forward-looking statements. You should not place undue reliance on these forward-looking statements. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

USE OF PROCEEDS

We will not receive any proceeds from the sale by the selling stockholders of the shares of common stock offered by this prospectus.

Table of Contents

CAPITALIZATION

The following table sets forth:

our actual capitalization as of September 30, 2005; and

our pro forma capitalization, as adjusted to give effect to (i) a distribution of $0.18 per share declared on November 18, 2005 and payable on January 19, 2006 to stockholders of record on December 15, 2005; and (ii) a loan funded through the Company s revolving credit facility which was entered into in October 2005.

	As of September 30, 2005	
	Historical	Pro Forma, As Adjusted
Long term debt	$ 40,366,667	$ 80,366,667
Minority interests	2,137,500	2,137,500
Stockholders equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.001 par value, 100,000,000 shares authorized; 39,292,885 shares issued and outstanding at September 30, 2005	39,293	39,293(1)
Additional paid in capital	359,866,949	359,866,949
Accumulated deficit	(2,584,400)	(9,778,832)
Total stockholders equity	357,321,842	350,127,410
Total capitalization	$ 399,826,009	$ 432,631,577

(1) Excludes (i) 79,500 shares of restricted common stock awarded to one of our executive officers and employees in April 2005, 106,000 shares of restricted common stock awarded to our founders in July 2005 and 490,680 shares of restricted common stock awarded to our executive officers and directors in August 2005, all such awards under our equity incentive plan; (ii) 100,000 shares of common stock issuable upon the exercise of stock options granted to our independent directors under our equity incentive plan, options for 46,664 shares of which are vested; (iii) 5,000 shares of common stock issuable in October 2007, 7,500 shares of common stock issuable in March 2008 and 10,000 shares of common stock issuable in October 2008 pursuant to deferred stock units awarded under our equity incentive plan to our independent directors; and (iv) 3,891,831 shares of common stock available for future awards under our equity incentive plan.

Table of Contents

DISTRIBUTION POLICY

We intend to make regular quarterly distributions to our stockholders so that we distribute each year all or substantially all of our REIT taxable income, if any, so as to avoid paying corporate level income tax and excise tax on our REIT income and to qualify for the tax benefits accorded to REITs under the Code. In order to maintain our status as a REIT, we must distribute to our stockholders an amount at least equal to 90% of our REIT taxable income, excluding net capital gain. See United States Federal Income Tax Considerations. The distributions will be authorized by our board of directors and declared by us based upon a number of factors, including:

- our actual results of operations;
- the rent received from our tenants;
- the ability of our tenants to meet their other obligations under their leases and their obligations under their loans from us;
- debt service requirements;
- capital expenditure requirements for our facilities;
- our taxable income;
- the annual distribution requirement under the REIT provisions of the Code; and
- other factors that our board of directors may deem relevant.

To the extent not inconsistent with maintaining our REIT status, we may retain accumulated earnings of our taxable REIT subsidiaries in those subsidiaries. Our ability to make distributions to our stockholders will depend on our receipt of distributions from our operating partnership.

The table below is a summary of our distributions. We cannot assure you that we will have cash available for future quarterly distributions at these levels, or at all. See Risk Factors.

Declaration Date	Record Date	Date of Distribution	Distribution per Share of Common Stock
November 18, 2005	December 15, 2005	January 29, 2006	$ 0.18
August 18, 2005	September 15, 2005	September 29, 2005	$ 0.17
May 19, 2005	June 20, 2005	July 14, 2005	$ 0.16
March 4, 2005	March 16, 2005	April 15, 2005	$ 0.11
November 11, 2004	December 16, 2004	January 11, 2005	$ 0.11
September 2, 2004	September 16, 2004	October 11, 2004	$ 0.10

The two distributions declared in 2004, aggregating $0.21 per share, were comprised of approximately $0.13 per share in ordinary income and $0.08 per share in return of capital. For federal income tax purposes, our distributions were limited in 2004 to our tax basis earnings and profits of $0.13 per share. Accordingly, for tax purposes, $0.08 per share of the distributions we paid in January 2005 will be treated as a 2005 distribution; the tax character of this amount, along with that of the April 15, 2005, July 14, 2005 and September 29, 2005 distributions, will be determined subsequent to determination of our 2005 taxable income.

Table of Contents

SELECTED FINANCIAL INFORMATION

You should read the following pro forma and historical information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical and pro forma consolidated financial statements and related notes thereto included elsewhere in this prospectus.

The following table sets forth our selected financial and operating data on an historical and pro forma basis. Our selected historical balance sheet information as of December 31, 2004, and the historical statement of operations and other data for the year ended December 31, 2004, have been derived from our historical financial statements audited by KPMG LLP, independent registered public accounting firm, whose report with respect thereto is included elsewhere in this prospectus. The historical balance sheet information as of September 30, 2005 and the historical statement of operations and other data for the nine months ended September 30, 2005 have been derived from our unaudited historical balance sheet as of September 30, 2005 and from our unaudited statement of operations for the nine months ended September 30, 2005 included elsewhere in this prospectus. The unaudited historical financial statements include all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair presentation of our financial condition and results of operations as of such dates and for such periods under accounting principles generally accepted in the U.S.

The unaudited pro forma consolidated balance sheet data as of September 30, 2005, are presented as if completion of our probable acquisition had occurred on September 30, 2005.

The unaudited pro forma consolidated statement of operations and other data for the nine months ended September 30, 2005 are presented as if our acquisition of the Desert Valley Facility, the Covington Facility, the Chino Facility, the Denham Springs Facility and the Redding Facility along with the completion of our probable acquisitions had occurred on January 1, 2005, and our December 31, 2004 unaudited pro forma consolidated statement of operations are presented as if our acquisition of the current portfolio of facilities (the six Vibra Facilities, the Desert Valley Facility, the Covington Facility, the Chino Facility, the Denham Springs Facility and the Redding Facility), our making of the Vibra loans and completion of our probable acquisitions had occurred on January 1, 2004. The pro forma information does not give effect to any of our facilities under development or probable development transactions. The pro forma information is not necessarily indicative of what our actual financial position or results of operations would have been as of the dates or for the periods indicated, nor does it purport to represent our future financial position or results of operations.

	For the Nine Months Ended September 30, 2005		For the Year Ended December 31, 2004	
	Pro Forma	Historical	Pro Forma	Historical
Operating information:				
Revenues				
Rent income	$ 26,273,517	$ 18,364,389	$ 32,808,106	$ 8,611,344
Interest income from loans	6,368,607	3,562,857	9,037,049	2,282,115
Total revenues	32,642,124	21,927,246	41,845,155	10,893,459
Operating expenses				
Depreciation and amortization	4,645,242	2,986,790	6,193,653	1,478,470
General and administrative	5,595,416	5,595,416	5,057,284	5,057,284
Total operating expenses	10,357,499	8,699,047	12,023,286	7,214,601
Operating income	22,284,625	13,228,199	29,821,869	3,678,858
Net other income (expense)	(2,132,363)	(32,363)	(1,902,509)	897,491
Net income	20,152,262	13,195,836	27,919,360	4,576,349
Net income per share, basic	0.67	0.44	1.45	0.24
Net income per share, diluted	0.67	0.44	1.45	0.24

Weighted average shares outstanding basic	29,975,971	29,975,971	19,310,833	19,310,833
Weighted average shares outstanding diluted	29,999,381	29,999,381	19,312,634	19,312,634

Table of Contents

	As of September 30, 2005		As of December 31, 2004
	Pro Forma	Historical	Historical
Balance Sheet information:			
Gross investment in real estate assets	$ 328,342,475	$ 266,106,299	$ 151,690,293
Net investment in real estate	323,877,215	261,641,039	150,211,823
Construction in progress	78,435,280	78,484,104	24,318,098
Cash and cash equivalents	36,896,094	100,826,702	97,543,677
Loans receivable	86,895,611	52,895,611	50,224,069(1)
Total assets	463,898,155	431,592,587	306,506,063
Total debt	80,366,667	40,366,667	56,000,000
Total liabilities	111,633,245	72,133,245	73,777,619
Total stockholders equity	350,127,410	357,321,842	231,728,444
Total liabilities and stockholders equity	463,898,155	431,592,587	306,506,063

	For the Nine Months Ended September 30, 2005		For the Year Ended December 31, 2004	
	Pro Forma	Historical	Pro Forma	Historical
Other information:				
Funds from operations(2)	$ 24,797,504	$ 16,182,626	$ 34,113,013	$ 6,054,819
Cash Flows:				
Provided by operating activities		16,094,005		9,918,898
Used for investing activities		(107,692,381)		(195,600,642)
Provided by financing activities		94,881,401		283,125,421

(1) Includes $1.5 million in commitment fees payable to us by Vibra.

(2) Funds from operations, or FFO, represents net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. Management considers funds from operations a useful additional measure of performance for an equity REIT because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that funds from operations provides a meaningful supplemental indication of our performance. We compute funds from operations in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in its March 1995 White Paper (as amended in November 1999 and

April 2002), which may differ from the methodology for calculating funds from operations utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent amounts available for management s discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. Funds from operations should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as indicators of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity.

The following table presents a reconciliation of FFO to net income for the nine months ended September 30, 2005 and for the year ended December 31, 2004 on an actual and pro forma basis.

	For the Nine Months Ended September 30, 2005		For the Year Ended December 31, 2004	
	Pro Forma	**Historical**	**Pro Forma**	**Historical**
Funds from operations:				
Net income	$ 20,152,262	$ 13,195,836	$ 27,919,360	$ 4,576,349
Depreciation and amortization	4,645,242	2,986,790	6,193,653	1,478,470
Funds from operations FFO	$ 24,797,504	$ 16,182,626	$ 34,113,013	$ 6,054,819

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We were recently formed and did not commence revenue generating operations until June 2004. Please see Risk Factors Risks Relating to Our Business and Growth Strategy for a discussion of risks relating to our limited operating history. The following discussion should be read in conjunction with our audited financial statements and the related notes thereto included elsewhere in this prospectus.

Overview

We were incorporated under Maryland law on August 27, 2003 primarily for the purpose of investing in and owning net-leased healthcare facilities across the United States. We also make real estate mortgage loans and other loans to our tenants. We have operated as a real estate investment trust (REIT) since April 6, 2004, and accordingly, elected REIT status upon the filing in September 2005 of our calendar year 2004 Federal income tax return. Our existing tenants are, and our prospective tenants will generally be, healthcare operating companies and other healthcare providers that use substantial real estate assets in their operations. We offer financing for these operators real estate through 100% lease and mortgage financing and generally seek lease and loan terms of at least 10 years with a series of shorter renewal terms at the option of our tenants and borrowers. We also have included and intend to include annual contractual rate increases that in the current market range from 1.5% to 3.0%. Our existing portfolio escalators range from 2.0% to 2.5%. In addition to the base rent, our leases require our tenants to pay all operating costs and expenses associated with the facility.

We acquire and develop healthcare facilities and lease the facilities to healthcare operating companies under long-term net leases. We also make mortgage loans to healthcare operators secured by their real estate assets. We selectively make loans to certain of our operators through our taxable REIT subsidiary, the proceeds of which are used for acquisitions and working capital. We consider our lending business an important element of our overall business strategy for two primary reasons: (1) it provides opportunities to make income-earning investments that yield attractive risk-adjusted returns in an industry in which our management has expertise, and (2) by making debt capital available to certain qualified operators, we believe we create for our company a competitive advantage over other buyers of, and financing sources for, healthcare facilities. For purpose of Statement of Financial Accounting Standard No. 131, *Disclosures about Segments of an Enterprise and Related Information,* we conduct business operations in one segment.

At September 30, 2005, we owned nine operating healthcare facilities and held a mortgage loan secured by another. In addition, we were in the process of developing four additional healthcare facilities that were not yet in operation. We had one acquisition loan outstanding, the proceeds of which our tenant used for the acquisition of six hospital operating companies. The 13 facilities we owned and the one facility on which we had made a mortgage loan were in nine states, had a carrying cost of approximately $267.6 million and comprised approximately 62.0% of our total assets. Our acquisition and other loans of approximately $46.9 million represented approximately 10.9% of our total assets. We do not expect such loan assets at any time to exceed 20% of our total assets. We also had cash and temporary investments of approximately $100.8 million that represented approximately 23.4% of our assets. Subsequent to September 30, 2005, we used $25.7 million of cash to pay down debt and approximately $13.8 million for development expenditures. We expect to use a significant amount of additional cash to acquire properties in the fourth quarter of 2005 and the first quarter of 2006, after which we intend to utilize borrowings under our existing revolving credit facility and construction loan for additional acquisitions and development expenditures.

Our revenues are derived from rents we earn pursuant to the lease agreements with our tenants and from interest income from loans to our tenants and other facility owners. Our tenants operate in the healthcare industry, generally providing medical, surgical and rehabilitative care to patients. The capacity of our tenants to pay our rents and interest is dependent upon their ability to conduct their operations at profitable levels. We believe that the business environment of the industry segments in which our tenants operate is generally positive for efficient operators. However, our tenants operations are subject to

Table of Contents

economic, regulatory and market conditions that may affect their profitability. Accordingly, we monitor certain key factors, changes to which we believe may provide early indications of conditions that may affect the level of risk in our lease and loan portfolio.

Key factors that we consider in underwriting prospective tenants and in monitoring the performance of existing tenants include the following:

- the historical and prospective operating margins (measured by a tenant s earnings before interest, taxes, depreciation, amortization and facility rent) of each tenant and at each facility;
- the ratio of our tenants operating earnings both to facility rent and to facility rent plus other fixed costs, including debt costs;
- trends in the source of our tenants revenue, including the relative mix of Medicare, Medicaid/ MediCal, managed care, commercial insurance, and private pay patients; and
- the effect of evolving healthcare regulations on our tenants profitability.

Certain business factors, in addition to those described above that directly affect our tenants, will likely materially influence our future results of operations. These factors include:

- trends in the cost and availability of capital, including market interest rates, that our prospective tenants may use for their real estate assets instead of financing their real estate assets through lease structures;
- unforeseen changes in healthcare regulations that may limit the opportunities for physicians to participate in the ownership of healthcare providers and healthcare real estate;
- reductions in reimbursements from Medicare, state healthcare programs, and commercial insurance providers that may reduce our tenants profitability and our lease rates, and;
- competition from other financing sources.

At December 31, 2005, we had 18 employees. Over the next 12 months, we expect to add five to 10 additional employees as we acquire new properties and manage our existing properties and loans.

Critical Accounting Policies

In order to prepare financial statements in conformity with accounting principles generally accepted in the United States, we must make estimates about certain types of transactions and account balances. We believe that our estimates of the amount and timing of lease revenues, credit losses, fair values and periodic depreciation of our real estate assets, stock compensation expense, and the effects of any derivative and hedging activities will have significant effects on our financial statements. Each of these items involves estimates that require us to make subjective judgments. We intend to rely on our experience, collect historical data and current market data, and develop relevant assumptions to arrive at what we believe to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the accounting policies described below. In addition, application of these accounting policies involves the exercise of judgment on the use of assumptions as to future uncertainties and, as a result, actual results could materially differ from these estimates. Our accounting estimates will include the following:

Revenue Recognition. Our revenues, which are comprised largely of rental income, include rents that each tenant pays in accordance with the terms of its respective lease reported on a straight-line basis over the initial term of the lease. Since some of our leases provide for rental increases at specified intervals, straight-line basis accounting requires us to record as an asset, and include in revenues, straight-line rent that we will only receive if the tenant makes all rent payments required through the expiration of the term of the lease.

Accordingly, our management must determine, in its judgment, to what extent the straight-line rent receivable applicable to each specific tenant is collectible. We review each tenant s straight-line rent

48

Table of Contents

receivable on a quarterly basis and take into consideration the tenant s payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates, and economic conditions in the area in which the facility is located. In the event that the collectibility of straight-line rent with respect to any given tenant is in doubt, we are required to record an increase in our allowance for uncollectible accounts or record a direct write-off of the specific rent receivable, which would have an adverse effect on our net income for the year in which the reserve is increased or the direct write-off is recorded and would decrease our total assets and stockholders equity. At that time, we stop accruing additional straight-line rent income.

Our development projects normally allow for us to earn what we term construction period rent . Construction period rent accrues to us during the construction period based on the funds which we invest in the facility. During the construction period, the unfinished facility does not generate any earnings for the lessee/operator which can be used to pay us for our funds used to build the facility. In such cases, the lessee/operator pays the accumulated construction period rent over the term of the lease beginning when the lessee/operator takes physical possession of the facility. We record the accrued construction period rent as deferred revenue during the construction period, and recognize earned revenue as the construction period rent is paid to us by the lessee/operator.

We make loans to our tenants and from time to time may make construction or mortgage loans to facility owners or other parties. We recognize interest income on loans as earned based upon the principal amount outstanding. These loans are generally secured by interests in real estate, receivables, the equity interests of a tenant, or corporate and individual guarantees. As with straight-line rent receivables, our management must also periodically evaluate loans to determine what amounts may not be collectible. Accordingly, a provision for losses on loans receivable is recorded when it becomes probable that the loan will not be collected in full. The provision is an amount which reduces the loan to its estimated net receivable value based on a determination of the eventual amounts to be collected either from the debtor or from the collateral, if any. At that time, we discontinue recording interest income on the loan to the tenant.

Investments in Real Estate. We record investments in real estate at cost, and we capitalize improvements and replacements when they extend the useful life or improve the efficiency of the asset. While our tenants are generally responsible for all operating costs at a facility, to the extent that we incur costs of repairs and maintenance, we expense those costs as incurred. We compute depreciation using the straight-line method over the estimated useful life of 40 years for buildings and improvements, five to seven years for equipment and fixtures, and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

We are required to make subjective assessments as to the useful lives of our facilities for purposes of determining the amount of depreciation expense to record on an annual basis with respect to our investments in real estate improvements. These assessments have a direct impact on our net income because, if we were to shorten the expected useful lives of our investments in real estate improvements, we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

We have adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS No. 144 requires that the operations related to facilities that have been sold, or that we intend to sell, be presented as discontinued operations in the statement of operations for all periods presented, and facilities we intend to sell be designated as held for sale on our balance sheet.

When circumstances such as adverse market conditions indicate a possible impairment of the value of a facility, we review the recoverability of the facility s carrying value. The review of recoverability is based on our estimate of the future undiscounted cash flows, excluding interest charges, from the facility s use and eventual disposition. Our forecast of these cash flows considers factors such as expected future operating income, market and other applicable trends, and residual value, as well as the effects of leasing

Table of Contents

demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a facility, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the facility. We are required to make subjective assessments as to whether there are impairments in the values of our investments in real estate.

Purchase Price Allocation. We record above-market and below-market in-place lease values, if any, for the facilities we own which are based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. We amortize any resulting capitalized above-market lease values as a reduction of rental income over the remaining non-cancelable terms of the respective leases. We amortize any resulting capitalized below-market lease values as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases. Because our strategy to a large degree involves the origination of long term lease arrangements at market rates, we do not expect the above-market and below-market in-place lease values to be significant for many of our anticipated transactions.

We measure the aggregate value of other intangible assets to be acquired based on the difference between (i) the property valued with existing leases adjusted to market rental rates and (ii) the property valued as if vacant. Management s estimates of value are made using methods similar to those used by independent appraisers (*e.g.*, discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. We also consider information obtained about each targeted facility as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which we expect to range primarily from three to 18 months, depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal costs, and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

The total amount of other intangible assets to be acquired, if any, is further allocated to in-place lease values and customer relationship intangible values based on management s evaluation of the specific characteristics of each prospective tenant s lease and our overall relationship with that tenant. Characteristics to be considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant s credit quality, and expectations of lease renewals, including those existing under the terms of the lease agreement, among other factors.

We amortize the value of in-place leases to expense over the initial term of the respective leases, which range primarily from 10 to 15 years. The value of customer relationship intangibles is amortized to expense over the initial term and any renewal periods in the respective leases, but in no event will the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the in-place lease value and customer relationship intangibles would be charged to expense.

Accounting for Derivative Financial Investments and Hedging Activities. We expect to account for our derivative and hedging activities, if any, using SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137 and SFAS No. 149, which requires all derivative instruments to be carried at fair value on the balance sheet.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. We expect to formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction. We plan to review

Table of Contents

periodically the effectiveness of each hedging transaction, which involves estimating future cash flows. Cash flow hedges, if any, will be accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability, with a corresponding amount recorded in other comprehensive income within stockholders equity. Amounts will be reclassified from other comprehensive income to the income statement in the period or periods the hedged forecasted transaction affects earnings. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, which we expect to affect the Company primarily in the form of interest rate risk or variability of interest rates, are considered fair value hedges under SFAS No. 133. We are not currently a party to any derivatives contracts.

Variable Interest Entities. In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities.* In December 2003, the FASB issued a revision to FIN 46, which is termed FIN 46(R). FIN 46(R) clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* and provides guidance on the identification of entities for which control is achieved through means other than voting rights, guidance on how to determine which business enterprise should consolidate such an entity, and guidance on when it should do so. This model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. An entity meeting either of these two criteria is a variable interest entity, or VIE. A VIE must be consolidated by any entity which is the primary beneficiary of the VIE. If an entity is not the primary beneficiary of the VIE, the VIE is not consolidated. We periodically evaluate the terms of our relationships with our tenants and borrowers to determine whether we are the primary beneficiary and would therefore be required to consolidate any tenants or borrowers that are VIEs. Our evaluations of our transactions indicate that we have loans receivable from two entities which we classify as VIEs. However, because we are not the primary beneficiary of these VIEs, we do not consolidate these entities in our financial statements.

Stock-Based Compensation. We currently apply the intrinsic value method to account for the issuance of stock options under our equity incentive plan in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees.* In this regard, we anticipate that a substantial portion of our options will be granted to individuals who are our officers or directors. Accordingly, because the grants are expected to be at exercise prices that represent fair value of the stock at the date of grant, we do not currently record any expense related to the issuance of these options under the intrinsic value method. If the actual terms vary from the expected, the impact to our compensation expense could differ.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment,* which is a revision of SFAS No. 123, *Accounting for Stock Based Compensation.* SFAS No. 123(R) establishes standards for accounting for transactions in which an entity exchanges its equity instruments for goods or services. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. The impact of SFAS No. 123(R) will also be affected by the types of stock-based awards that our board of directors chooses to grant. Prior to SFAS No. 123(R), only certain pro forma disclosures of fair value were required, which primarily applies to stock options granted at the then current market price per share of stock. Our existing equity incentive plan allows for stock-based awards to be in the form of options, restricted stock, restricted stock units and deferred stock units. Currently, we expect that our board of directors will make awards in the form of restricted stock, restricted stock units and deferred stock units. The SEC has ruled that both SFAS No. 123 and SFAS 123(R) are acceptable GAAP until SFAS No. 123(R) becomes effective for our annual and interim periods beginning January 1, 2006. However, we have elected to continue following the guidelines of SFAS No. 123 to account for our awards of restricted stock. During the three and nine month periods ended September 30, 2005, we recorded $555,409 and $602,403 of expense for restricted shares issued to employees, officers and directors.

Table of Contents

Liquidity and Capital Resources

As of November 30, 2005, after the loan transactions described below, we have approximately $38.2 million in cash and temporary liquid investments. In October 2005, we entered into a four-year $100.0 million secured revolving credit facility, using proceeds to replace our existing $75.0 million term loan, which had a balance of approximately $40.0 million. We have borrowed approximately $65.0 million under the revolving credit facility. The loan is secured by a collateral pool comprised of several of our properties. The six properties currently in the collateral pool provide available borrowing capacity of approximately $68.5 million. We believe we have sufficient value in our other properties to increase the availability under the credit facility to its present maximum of $100.0 million. Under the terms of the credit agreement, we may increase the maximum commitment to $175.0 million subject to adequate collateral valuation and payment of customary commitment fees. In addition to availability under the revolving credit facility, we have approximately $43.0 million available under a construction/term facility with a bank.

At September 30, 2005, we had remaining commitments to complete the funding of four development projects aggregating approximately $123.5 million as described below (in millions):

	Original Commitment	Cost Incurred	Remaining Commitment
North Cypress community hospital	$ 64.0	$ 12.2	$ 51.8
West Houston community hospital and medical office building	64.0	54.2	9.8
Bucks County women s hospital and medical office building	38.0	11.4	26.6
Monroe County community hospital	35.5	0.2	35.3
Total	$ 201.5	$ 78.0	$ 123.5

We also have commitments of approximately $52.0 million to purchase an existing healthcare facility, to purchase another existing healthcare facility and make related loans and to develop a healthcare facility. Although these commitments are not binding on us and closing of the transactions is subject to certain conditions, we expect to complete these transactions during the first and second quarters of 2006. These possible transactions are subject to various contingencies that must be satisfied before definitive agreements are executed. Accordingly, there is no assurance that these transactions will be consummated.

We believe that our existing cash and temporary investments, funds available under our existing loan agreements and cash flow from operations will be sufficient for us to complete the acquisitions and developments described above, provide for working capital, and make distributions to our stockholders. We also believe that additional capital resources will be available to us to continue to execute our business plan of increasing our healthcare real estate assets. We expect these resources will include various types of additional debt, including long-term, fixed-rate mortgage loans, variable-rate term loans, and construction financing facilities. Generally, we believe we will be able to finance up to approximately 50-60% of the cost of our healthcare facilities; however, there is no assurance that we will be able to obtain or maintain those levels of debt on our portfolio of real estate assets on favorable terms in the future.

Financing Activities

In the first nine months of 2005, we raised $126.2 million, net of offering costs and expenses, from our IPO. We also borrowed an additional $19.0 million on our term loan, for a total of $75.0 million of loan proceeds on the term loan, and subsequently repaid the term loan with proceeds from our recently executed $100.0 million secured revolving credit facility. The facility, and our expectations concerning future financing activities are further described above under Liquidity and Capital Resources. We also sold $1.1 million in limited partnership units in our West Houston medical office building partnership (a subsidiary of our Operating Partnership). Our sale of such interests in certain of our healthcare facilities is based on a strategy of encouraging physicians and other parties to locate their practices in or near our healthcare facilities; however, we do not consider this strategy integral to our capital raising

process.

Table of Contents

Investing Activities

In the first nine months of 2005, we made investments in four existing healthcare facilities with an aggregate investment value of $66.3 million, and net cash outlays of $61.4 million, after subtracting contingent payments and facility improvement reserves, and including a $6.0 million first mortgage loan that was converted to a sale-leaseback arrangement subsequent to September 30, 2005. We also invested $53.8 million in our development projects. In February 2005, Vibra reduced the principal amount of its loans by $7.7 million. Our expectations about future investing activities are described above under Liquidity and Capital Resources.

Results of Operations

Our historical operations are generated substantially by investments we have made since we completed our private offering and raised approximately $233.5 million in common equity in the second quarter of 2004 and since we completed our IPO and raised approximately $125.6 million in common equity in the third quarter of 2005. We also are in the process of developing additional healthcare facilities that have not yet begun generating revenue, and we expect to acquire additional existing healthcare facilities in the foreseeable future. Accordingly, we expect that future results of operations will vary materially from our historical results.

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Net income for the three months ended September 30, 2005, was $5,256,091 compared to net income of $2,628,938 for the three months ended September 30, 2004, a 99.9% increase. We completed our private offering of common equity early in the second quarter of 2004, prior to which we had no revenues and limited operations. At September 30, 2004, we had six operating properties, one development property in the early stages of construction and 10 employees. At September 30, 2005, we had nine operating properties, three development properties (the Monroe County development project commenced in October, 2005), and 17 employees.

A comparison of revenues for the three month periods ended September 30, 2005 and 2004, is as follows:

	2005		2004		Change
Base rents	$ 5,320,454	64.8%	$ 2,874,033	57.0%	$ 2,446,421
Straight-line rents	1,007,062	12.3%	1,142,186	22.7%	(135,124)
Percentage rents	643,757	7.9%			643,757
Interest from loans	1,218,785	14.8%	1,022,853	20.3%	195,932
Fee income	14,883	0.2%			14,883
Total revenue	$ 8,204,941	100.0%	$ 5,039,072	100.0%	$ 3,165,869

Revenue of $8,204,941 in the three months ended September 30, 2005, was comprised of rents (85.0%) and interest and fee income from loans (15.0%). All of this revenue was derived from properties that we have acquired since July 1, 2004. During the three month period ended September 30, 2005, we received percentage rents of approximately $644,000 from Vibra pursuant to provisions in our leases that did not become effective until January 2005. Also, the Desert Valley Victorville, Vibra Redding and Gulf States Covington facilities, which we acquired in the first six months of 2005, provided three months of base rent revenue as compared to no revenue in 2004. Straight-line rents decreased by approximately $135,000 in the three months ended September 30, 2005 compared to the same period of 2005 as a result of scheduled base rent increases related to six Vibra properties. Interest income from loans in the three months ended September 30, 2005 compared to the same period in 2004 increased due to the Denham Springs mortgage loan, which originated in the second quarter of 2005. Vibra accounted for 83.8% and 100.0% of our gross revenues during the three months ended September 30, 2005 and 2004,

Table of Contents

respectively. The relative size of our Vibra revenue decreased as a result of our diversification of tenants and will continue to decrease as we acquire additional properties and lease them to other tenants.

We expect our revenue to continue to increase in future quarters as a result of expected acquisitions, completion of projects currently under development, and lease rate escalations that will become effective on January 1, 2006. We also expect that the relative portion of our revenue that is paid by Vibra will continue to decline as a result of continued tenant diversification. Of the expected rental and other revenue increases, none other than a 2.5% increase in Vibra s rental rate is expected from Vibra.

Depreciation and amortization during the three months ended September 30, 2005, was $1,170,387, compared to $928,356, during the three months ended September 30, 2004, a 26.1% increase. All of the increased depreciation and amortization is related to property acquisitions. We expect our depreciation and amortization expense to continue to increase commensurate with our acquisition and development activity.

General and administrative expenses in the three months ended September 30, 2005 and 2004 totaled $1,990,971, and $1,631,600, respectively, an increase of 22.0%. The increase is due primarily to an increase in general office expenses as the number of employees increased from ten to 17 since September 30, 2004. We do not expect our general and administrative expense to increase commensurate with our asset growth. All of our leases are structured as net leases, such that we are not responsible for property management or maintenance. Accordingly, we believe that subsequent to our adding five to ten employees over the next 12 months, we will have sufficient human resources to sustain substantial additional asset growth. During the three months ended September 30, 2005, we also recorded $555,409 of share based compensation expense related to restricted shares granted to employees, officers and directors during the second and third quarters of 2005.

Interest income (other than from loans) for the three months ended September 30, 2005 and 2004, totaled $767,917 and $188,568, respectively. Interest income increased primarily due to higher cash balances in the three months ended September 30, 2005, as a result of temporary investment of proceeds from our IPO which closed in July, 2005, and the underwriters exercise of their over-allotment option in August, 2005. We expect earnings on our temporary investments to decline substantially as we invest these proceeds in real estate and other assets.

We recorded no interest expense in the three months ended September 30, 2005, because the capitalized cost of our developments exceeded our outstanding loan balances during the period. Capitalized interest was approximately $915,000 during the three months ended September 30, 2005.

Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004

Net income for the nine months ended September 30, 2005, was $13,195,836 compared to net income of $1,065,322 for the nine months ended September 30, 2004.

A comparison of revenues for the nine month periods ended September 30, 2005 and 2004, is as follows:

	2005		2004		Change
Base rents	$ 12,936,876	59.0%	$ 2,874,033	57.0%	$ 10,062,843
Straight-line rents	3,784,801	17.3%	1,142,186	22.7%	2,642,615
Percentage rents	1,642,712	7.5%			1,642,712
Interest from loans	3,463,894	15.8%	1,022,853	20.3%	2,441,041
Fee income	98,963	0.4%			98,963
Total revenue	$ 21,927,246	100.0%	$ 5,039,072	100.0%	$ 16,888,174

Revenue of $21,927,246 in the nine months ended September 30, 2005, was comprised of rents (83.8%) and interest and fee income from loans (16.2%). All of this revenue was derived from properties that we have acquired since July 1, 2004. Our base and straight-line rents increased in 2005 due to owning

Table of Contents

the initial six Vibra properties for a full nine months of 2005, plus the addition of the three new facilities in 2005. During the nine month period ended September 30, 2005, we received percentage rents of approximately $1.6 million. Pursuant to our lease terms with Vibra, we were not eligible to receive percentage rent in 2004. Interest income from loans in the nine month period ended September 30, 2005, increased based on the timing and amount of Vibra loan advances and repayments in 2004 and 2005, and on the origination of the Denham Springs loan in 2005. Vibra accounted for 88.4% and 100.0% of our gross revenues during the nine months ended September 30, 2005 and 2004, respectively. See the discussion of future expected results under the three month comparison above.

Depreciation and amortization during the nine months ended September 30, 2005, was $2,986,790, compared to $928,356, during the nine months ended September 30, 2004. All of the increased depreciation and amortization is related to property acquisitions. We expect our depreciation and amortization expense to continue to increase commensurate with our acquisition and development activity.

General and administrative expenses in the nine months ended September 30, 2005, and 2004 totaled $5,109,854, and $3,329,559, respectively, an increase of 53.5%. The increase is due primarily to an increase in general office and compensation expenses as the number of employees has increased from ten to 17 since September 30, 2004. See the discussion of future expected results under the three month comparison above. During the nine months ended September 30, 2005, we also recorded $602,403 of share based compensation expense as a result of restricted shares granted to employees, officers and directors during the second and third quarters of 2005.

Interest income (other than from loans) for the nine months ended September 30, 2005, and 2004, totaled $1,509,903 and $667,857, respectively. Interest income increased due to the amount of offering proceeds temporarily invested in short term, cash equivalent instruments and to higher interest rates in 2005.

Reconciliation of Non-GAAP Financial Measures

Investors and analysts following the real estate industry utilize funds from operations, or FFO, as a supplemental performance measure. While we believe net income available to common stockholders, as defined by generally accepted accounting principles (GAAP), is the most appropriate measure, our management considers FFO an appropriate supplemental measure given its wide use by and relevance to investors and analysts. FFO, reflecting the assumption that real estate asset values rise or fall with market conditions, principally adjusts for the effects of GAAP depreciation and amortization of real estate assets, which assume that the value of real estate diminishes predictably over time.

As defined by the National Association of Real Estate Investment Trusts, or NAREIT, FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (losses) on sales of real estate, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We compute FFO in accordance with the NAREIT definition. FFO should not be viewed as a substitute measure of the Company s operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs that could materially impact our results of operations.

The following table presents a reconciliation of FFO to net income for the three and nine months ended September 30, 2005 and 2004.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income	$ 5,256,091	$ 2,628,938	$ 13,195,836	$ 1,065,322
Depreciation and amortization	1,170,387	928,356	2,986,790	928,356
Funds from operations FFO	$ 6,426,478	$ 3,557,294	$ 16,182,626	$ 1,993,678

55

Table of Contents

Per diluted share amounts:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income	$ .14	$ .10	$ .44	$ .06
Depreciation and amortization	.03	.04	.10	.06
Funds from operations FFO	$ .17	$ .14	$ .54	$ .12

Distribution Policy

We have elected to be taxed as a REIT commencing with our taxable year that began on April 6, 2004 and ended on December 31, 2004. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income, excluding net capital gain, to our stockholders. It is our current intention to comply with these requirements and maintain such status going forward.

The table below is a summary of our distributions paid or declared in the nine months ended September 30, 2005:

Declaration Date	Record Date	Date of Distribution	Distribution per Share
August 18, 2005	September 15, 2005	September 29, 2005	$ .17
May 19, 2005	June 20, 2005	July 14, 2005	$ .16
March 4, 2005	March 16, 2005	April 15, 2005	$ .11
November 11, 2004	December 16, 2004	January 11, 2005	$ .11

We intend to pay to our stockholders, within the time periods prescribed by the Code, all or substantially all of our annual taxable income, including taxable gains from the sale of real estate and recognized gains on the sale of securities. It is our policy to make sufficient cash distributions to stockholders in order for us to maintain our status as a REIT under the Code and to avoid corporate income and excise tax on undistributed income.

Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business plan, we expect that the primary market risk to which we will be exposed is interest rate risk.

In addition to changes in interest rates, the value of our facilities will be subject to fluctuations based on changes in local and regional economic conditions and changes in the ability of our tenants to generate profits, all of which may affect our ability to refinance our debt if necessary. The changes in the value of our facilities would be reflected also by changes in cap rates, which is measured by the current base rent divided by the current market value of a facility.

If market rates of interest on our variable rate debt increase by 1%, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $1,005,000 per year. If market rates of interest on our variable rate debt decrease by 1%, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately $1,005,000 per year. This assumes that the amount outstanding under our variable rate debt remains approximately $100.5 million, the balance as of the date of this

prospectus.

We currently have no assets denominated in a foreign currency, nor do we have any assets located outside of the United States. We also have no exposure to derivative financial instruments.

Table of Contents

OUR BUSINESS

Our Company

We are a self-advised real estate company that acquires, develops and leases healthcare facilities providing state-of-the-art healthcare services. We lease our facilities to healthcare operators pursuant to long-term net-leases, which require the tenant to bear most of the costs associated with the property. From time to time, we also make loans to our tenants. We believe that the United States healthcare delivery system is becoming decentralized and is evolving away from the traditional one stop, large-scale acute care hospital. We believe that this change is the result of a number of trends, including increasing specialization and technological innovation and the desire of both physicians and patients to utilize more convenient facilities. We also believe that demographic trends in the United States, including in particular an aging population, will result in continued growth in the demand for healthcare services, which in turn will lead to an increasing need for a greater supply of modern healthcare facilities. In response to these trends, we believe that healthcare operators increasingly prefer to conserve their capital for investment in operations and new technologies rather than investing in real estate and, therefore, increasingly prefer to lease, rather than own, their facilities. Given these trends and the size, scope and growth of this dynamic industry, we believe there are significant opportunities to acquire and develop net-leased healthcare facilities that are integral components of local healthcare delivery systems.

Our strategy is to lease the facilities that we acquire or develop to experienced healthcare operators pursuant to long-term net-leases. We focus on acquiring and developing rehabilitation hospitals, long-term acute care hospitals, ambulatory surgery centers, cancer hospitals, women s and children s hospitals, skilled nursing facilities and regional and community hospitals, as well as other specialized single-discipline facilities and ancillary facilities. We believe that these types of facilities will capture an increasing share of expenditures for healthcare services. We believe that our strategy for acquisition and development of these types of net-leased facilities, which generally require a physician s order for patient admission, distinguish us as a unique investment alternative among REITs.

Our management team has extensive experience in acquiring, owning, developing, managing and leasing healthcare facilities; managing investments in healthcare facilities; acquiring healthcare companies; and managing real estate companies. Our management team also has substantial experience in healthcare operations and administration, which includes many years of service in executive positions for hospitals and other healthcare providers, as well as in physician practice management and hospital/physician relations. Therefore, in addition to understanding investment characteristics and risk levels typically important to real estate investors, our management understands the changing healthcare delivery environment, including changes in healthcare regulations, reimbursement methods and patient demographics, as well as the technological innovations and other advances in healthcare delivery generally. We believe that this experience gives us the specialized knowledge necessary to select attractively-located net-leased facilities, underwrite our tenants, analyze facility-level operations and understand the issues and potential problems that may affect the healthcare industry generally and the tenant service area and facility in particular. We believe that our management s experience in healthcare operations and real estate management and finance will enable us to take advantage of numerous attractive opportunities to acquire, develop and lease healthcare facilities.

We completed a private placement of our common stock in April 2004 in which we raised net proceeds of approximately $233.5 million. Shortly after completion of our private placement, we began to acquire our current portfolio of 17 facilities, consisting of 14 facilities that are in operation and three facilities that are under development. Five of the facilities that are in operation are rehabilitation hospitals, four are long-term acute care hospitals, one is a community hospital with an integrated medical office building, one is a community hospital with an adjacent medical office building and two are community hospitals. One facility under development is a women s hospital with an integrated medical office building. Our second facility under development is a community hospital. With respect to our third facility under development, we have entered into a ground sublease with, and an agreement to provide a construction loan to, North Cypress for the development of a community hospital. The facility will be developed on

Table of Contents

property in which we currently have a ground lease interest. We expect to acquire the land we are ground leasing after the hospital has been partially completed. Upon completion of construction, subject to certain limited conditions, we will purchase the facility for an amount equal to the cost of construction and lease the facility to the operator for a 15 year lease term. In the event we do not purchase the facility, the ground sublease will continue and the construction loan will become due. In that event, we expect to seek to convert the construction loan to a 15 year term loan secured by the facility.

We completed an initial public offering of our common stock in July 2005 in which, with the overallotment option that was exercised in August 2005, we raised net proceeds of approximately $125.7 million. With the net proceeds of our initial public offering, along with our available cash and cash equivalents, we intend to expand our portfolio of facilities by acquiring or developing additional net-leased healthcare facilities.

We employ leverage in our capital structure in amounts determined from time to time by our board of directors. At present, we intend to limit our debt to approximately 50-60% of the aggregate costs of our facilities, although we may temporarily exceed those levels from time to time. We expect our borrowings to be a combination of long-term, fixed-rate, non-recourse mortgage loans, variable-rate secured term and revolving credit facilities, and other fixed and variable-rate short to medium-term loans.

In October 2005, we entered into a credit agreement with Merrill Lynch Capital which replaced the loan agreement dated December 31, 2004 between us and Merrill Lynch Capital. The credit agreement provides for secured revolving loans of up to $100.0 million in aggregate principal amount. The principal amount may be increased to $175.0 million at our request. The amounts borrowed are secured by mortgages on real property owned by certain of our subsidiaries and are guaranteed by us. The facilities that we use to secure the amounts under the credit agreement make up the borrowing base. The borrowing base, and therefore borrowings, are limited based on (i) the appraised value of the borrowing base and (ii) rent income from and financial performance of the operator lessees of the borrowing base. Interest on borrowings under the credit agreement will accrue monthly at one month LIBOR (4.44% at January 9, 2006), plus a spread which increases as amounts borrowed increase as a percentage of the borrowing base. We must also pay certain fees based on the amount borrowed in any monthly period. The credit agreement expires in October 2009, and may be extended by us for one additional year upon payment of a fee. The credit agreement contains representations, financial and other affirmative and negative covenants, events of default and remedies typical for this type of facility.

We have also entered into construction loan agreements with Colonial Bank pursuant to which we can borrow up to $43.4 million to fund construction costs for our West Houston Facilities. Each construction loan has a term of 18 months and an option on our part to convert the loan to a 30-month term loan upon completion of construction of the West Houston Facility securing that loan. Construction of the West Houston MOB was completed in October 2005, and construction of the West Houston Hospital was completed in November 2005. We have not yet exercised the option to convert the construction loans to term loans. The construction loans are secured by mortgages on the West Houston Facilities, as well as assignments of rents and leases on those facilities. The terms of the construction loan agreements prevent us from allowing the net operating income of the facility used as collateral for any calendar quarter to be less than 1.25 times the principal and interest payments then due and payable under the promissory note for the designated period until the loan is paid in full. In the event that our net operating income falls below the minimum debt service requirement, we must prepay a portion of the principal balance of the promissory note so that the debt service requirement is satisfied and maintained within 10 days of our non-compliance. The construction loans bear interest at the one month LIBOR plus 225 basis points during the construction period and one month LIBOR plus 250 basis points thereafter. The Colonial Bank loans are cross-defaulted. As of the date of this prospectus, there is $35.5 million outstanding under the Colonial Bank loans.

We believe that we qualify as a REIT for federal income tax purposes and have elected to be taxed as a REIT under the federal income tax laws commencing with our taxable year that began on April 6, 2004 and ended on December 31, 2004.

Table of Contents

Market Opportunity

According to the United States Department of Commerce, Bureau of Economic Analysis, healthcare is one of the largest industries in the United States, and was responsible for approximately 15.3% of United States gross domestic product in 2003. Healthcare spending has consistently grown at rates greater than overall spending growth and inflation. As the chart below reflects, healthcare expenditures are projected to increase by more than 7% in 2004 and 2005 to $1.8 trillion and $1.9 trillion, respectively, and are expected to reach $3.1 trillion by 2012.

We believe that the fundamental reasons for this growth in the demand for healthcare services include the aging and growth of the United States population, the advances in medical technology and treatments, and the increase in life expectancy. As illustrated by the chart below, the projected compound annual growth rate (or CAGR), from 2000 to 2030 of the population of senior citizens is three times the rate projected for the total United States population. This demographic trend is projected to result in an increase in the percentage of United States citizens who are age 65 or older from 12.4% in 2000 to 19.6% in 2030.

Source: United States Bureau of the Census

Table of Contents

To satisfy this growing demand for healthcare services, there is a significant amount of new construction of healthcare facilities. In 2003 alone, $24.5 billion was spent on the construction of healthcare facilities, according to CMS. This represented more than a 9% increase over the $22.4 billion in healthcare construction spending for 2002. The following chart reflects the growth and expected growth in healthcare construction expenditures over the period that began in 1990 and ends in 2012:

We believe that the United States healthcare delivery system is evolving away from reliance on the traditional one-stop, large-scale acute care hospital to one that relies on specialty hospitals and healthcare facilities that focus on single disciplines. We believe that there will be an increasing demand for more accessible, specialized and technologically-advanced healthcare delivery services as the population grows and ages. We own and have targeted for acquisition and development net-leased healthcare facilities providing state-of-the-art healthcare services because we believe these types of facilities represent the future of healthcare delivery.

We believe that United States healthcare operators are in the early stages of a long-term evolution from a model that favors ownership of healthcare facilities to one that favors long-term net leasing of these facilities. We see two primary reasons for this:

First, in our experience, financial arrangements such as bond financing gave non-profit healthcare providers access to inexpensive capital, usually at 100% of the building cost. However, budget constraints on local governments and tighter underwriting standards have greatly reduced the availability of this very inexpensive capital.

Second, in our experience, healthcare providers were reimbursed on cost-based reimbursement plans (calculated in part by reference to a provider s total cost in plant and equipment) which provided no incentive for healthcare providers to make efficient use of their capital. With the evolution of the prospective payment reimbursement system, which reimburses healthcare providers for specific procedures or diagnoses and thus rewards the most efficient providers, healthcare providers are no longer assured of returns on investments in non-revenue producing assets such as the real estate where they operate. Accordingly, in recent years, healthcare providers have begun to convert their owned facilities to long-term lease arrangements thereby accessing substantial amounts of previously unproductive capital to invest in high margin operations and assets.

In summary, the following market trends have shaped our investment strategy:

Decentralization: We believe that healthcare services are increasingly delivered through smaller, more accessible facilities that are designed for specific treatments and medical conditions and that are located near physicians and their patients. Based upon our experience, more healthcare services are delivered in specialized facilities than in acute care hospitals.

Table of Contents

Specialization: In our experience, the percentage of physicians and other healthcare professionals who practice in a recognized specialty or subspecialty has been increasing for many years. We believe that this creates opportunities for development of additional specialized healthcare facilities as advances in technologies and recognition of new practice specialties result in new treatments for difficult medical conditions.

Convenient Patient Care: We believe that healthcare service providers are increasingly seeking to provide specific services in a single location for the convenience of both patients and physicians. These single-discipline centers are primarily located in suburban areas, near patients and physicians, as opposed to the traditional urban hospital setting.

Aging Population: We believe that demographic trends in the United States, including in particular an aging population, will result in continued growth in the demand for healthcare services, which in turn will lead to an increasing need for a greater supply of modern healthcare facilities.

Use of Capital: We believe that healthcare operators increasingly prefer to conserve their capital for investment in their operations and for new technologies rather than investing it in real estate.

Our Target Facilities

The market for healthcare real estate is extensive and includes real estate owned by a variety of healthcare operators. We focus on acquiring and developing those net-leased facilities that are specifically designed to reflect the latest trends in healthcare delivery methods. These facilities include:

Rehabilitation Hospitals: Rehabilitation hospitals provide inpatient and outpatient rehabilitation services for patients recovering from multiple traumatic injuries, organ transplants, amputations, cardiovascular surgery, strokes, and complex neurological, orthopedic, and other conditions. In addition to Medicare certified rehabilitation beds, rehabilitation hospitals may also operate Medicare certified skilled nursing, psychiatric, long-term, or acute care beds. These hospitals are often the best medical alternative to traditional acute care hospitals where under the Medicare prospective payment system there is pressure to discharge patients after relatively short stays.

Long-term Acute Care Hospitals: Long-term acute care hospitals focus on extended hospital care, generally at least 25 days, for the medically-complex patient. Long-term acute care hospitals have arisen from a need to provide care to patients in acute care settings, including daily physician observation and treatment, before they are able to move to a rehabilitation hospital or return home. These facilities are reimbursed in a manner more appropriate for a longer length of stay than is typical for an acute care hospital.

Regional and Community Hospitals: We define regional and community hospitals as general medical/surgical hospitals whose practicing physicians generally serve a market specific area, whether urban, suburban or rural. We intend to limit our ownership of these facilities to those with market, ownership, competitive and technological characteristics that provide barriers to entry for potential competitors.

Women s and Children s Hospitals: These hospitals serve the specialized areas of obstetrics and gynecology, other women s healthcare needs, neonatology and pediatrics. We anticipate substantial development of facilities designed to meet the needs of women and children and their physicians as a result of the decentralization and specialization trends described above.

Ambulatory Surgery Centers: Ambulatory surgery centers are freestanding facilities designed to allow patients to have outpatient surgery, spend a short time recovering at the center, then return home to complete their recoveries. Ambulatory surgery centers offer a lower cost alternative to general hospitals for many surgical procedures in an environment that is more convenient for both patients and physicians. Outpatient procedures commonly performed include those related to

61

Table of Contents

gastrointestinal, general surgery, plastic surgery, ear, nose and throat/audiology, as well as orthopedics and sports medicine.

Other Single-Discipline Facilities: The decentralization and specialization trends in the healthcare industry are also creating demands and opportunities for physicians to practice in hospital facilities in which the design, layout and medical equipment are specifically developed, and healthcare professional staff are educated, for medical specialties. These facilities include heart hospitals, ophthalmology centers, orthopedic hospitals and cancer centers.

Medical Office Buildings: Medical office buildings are office and clinic facilities occupied and used by physicians and other healthcare providers in the provision of outpatient healthcare services to their patients. The medical office buildings that we target generally are or will be master-leased and adjacent to or integrated with our other targeted healthcare facilities.

Skilled Nursing Facilities: Skilled nursing facilities are healthcare facilities that generally provide more comprehensive services than assisted living or residential care homes. They are primarily engaged in providing skilled nursing care for patients who require medical or nursing care or rehabilitation services. Typically these services involve managing complex and serious medical problems such as wound care, coma care or intravenous therapy. They offer both short and long-term care options for patients with serious illness and medical conditions. Skilled nursing facilities also provide rehabilitation services that are typically utilized on a short-term basis after hospitalization for injury or illness.

Underwriting Process

Our real estate and loan underwriting process focuses on healthcare operations and real estate investment. This process is described in a written policy that requires, among other things, completion of specific elements of due diligence at the appropriate stages, including appraisals, engineering evaluations and environmental assessments, all provided by qualified and independent third parties. All of our executive officers are involved in the acquisition and due diligence process.

Our acquisition and development selection process includes a comprehensive analysis of the targeted healthcare facility s profitability, financial trends in revenues and expenses, barriers to competition, the need in the market for the type of healthcare services provided by the facility, the strength of the location and the underlying value of the facility, as well as the financial strength and experience of the prospective tenant and the tenant s management team. We also analyze the operating history of the specific facility, including the facility s earnings, cash flow, occupancy and patient and payor mix, in order to evaluate its financial and operating strength.

When we identify an attractive acquisition or development opportunity based on historical operations and market conditions, we determine the financial value of a potential long-term net-lease arrangement based on our target long-term net-lease capitalization rates, which currently range from 9.5% to 11%, and fixed charge coverage ratios. We compare that financial value to the replacement costs that we estimate by consulting with major healthcare construction contractors, engaging construction engineers or facility assessment consultants as appropriate, and reviewing recent cost studies. In addition, our due diligence process includes obtaining and evaluating title, environmental and other customary third-party reports. In certain instances we have acquired or may acquire a facility from a tenant or proposed tenant at a purchase price in excess of what our tenant or proposed tenant recently paid or expects to pay for that same facility. The investment committee of our board of directors has the authority to approve acquisitions or developments of facilities that exceed $10.0 million.

We seek to build tenant relationships with healthcare operators that we believe are positioned to prosper in the changing healthcare environment. We seek tenant relationships with operators who, based on our financial and operating analyses, have demonstrated the ability to manage in good and bad economic conditions. In certain cases, we lend funds to prospective tenants to assist them with their acquisition of the operations at the facilities that we intend to acquire and lease to them and for initial

Table of Contents

working capital needs. See Our Portfolio Our Current Portfolio of Facilities. In these instances, where feasible and in compliance with applicable healthcare laws and regulations, we seek to obtain percentage rents based on the prospective tenant s revenues in addition to our base rent. Through our detailed underwriting of healthcare operations and real estate, we expect to deliver attractive risk-adjusted returns to our stockholders.

Asset Management

We actively monitor our facilities, including reviewing periodic financial reporting and operating data, as well as visiting each facility and meeting with the management of our tenants on a regular basis. Integral to our asset management philosophy is our desire to build long-term relationships with the tenants and, accordingly, we have developed a partnering approach which we believe results in the tenant viewing us as a member of its team. We understand that in order to maximize the value of our investments, our tenants must prosper. Therefore, we expect to work closely with our tenants throughout the terms of our leases in order to foster a long-term working relationship and to maximize the possibility of new business opportunities. For example, we and our prospective tenants typically conduct due diligence in a coordinated manner and share with each other the results of our respective due diligence investigations. During the lease term, we conduct joint evaluations of local facility operations and participate in discussions about strategic plans that may ultimately require our approval pursuant to the terms of our lease agreements. Our chief executive officer, chief financial officer and chief operating officer also communicate frequently with their counterparts at our tenants in order to maintain knowledge about changing regulatory and business conditions. We believe this knowledge equips us to anticipate changes in our tenants operations in sufficient time to strategically and financially plan for, rather than react to, changing conditions.

In addition to our ongoing analyses of our tenants operations, our management team actively monitors and researches each healthcare segment in which we own and lease facilities in order to help us recognize changing economic, market and regulatory conditions. Our senior management is not only involved in the underwriting of each asset upon acquisition or development, but is also involved in the asset management process during the entire period in which we own the facility.

Our Formation Transactions

The following is a summary of our formation transactions:

We were formed as a Maryland corporation on August 27, 2003 to succeed to the business of Medical Properties Trust, LLC, a Delaware limited liability company, which was formed by certain of our founders in December 2002. In connection with our formation, we issued our founders 1,630,435 shares of our common stock in exchange for nominal cash consideration, the membership interests of Medical Properties Trust, LLC were transferred to us and Medical Properties Trust, LLC became our wholly-owned subsidiary. Upon its formation in September 2003, our operating partnership assumed certain obligations of Medical Properties Trust, LLC. Upon completion of our private placement in April 2004, 1,108,527 shares of the 1,630,435 shares of common stock held by our founders were redeemed and they now collectively hold 1,047,088 shares of our common stock. Our founders agreed to the redemption of a portion of their shares of our common stock for nominal consideration primarily in order to facilitate the completion of our April 2004 private placement.

Our operating partnership, MPT Operating Partnership, L.P., was formed in September 2003. Through our wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of our operating partnership. We currently own all of the limited partnership interests in our operating partnership.

MPT Development Services, Inc., a Delaware corporation that we formed in January 2004, operates as our wholly-owned taxable REIT subsidiary.

In April 2004 we completed a private placement of 25,300,000 shares of common stock at an offering price of $10.00 per share. Friedman, Billings, Ramsey & Co., Inc. acted as the initial

Table of Contents

purchaser and sole placement agent. The total net proceeds to us, after deducting fees and expenses of the offering, were approximately $233.5 million.

On July 13, 2005, we completed an initial public offering of 12,066,823 shares of common stock, priced at $10.50 per share. Of these shares of common stock, 701,823 shares were sold by selling stockholders and 11,365,000 shares were sold by us. Friedman, Billings, Ramsey & Co., Inc. served as the sole book-running manager and J.P. Morgan Securities Inc. served as co-lead manager for the offering. Wachovia Capital Markets, LLC and Stifel, Nicolaus & Company, Incorporated served as co-managers for the offering. The underwriters exercised an option to purchase an additional 1,810,023 shares of common stock to cover over-allotments on August 5, 2005. We raised net proceeds of approximately $125.7 million pursuant to the offering after deducting the underwriting discount and offering expenses.

The net proceeds of our private placement and initial public offering, together with borrowed funds, have been or will be used to acquire our current portfolio of 17 facilities. Thus far, we have spent approximately $234.6 million for the 12 existing facilities that we acquired, and funded approximately $56.0 million of a projected total of $63.1 million of development costs for the West Houston Facilities, approximately $9.6 million of a projected total of $38.0 million of development costs for the Bucks County Facility, approximately $11.1 million of a projected total of $35.5 million of development costs for the Monroe Facility and approximately $18.7 million pursuant to the North Cypress construction loan. In addition, we have loaned approximately $47.6 million to Vibra to acquire the operations at the Vibra Facilities and for working capital purposes, $6.2 million of which has been repaid.

Edward K. Aldag, Jr., William G. McKenzie, Emmett E. McLean, R. Steven Hamner and James P. Bennett may be considered our founders. Mr. Aldag is serving as chairman of our board of directors and as our president and chief executive officer. Mr. McKenzie is serving as our vice chairman of the board. Mr. McLean is serving as our executive vice president, chief operating officer, treasurer and assistant secretary. Mr. Hamner is serving as our executive vice president and chief financial officer. Mr. Bennett formerly was an owner, officer, director of and consultant to the company s predecessor, Medical Properties Trust, LLC, but has not been affiliated with us since August 2003.

Our Operating Partnership

We own our facilities and conduct substantially all of our business through our operating partnership, MPT Operating Partnership, L.P., and its subsidiaries. MPT Operating Partnership, L.P. is a Delaware limited partnership organized by us in September 2003. Our wholly-owned limited liability company, Medical Properties Trust, LLC, serves as the sole general partner of, and holds a 1% interest in, our operating partnership. We also currently own all of the limited partnership interests in our operating partnership, constituting a 99% partnership interest, but may issue limited partnership units from time to time in connection with facility acquisitions and developments. Where permitted by applicable law, we intend to sell equity interests in subsidiaries of our operating partnership in connection with, or subsequent to, the acquisition and development of facilities.

Holders of limited partnership units of our operating partnership, other than us, would be entitled to redeem their partnership units for shares of our common stock on a one-for-one basis, subject to adjustments for stock splits, dividends, recapitalizations and similar events. At our option, in lieu of issuing shares of common stock upon redemption of limited partnership units, we may redeem the partnership units tendered for cash in an amount equal to the then-current value of the shares of common stock. Holders of limited partnership units would be entitled to receive distributions equivalent to the dividends we pay to holders of our shares of common stock. As the sole owner of the general partner of our operating partnership, we have the power to manage and conduct our operating partnership s business, subject to the limitations described in the first amended and restated agreement of limited partnership of our operating partnership. See Partnership Agreement.

Table of Contents

MPT Operating Partnership, L.P. is a limited partner of MPT West Houston MOB, L.P. and MPT West Houston Hospital, L.P., which respectively own the West Houston MOB and the West Houston Hospital. MPT West Houston MOB, LLC and MPT West Houston Hospital, LLC, our wholly-owned subsidiaries, are the respective general partners of these entities. Physicians and others associated with our tenant or subtenants of the West Houston MOB own approximately 24% of the aggregate equity interests in MPT West Houston MOB, L.P. Stealth, L.P., the tenant of the West Houston Hospital and an entity majority-owned by physicians, owns a 6% limited partnership interest in MPT West Houston Hospital, L.P.

In general, the management and control of the limited partnerships or limited liability companies that own our properties, such as MPT West Houston MOB, L.P. and MPT West Houston Hospital, L.P., rests with our operating partnership or its subsidiaries. The limited partners or other minority owners in these entities will not participate in the management or control of the business of the partnership or other entity. Although the partnership agreements or limited liability company agreements for future limited partnerships or limited liability companies may vary, our current limited partnership agreements require approval of the limited partners holding a majority of the units in the partnership other than the general partner and its affiliates to:

amend the partnership agreement in a manner that would:

adversely affect the financial or other rights of the limited partners who are not affiliates of the general partner or positively affect the financial rights or other rights of the general partner or reduce the general partner s obligations and responsibilities under the limited partnership agreement;

impose on the limited partners who are not affiliates of the general partner any obligation to make additional capital contributions to the partnership;

adversely affect the rights of certain limited partners without similarly affecting the rights of other limited partners;

merge, consolidate or combine with another entity; or

determine the terms and the amount of consideration payable for any issuances of additional partnership units to our operating partnership, the general partner or any of their respective affiliates.

In general, each partner or other equity owner will share in the partnership s profits, losses and available cash flow pro rata based upon his percentage interest in the partnership. We may hold properties we develop or acquire in the future through structures similar to the structure through which we hold the West Houston Facilities.

MPT Development Services, Inc.

MPT Development Services, Inc., our taxable REIT subsidiary, was incorporated in January 2004 as a Delaware corporation. MPT Development Services, Inc. is authorized to provide third-party facility planning, project management, medical equipment planning and implementation services, medical office building management services, lending services, including but not limited to acquisition and working capital loans to our tenants, and other services that neither we nor our operating partnership can undertake directly under applicable REIT tax rules. Overall, no more than 20% of the value of our assets may consist of securities of one or more taxable REIT subsidiaries, and no more than 25% of the value of our assets may consist of securities that are not qualifying assets under the test requiring that 75% of a REIT s assets consist of real estate and other related assets. Further, a taxable REIT subsidiary may not directly or indirectly operate or manage a healthcare facility. For purposes of this definition a healthcare facility means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a service provider that is eligible for participation in the Medicare program under Title XVIII of the Social Security Act with respect to the facility.

Table of Contents

MPT Development Services, Inc. will pay federal, state and local income taxes at regular corporate rates on its taxable income. MPT Development Services, Inc. has made, and from time to time may make, loans to tenants or prospective tenants to assist them with the acquisition of the operations at facilities leased or to be leased to them and for initial working capital needs. There are currently approximately $46.7 million in such loans outstanding. See Our Portfolio Our Current Portfolio of Facilities.

Depreciation

Generally, the federal tax basis for our facilities used to determine depreciation for federal income tax purposes will be our acquisition costs for such facilities. To the extent facilities are acquired with units of our operating partnership or its subsidiaries, we will acquire a carryover basis in the facilities. For federal income tax purposes, depreciation with respect to the real property components of our facilities, other than land, generally will be computed using the straight-line method over a useful life of 40 years, for a depreciation rate of 2.50% per year.

Our Leases

The leases for our facilities are net leases with terms requiring the tenant to pay all ongoing operating and maintenance expenses of the facility, including property, casualty, general liability and other insurance coverages, utilities and other charges incurred in the operation of the facilities, as well as real estate taxes, ground lease rent and the costs of capital expenditures, repairs and maintenance. Our leases also provide that our tenants will indemnify us for environmental liabilities. Our current leases range from 11 to 16 years and provide for annual rent escalation and, in the case of the Vibra Facilities and the Bucks County Facility, percentage rent. Our leases require periodic reports and financial statements from our tenants. In addition, our leases contain customary default, termination, and subletting and assignment provisions. See Our Portfolio Our Current Portfolio of Facilities. We anticipate that our future leases will have similar terms, including percentage rent where feasible and in compliance with applicable healthcare laws and regulations.

Environmental Matters

Under various federal, state and local environmental laws and regulations, a current or previous owner, operator or tenant of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases or threats of releases at such property and may be held liable to a government entity or to third parties for property damage and for investigation, clean-up and monitoring costs incurred by such parties in connection with the actual or threatened contamination, including substances currently unknown, that may have been released on the real estate. These laws may impose clean-up responsibility and liability without regard to fault, or whether or not the owner, operator or tenant knew of or caused the presence of the contamination. The liability under these laws may be joint and several for the full amount of the investigation, clean-up and monitoring costs incurred or to be incurred or actions to be undertaken, although a party held jointly and severally liable might be able to obtain contributions from other identified, solvent, responsible parties of their fair share toward these costs. Investigation, clean-up and monitoring costs may be substantial and can exceed the value of the property. The presence of contamination, or the failure to properly remediate contamination, on a property may adversely affect the ability of the owner, operator or tenant to sell or rent that property or to borrow funds using such property as collateral and may adversely impact our investment in that property. In addition, if hazardous substances are located on or released from our properties, we could incur substantial liabilities through a private party personal injury claim, a property damage claim by an adjacent property owner, or claims by a governmental entity or others for other damages, such as natural resource damages. This liability may be imposed under environmental laws or common-law principles.

Federal regulations require building owners and those exercising control over a building s management to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials and potentially asbestos-containing materials in their building. The regulations also set forth employee training, record keeping and due diligence requirements pertaining to

Table of Contents

asbestos-containing materials and potentially asbestos-containing materials. Government entities can assess significant fines for violation of these regulations. Building owners and those exercising control over a building s management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to asbestos-containing materials and potentially asbestos-containing materials as a result of these regulations. The regulations may affect the value of a building containing asbestos-containing materials and potentially asbestos-containing materials in which we have invested. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and disposal of asbestos-containing materials and potentially asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws and regulations may impose liability for improper handling or a release to the environment of asbestos-containing materials and potentially asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real property for personal injury or improper work exposure associated with asbestos-containing materials and potentially asbestos-containing materials.

Prior to closing any facility acquisition, we obtain Phase I environmental assessments in order to attempt to identify potential environmental concerns at the facilities. These assessments will be carried out in accordance with an appropriate level of due diligence and will generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property s chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the Phase I environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures.

While we may purchase many of our facilities on an as is basis, we intend for all of our purchase contracts to contain an environmental contingency clause, which permits us to reject a facility because of any environmental hazard at the facility.

Competition

We compete in acquiring and developing facilities with financial institutions, institutional pension funds, real estate developers, other REITs, other public and private real estate companies and private real estate investors. Among the factors adversely affecting our ability to compete are the following:

- we may have less knowledge than our competitors of certain markets in which we seek to purchase or develop facilities;
- many of our competitors have greater financial and operational resources than we have; and
- our competitors or other entities may determine to pursue a strategy similar to ours.

To the extent that we experience vacancies in our facilities, we will also face competition in leasing those facilities to prospective tenants. The actual competition for tenants varies depending on the characteristics of each local market. Virtually all of our facilities operate in a competitive environment, and patients and referral sources, including physicians, may change their preferences for a healthcare facilities from time to time.

Healthcare Regulatory Matters

The following discussion describes certain material federal healthcare laws and regulations that may affect our operations and those of our tenants. However, the discussion does not address state healthcare laws and regulations, except as otherwise indicated. These state laws and regulations, like the federal healthcare laws and regulations, could affect our operations and those of our tenants. Moreover, the discussion relating to reimbursement for healthcare services addresses matters that are subject to frequent review and revision by Congress and the agencies responsible for administering federal payment programs. Consequently, predicting future reimbursement trends or changes is inherently difficult.

Table of Contents

Ownership and operation of hospitals and other healthcare facilities are subject, directly and indirectly, to substantial federal, state and local government healthcare laws and regulations. Our tenants failure to comply with these laws and regulations could adversely affect their ability to meet their lease obligations. Physician investment in us or in our facilities also will be subject to such laws and regulations. We intend for all of our business activities and operations to conform in all material respects with all applicable laws and regulations.

Anti-Kickback Statute. 42 U.S.C. §1320a-7b(b), or the Anti-Kickback Statute, prohibits, among other things, the offer, payment, solicitation or acceptance of remuneration directly or indirectly in return for referring an individual to a provider of services for which payment may be made in whole or in part under a federal healthcare program, including the Medicare or Medicaid programs. Violation of the Anti-Kickback Statute is a crime and is punishable by criminal fines of up to $25,000 per violation, five years imprisonment or both. Violations may also result in civil sanctions, including civil penalties of up to $50,000 per violation, exclusion from participation in federal healthcare programs, including Medicare and Medicaid, and additional monetary penalties in amounts treble to the underlying remuneration.

The Anti-Kickback Statute defines the term remuneration very broadly and, accordingly, local physician investment in our facilities could trigger scrutiny of our lease arrangements under the Anti-Kickback Statute. In addition to certain statutory exceptions, the Office of Inspector General of the Department of Health and Human Services, or OIG, has issued Safe Harbor Regulations that describe practices that will not be considered violations of the Anti-Kickback Statute. These include a safe harbor for space rental arrangements which protects payments made by a tenant to a landlord under a lease arrangement meeting certain conditions. We intend to use our commercially reasonable efforts to structure lease arrangements involving facilities in which local physicians are investors and tenants so as to satisfy, or meet as closely as possible, the conditions for the safe harbor for space rental. We cannot assure you, however, that we will meet all the conditions for the safe harbor, and it is unlikely that we will meet all conditions for the safe harbor in those instances in which percentage rent is contemplated and we have physician investors. In addition, federal regulations require that our tenants with purchase options pay fair market value purchase prices for facilities in which we have physician investment. We intend our lease agreement purchase option prices to be fair market value; however, we cannot assure you that all of our purchase options will be at fair market value. Any purchase not at fair market value may present risks of challenge from healthcare regulatory authorities. The fact that a particular arrangement does not fall within a statutory exception or safe harbor does not mean that the arrangement violates the Anti-Kickback Statute. The statutory exception and Safe Harbor Regulations simply provide a guaranty that qualifying arrangements will not be prosecuted under the Anti-Kickback Statute. The implication of the Anti-Kickback Statute could limit our ability to include local physicians as investors or tenants or restrict the types of leases into which we may enter if we wish to include such physicians as investors having direct or indirect ownership interests in our facilities.

Federal Physician Self-Referral Statute. Any physicians investing in our company or its subsidiary entities could also be subject to the Ethics in Patient Referrals Act of 1989, or the Stark Law (codified at 42 U.S.C. § 1395nn). Unless subject to an exception, the Stark Law prohibits a physician from making a referral to an entity furnishing designated health services paid by Medicare or Medicaid if the physician or a member of his immediate family has a financial relationship with that entity. A reciprocal prohibition bars the entity from billing Medicare or Medicaid for any services furnished pursuant to a prohibited referral. Financial relationships are defined very broadly to include relationships between a physician and an entity in which the physician or the physician s family member has (i) a direct or indirect ownership or investment interest that exists in the entity through equity, debt or other means and includes an interest in an entity that holds a direct or indirect ownership or investment interest in any entity providing designated health services; or (ii) a direct or indirect compensation arrangement with the entity.

The Stark Law as originally enacted in 1989 only applied to referrals for clinical laboratory tests reimbursable by Medicare. However, the law was amended in 1993 and 1994 and, effective January 1,

Table of Contents

1995, became applicable to referrals for an expanded list of designated health services reimbursable under Medicare or Medicaid.

The Stark Law specifies a number of substantial sanctions that may be imposed upon violators. Payment is to be denied for Medicare claims related to designated health services referred in violation of the Stark Law. Further, any amounts collected from individual patients or third-party payors for such designated health services must be refunded on a timely basis. A person who presents or causes to be presented a claim to the Medicare program in violation of the Stark Law is also subject to civil monetary penalties of up to $15,000 per claim, civil money penalties of up to $100,000 per arrangement and possibly even exclusion from participation in the Medicare and Medicaid programs.

Final regulations applicable only to physician referrals for clinical laboratory services were published in August 1995. A proposed rule applicable to physician referrals for all designated health services was published in January 1998. In January 2001, CMS published the Phase I final rule, which finalized a significant portion of the 1998 proposed rule. On March 26, 2004, CMS issued the second phase of its final regulations addressing physician referrals to entities with which they have a financial relationship (the Phase II rule). The Phase II rule addresses and interprets a number of exceptions for ownership and compensation arrangements involving physicians, including the exceptions for space and equipment rentals and the exception for indirect compensation arrangements. The Phase II rule also includes exceptions for physician ownership and investment, including physician ownership of rural providers and hospitals. The new regulation revised the hospital ownership exception to reflect the 18-month moratorium that began December 8, 2003 on physician ownership or investment in specialty hospitals, which was enacted in Section 507 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The Phase II rule became effective on July 26, 2004. Although the 18-month moratorium imposed by Section 507 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 expired on June 8, 2005, a bill introduced in the Senate essentially would make the moratorium permanent with limited exceptions. If enacted, the law would have a retroactive effective date of June 8, 2005.

In those cases where physicians invest in our subsidiaries or our facilities, we intend to fashion our lease arrangements with healthcare providers to meet the applicable indirect compensation exceptions under the Stark Law, however, no assurance can be given that our leases will satisfy these Stark Law exception requirements. Unlike the Anti-kickback Statute Safe Harbor Regulations, a financial arrangement which implicates the Stark Law must meet the requirements of an applicable exception to avoid a violation of the Stark Law. This may lead to obstacles in permitting local physicians to invest in our facilities or restrict the types of lease arrangements we may enter into if we wish to include such physicians as investors.

State Self-Referral Laws. In addition to the Anti-Kickback Statute and the Stark Law, state anti-kickback and self-referral laws could limit physician ownership or investment in us, restrict the types of leases we may enter into if such physician investment is permitted or require physician disclosure of our ownership or financial interest to patients prior to referrals.

Recent Regulatory and Legislative Developments. Medicare Part A pays for hospital inpatient operating and capital related costs associated with acute care hospital inpatient stays on a prospective basis. Pursuant to this inpatient prospective payment system, or IPPS, CMS categorizes each patient case according to a list of diagnosis-related groups, or DRGs. Each DRG has an assigned payment that is based upon the expected amount of hospital resources necessary to treat a patient in that DRG. On August 12, 2005, CMS published a Final Rule for IPPS for fiscal year 2006. The Final Rule includes a 3.7% increase in payment rates, a number of changes to the DRGs and enhancements to the voluntary quality reporting program. Hospitals are required to submit certain clinical data on ten quality measures in order to receive full payment for fiscal year 2006. CMS expects aggregate payments to IPPS hospitals to increase by $3.3 billion over the previous year.

On August 1, 2003, CMS published the fiscal year 2004 Final Rule for inpatient rehabilitation facilities, or IRFs. Under the Final Rule, all IRFs have received an increase in their prospective payment system rate for fiscal year 2004 due to an across the board 3.2% IRF market basket increase. On

Table of Contents

August 15, 2005, CMS published the fiscal year 2006 Final Rule for inpatient rehabilitation facilities, or IRFs. The Final Rule adopts a number of refinements to the IRF prospective payment system, including an across-the-board 1.9% decrease in the standard payment amount based on evidence that coding increases instead of increases in patient acuity have led to increased payments to IRFs. The Final Rule also includes a 3.6% market basket increase and increases from 19.1% to 21.3% the payment rate adjustment for IRFs located in rural areas. Further, the Final Rule reduces the outlier threshold for cases with unusually high costs from $11,211 to $5,132. In addition, the Final Rule contains policy changes including the adoption of new labor market area definitions which are based on the new Core Based Statistical Areas announced by the Office of Management and Budget, or OMB, late in 2000. These increases are expected to benefit those tenants of ours who operate IRFs. These increases benefit those tenants of ours who operate IRFs.

On May 7, 2004, CMS issued a Final Rule to revise the classification criterion, commonly known as the 75 percent rule, used to classify a hospital or hospital unit as an IRF. The compliance threshold is used to distinguish an IRF from an acute care hospital for purposes of payment under the Medicare IRF prospective payment system. The Final Rule implements a three-year period to analyze claims and patient assessment data to determine whether CMS will continue to use a compliance threshold that is lower than 75% or not. For cost reporting periods beginning on or after July 1, 2004, and before July 1, 2005, the compliance threshold will be 50% of the IRF s total patient population. The compliance threshold will increase to 60% of the IRF s total patient population for cost reporting periods beginning on or after July 1, 2005 and before July 1, 2006, to 65% for cost reporting periods beginning on or after July 1, 2006 and before July 1, 2007, and to 75% for cost reporting periods after July 1, 2007. On July 14, 2005, Senators Rick Santorum and Ben Nelson introduced legislation in response to the Final Rule entitled Preserving Patient Access to Inpatient Rehabilitation Hospitals Act of 2005. The legislation seeks to limit the scope of the Final Rule so that additional research may be conducted on the clinical criteria for reimbursement of IRFs. The bill would implement the compliance and enforcement threshold at 50 percent for two years and apply retroactively to facilities that lost their IRF status and payments on or after July 1, 2005, if such facilities are in compliance with the 50 percent threshold. The bill was referred to the Senate Committee on Finance on July 14, 2005. The Budget Reconciliation Conference Agreement, which was approved by the Senate on December 22, 2005 and which will be considered for final passage by the House following its return from recess on or about January 31, 2006, contains a provision that would extend the phase-in period of the 75 percent rule for one additional year. The bill would require facilities to meet a 60% threshold starting in fiscal year 2006, 65% in fiscal year 2007 and 75% in fiscal year 2008. We do not know whether the legislation will be passed.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or the Act, which contains sweeping changes to the federal health insurance program for the elderly and disabled. The Act includes provisions affecting program payment for inpatient and outpatient hospital services. In total, the Congressional Budget Office estimates that hospitals will receive $24.8 billion over ten years in additional funding due to the Act.

Rural hospitals, which may include regional or community hospitals, one of our targeted types of facilities, will benefit most from the reimbursement changes in the Act. Some examples of these reimbursement changes include (i) providing that payment for all hospitals, regardless of geographic location, will be based on the same, higher standardized amount which was previously available only for hospitals located in large urban areas, (ii) reducing the labor share of the standardized amount from 71% to 62% for hospitals with an applicable wage index of less than 1.0, (iii) giving hospitals the ability to seek a higher wage index based on the number of hospital employees who take employment out of the county in which the hospital is located with an employer in a neighboring county with a higher wage index, and (iv) improving critical access hospital program conditions of participation requirements and reimbursement. Medicare disproportionate share hospital, or DSH, payment adjustments for hospitals that are not large urban or large rural hospitals will be calculated using the DSH formula for large urban hospitals, up to a 12% cap in 2004 for all hospitals other than rural referral centers, which are not subject to the cap. The Act provides that sole community hospitals, as defined in 42 U.S.C. § 1395 ww(d)(5)(D)(iii),

Table of Contents

located in rural areas, rural hospitals with 100 or fewer beds, and certain cancer and children s hospitals shall receive Transitional Outpatient Payments, or TOPs, such that these facilities will be paid as much under the Medicare outpatient prospective payment system, or OPPS, as they were paid prior to implementation of OPPS. As of January 1, 2004 all TOPs for community mental health centers and all other hospitals were otherwise discontinued. The hold harmless TOPs provided for under the Act will continue for qualifying rural hospitals for services furnished through December 31, 2005 and for sole community hospitals for cost reporting periods beginning on or after January 1, 2004 and ending on December 31, 2005. Hold harmless TOPs payments continue permanently for cancer and children s hospitals.

The Act also requires CMS to provide supplemental payments to acute care hospitals that are located more than 25 road miles from another acute care hospital and have low inpatient volumes, defined to include fewer than 800 discharges per fiscal year, effective on or after October 1, 2004. Total supplemental payments may not exceed 25% of the otherwise applicable prospective payment rate.

Finally, the Act assures inpatient hospitals that submit certain quality measure data a full inflation update equal to the hospital market basket percentage increase for fiscal years 2005 through 2007. The market basket percentage increase refers to the anticipated rate of inflation for goods and services used by hospitals in providing services to Medicare patients. For fiscal year 2005, the market basket percentage increase for hospitals paid under the inpatient prospective payment system is 3.3%. For those inpatient hospitals that do not submit such quality data, the Act provides for an update of market basket minus 0.4 percentage points.

The Act also imposed an 18 month moratorium limiting the availability of the whole hospital exception, or Whole Hospital Exception, under the Stark Law for specialty hospitals and prohibited physicians investing in rural specialty hospitals from invoking an alternative Stark Law exception for physician ownership or investment in rural providers. The moratorium began upon enactment of the Act and expired June 8, 2005. Under the Whole Hospital Exception, the Stark Law permits a physician to refer a Medicare or Medicaid patient to a hospital in which the physician has an ownership or investment interest so long as the physician maintains staff privileges at the hospital and the physician s ownership or investment interest is in the hospital as a whole, rather than a subdivision of the facility. Following expiration of the moratorium, CMS issued a statement that it will not issue provider agreements for new specialty hospitals or authorize initial state surveys of new specialty hospitals while it undertakes a review of its procedures for enrolling such facilities in the Medicare program. CMS anticipates completing this review by January 2006. The suspension on enrollment does not apply to specialty hospitals that submitted enrollment applications prior to June 9, 2005 or requested an advisory opinion about the applicability of the moratorium.

The Budget Reconciliation Conference Agreement requires the Secretary of Health and Human Services to develop and implement a plan within eight months of passage to address issues regarding physician investment in specialty hospitals including concerns with proportionality of investment return, bona fide investment, annual disclosure of investment information, and the appropriate care of Medicare and charity care patients. In addition, the agreement continues the CMS suspension of enrollment of new specialty hospitals until the issuance of the mandated report. We cannot predict whether the bill will be passed.

Any acquisition or development of specialty hospitals must comply with the current application and interpretation of the Stark Law and, if enacted, the provisions of the Budget Reconciliation Conference Agreement. CMS may clarify or modify its definition of specialty hospital, which may result in physicians who own interests in our tenants being forced to divest their ownership or the enrollment of the hospital for participation in the Medicare Program may be delayed. Although the specialty hospital moratorium under the Act limited, and the proposed Budget Reconciliation Conference Agreement would limit physician ownership or investment in specialty hospitals as defined by CMS, they do not limit a physician s ability to hold an ownership or investment interest in facilities which may be leased to hospital operators or other healthcare providers, assuming the lease arrangement conforms to the requirements of

Table of Contents

an applicable exception under the Stark Law. We intend to structure all of our leases, including leases containing percentage rent arrangements, to comply with applicable exceptions under the Stark Law and to comply with the Anti-Kickback Statute. We believe that strong arguments can be made that percentage rent arrangements, when structured properly, should be permissible under the Stark Law and the Anti-Kickback Statute; however, these laws are subject to continued regulatory interpretation and there can be no assurance that such arrangements will continue to be permissible. Accordingly, although we do not currently have any percentage rent arrangements where physicians own an interest in our facilities, we may be prohibited from entering into percentage rent arrangements in the future where physicians own an interest in our facilities. In the event we enter into such arrangements at some point in the future and later find the arrangements no longer comply with the Stark Law or Anti-Kickback Statute, we or our tenants may be subject to penalties under the statutes.

The California Department of Health Services recently adopted regulations, codified as Sections 70217, 70225 and 70455 of Title 22 of the California Code of Regulations, or CCR, which establish minimum, specific, numerical licensed nurse-to-patient ratios for specified units of general acute care hospitals. These regulations are effective January 1, 2004. The minimum staffing ratios set forth in 22 CCR 70217(a) co-exist with existing regulations requiring that hospitals have a patient classification system in place. 22 CCR, 70053.2 and 70217. The licensed nurse-to-patient ratios constitute the minimum number of registered nurses, licensed vocational nurses, and, in the case of psychiatric units, licensed psychiatric technicians, who shall be assigned to direct patient care and represent the maximum number of patients that can be assigned to one licensed nurse at any one time. Over the past several years many hospitals have, in response to managed care reimbursement contracts, cut costs by reducing their licensed nursing staff. The California Legislature responded to this trend by requiring a minimum number of licensed nurses at the bedside. Due to this new regulatory requirement, any acute care facilities we target for acquisition or development in California may be required to increase their licensed nursing staff or decrease their admittance rates as a result. Governor Schwarzenegger issued two emergency regulations in an attempt to suspend the ratios in emergency rooms and delay for three years staffing requirements in general medical units. However, this action was appealed and on June 7, 2005, the Superior Court overturned the two emergency regulations. The Schwarzenegger administration appealed that ruling; however, the Governor withdrew the appeal in November 2005.

On May 7, 2004, CMS issued a Final Rule to update the annual payment rates for the Medicare prospective payment system for services provided by long term care hospitals. The rule increased the Medicare payment rate for long-term care hospitals by 3.1% starting July 1, 2004. On May 6, 2005, CMS issued a Final Rule to update the annual payment rates for 2006. Beginning July 1, 2005, the Medicare payment rate for long-term care hospitals will increase by 3.4% for patient discharges through June 30, 2006. Medicare expects aggregate payment to these hospitals to increase by $169 million during the 2006 long-term care hospital rate year compared with the 2005 rate year. Long-term care hospitals, one of the types of facilities we are targeting, are defined generally as hospitals that have an average Medicare inpatient length of stay greater than 25 days. In addition, the final rule contains policy changes including the adoption of new labor market area definitions for long-term care hospitals which are based on the new Core Based Statistical Areas announced by the Office of Management and Budget, or OMB, late in 2000.

The Balanced Budget Act of 1997, or BBA, mandated implementation of a prospective payment system for skilled nursing facilities. Under this prospective payment system, and for cost reporting periods beginning on or after July 1, 1998, skilled nursing facilities are paid a prospective payment rate adjusted for case mix and geographic variation in wages formulated to cover all costs, including routine, ancillary and capital costs. In 1999 and 2000 the BBA was refined to provide for, among other revisions, a 20% add-on for 12 high acuity non-therapy Resource Utilization Grouping categories, or RUG categories, and a 6.7% add-on for all 14 rehabilitation RUG categories. These categories may expire when CMS releases its refinements to the current RUG payment system. On August 4, 2005, CMS published a Final Rule updating skilled nursing facility payment rates for fiscal year 2006. The Final Rule eliminates the temporary add-on payments that Congress directed in the Balanced Budget Refinement Act of 1999 and introduces nine (9) new payment categories. The Final Rule also permanently increases rates for all

Table of Contents

RUGs to reflect variations in non-therapy ancillary costs. Further, fiscal year 2006 payment rates include a market basket update increase of 3.1%, a slight increase over what had been anticipated in the Proposed Rule. In addition, the Final Rule contains policy changes including the adoption of new labor market area definitions which are based on the new Core Based Statistical Areas announced by the Office of Management and Budget, or OMB, late in 2000.

In addition to the legislation and regulations discussed above, on January 12, 2005, the Medicare Payment Advisory Committee, or MedPAC, made extensive recommendations to Congress and the Secretary of HHS including proposing revisions to DRG payments to more fully capture differences in severity of illnesses in an attempt to more equally pay for care provided at general acute care hospitals as compared to specialty hospitals. Furthermore, MedPAC made significant recommendations regarding paying healthcare providers relative to their performance and to the outcomes of the care they provided. MedPAC recommendations have historically provided strong indications regarding future directions of both the regulatory and legislative process.

Insurance

We have purchased general liability insurance (lessor s risk) that provides coverage for bodily injury and property damage to third parties resulting from our ownership of the healthcare facilities that are leased to and occupied by our tenants. Our leases with tenants also require the tenants to carry general liability, professional liability, all risks, loss of earnings and other insurance coverages and to name us as an additional insured under these policies. We expect that the policy specifications and insured limits will be appropriate given the relative risk of loss, the cost of the coverage and industry practice.

Employees

We employ 17 full-time employees and one part-time employee as of the date of this prospectus. We anticipate hiring approximately five to 10 additional full-time employees during the next 12 months, commensurate with our growth. We believe that our relations with our employees are good. None of our employees is a member of any union.

Legal Proceedings

We are not involved in any material litigation nor, to our knowledge, is any material litigation pending or threatened against us.

OUR PORTFOLIO

Our Current Portfolio

Our current portfolio of facilities consists of 17 healthcare facilities, 14 of which are in operation and three of which are under development. The Vibra Facilities consist of four rehabilitation hospitals and two long-term acute care hospitals. The Desert Valley Facility is a community hospital with an integrated medical office building. The Covington Facility is a long-term acute care hospital facility. The Redding Facility is a rehabilitation hospital. The Denham Springs Facility is a long-term acute care hospital. The Chino Facility is a community hospital. The Sherman Oaks Facility is a community hospital. All of the leases for the hospitals described above have initial terms of 15 years. Our current portfolio of facilities also includes the West Houston Hospital and the adjacent West Houston MOB, each of which we developed. The initial lease term for the West Houston Hospital began when construction commenced in July 2004 and will end in November 2020. The initial lease term for the West Houston MOB began when construction commenced in July 2004 and will end in October 2015. One facility under development is the Bucks County Facility. The initial lease term for the Bucks County Facility will begin when construction commences and will end 15 years after completion of construction. We target completion of construction for the Bucks County Facility for August 2006. Our second facility under development is the Monroe Facility. The initial lease term for the Monroe Facility began when construction commenced in October 2005 and will end 15 years after completion of construction. We target completion of construction for the Monroe Facility for

Table of Contents

October 2006. With respect to the third facility under development, we have entered into a ground sublease with, and an agreement to provide a construction loan to, North Cypress for the development of a community hospital. The facility will be developed on property in which we currently have a ground lease interest. We expect to acquire the land we are ground leasing after the hospital has been partially completed. Upon completion of construction, subject to certain limited conditions, we will purchase the facility for an amount equal to the cost of construction and lease the facility to the operator for a 15 year lease term. In the event we do not purchase the facility, the ground sublease will continue and the construction loan will become due. In that event, we expect to seek to convert the construction loan to a 15 year term loan secured by the facility. We anticipate the North Cypress Facility will be completed in December 2006. The leases for all of the facilities in our current portfolio provide for contractual base rent and an annual rent escalator. The leases for the Vibra Facilities and the Bucks County Facility also provide for percentage rent based on an agreed percentage of the tenants gross revenue. The following tables set forth information as of the date of this prospectus regarding our current portfolio of facilities:

Operating Facilities

Location	Type	Tenant	Number of Beds[1]	2004 Annualized Base Rent	2005 Contractual Base Rent[2]	2006 Contractual Base Rent[2]	Gross Purchase Price or Development Cost[3]	Lease Expiration
uston, as	Community hospital	Stealth, L.P.	105[4]	$	$ [5]	$ 4,749,005[5]	$ 43,099,310[6]	November 202
wling en, ntucky	Rehabilitation hospital	Vibra Healthcare, LLC[8]	60	3,916,695	4,294,990	4,790,113	38,211,658	July 2019
rlton, New ey[9]	Rehabilitation [10] hospital	Vibra Healthcare, LLC[8]	76	3,401,791	3,730,354	4,160,390	32,267,622	July 2019
torville, ifornia[11]	Community hospital/medical office building	Desert Valley Hospital, Inc.	83		2,341,005	2,856,000	28,000,000	February 202
w Bedford, ssachusetts	Long-term acute care hospital	Vibra Healthcare, LLC[8]	90	2,262,979	2,426,320	2,767,624	22,077,847	August 2019
no, ifornia	Community hospital	Veritas Health Services, Inc.	126		180,753	2,103,682	21,000,000	November 20
uston, as	Medical office building	Stealth, L.P.	n/a		503,130[5]	2,049,415[5]	20,855,119[6]	October 2015
lding, ifornia[12]	Rehabilitation hospital	Vibra Healthcare, LLC[8]	88		950,250[13]	1,913,949[13]	20,750,000	June 2020
rman Oaks, ifornia	Community hospital	Prime Healthcare Services II, LLC	153			2,100,000	20,000,000	December 202
			62	1,914,829	2,099,773	2,341,835	18,681,255	July 2019

sno, ifornia	Rehabilitation hospital	Vibra Healthcare, LLC[8]						
vington, isiana	Long-term acute care hospital	Gulf States Long-Term Acute Care of Covington, L.L.C.	58		674,188	1,207,500	11,500,000	June 2020
rnton, orado	Rehabilitation hospital	Vibra Healthcare, LLC[8]	117	870,377	933,200	1,064,471	8,491,481	August 2019
ntfield, ifornia	Long-term acute care hospital	Vibra Healthcare, LLC[8]	60	783,339	858,998	958,024	7,642,332	July 2019
nham ings, isiana	Long-term acute care hospital	Gulf States Long Term Acute Care of Denham Springs, L.L.C.	59		150,000	645,750	6,000,000	October 202
al			1,137	$ 13,150,010	$ 19,097,961	$ 33,707,758	$ 298,576,624	

(1) Based on the number of licensed beds.

(2) Based on leases in place as of the date of this prospectus.

Table of Contents

(3) Includes acquisition costs.

(4) Seventy-one of the 105 beds will be acute care beds operated by Stealth, L.P. and the remaining 34 beds will be long-term acute care beds operated by Triumph Southwest, L.P.

(5) Based on leases in place as of the date of this prospectus and estimated total development costs. Does not include rents that accrued during the construction period and are payable over the remaining lease term following the completion of construction.

(6) Estimated total development costs.

(7) At any time during the term of the lease, the tenant has the right to terminate the lease and purchase the facility from us at a purchase price equal to the greater of (i) that amount determined under a formula which would provide us an internal rate of return of at least 18% or (ii) appraised value assuming the lease is still in place.

(8) The tenant in each case is a separate, wholly-owned subsidiary of Vibra Healthcare, LLC.

(9) Our interest in this facility is held through a ground lease on the property. The purchase price shown for this facility does not include our payment obligations under the ground lease, the present value of which we have calculated to be $920,579. The calculation of the base rent to be received from Vibra for this facility takes into account the present value of the ground lease payments.

(10) Thirty of the 76 beds are pediatric rehabilitation beds operated by HBA Management, Inc.

(11) At any time after February 28, 2007, the tenant has the option to purchase the facility at a purchase price equal to the sum of (i) the purchase price of the facility, and (ii) that amount determined under a formula that would provide us an internal rate of return of 10% per year, increased by 2% of such percentage each year, taking into account all payments of base rent received by us.

(12) Our interest in this facility is held in part through a ground lease on the property. During the term of the ground lease, the tenant will pay the ground lease rent directly to the ground lessor or, at our request, directly to us.

(13) Of the $20,750,000 million purchase price for this facility, payment of $2.0 million is being deferred pending completion, to our satisfaction, of a conversion of certain beds at the facility to long-term acute care beds and an additional $750,000 of the purchase price is being deferred and will be paid out of a special reserve account to cover the cost of renovations. The 2005 contractual base rent and the 2006 contractual base rent are calculated based on a purchase price of $18.0 million.

Location	Type	Tenant	Number of Beds[1]	2004 Annualized Base Rent
Houston, Texas	Community hospital	North Cypress Medical Center Operating Company, Ltd.	64	$
Bensalem, Pennsylvania	Women s hospital/medical office building [5]	Bucks County Oncoplastic Institute, LLC	30	

Bloomington, Indiana	Community hospital[8]	Monroe Hospital, LLC	32	[9]
Total			126	$

[Additional columns below]

[Continued from above table, first column(s) repeated]

Location	2005 Contractual Base Rent	2006 Contractual Base Rent	Projected Development Cost[2]	Lease Expiration
Houston, Texas	$ [3]	$ [3]	$ 64,028,000	[4]
Bensalem, Pennsylvania	[6]	1,627,820[6]	38,000,000	August 2021[7]
Bloomington, Indiana	[9]	954,063	35,500,000	October 2021[10]
Total	$	$ 2,581,883	$ 137,528,000	

(1) Based on the number of proposed beds.

(2) Includes acquisition costs.

(3) During construction of the North Cypress Facility, interest will accrue on the construction loan at a rate of 10.5%. The interest accruing during the construction period will be added to the principal balance of the construction loan. In addition, during the term of the ground sublease, North Cypress will pay us monthly ground sublease rent in an annual amount equal to our ground lease rent plus 10.5% of funds advanced by us under the construction loan.

(4) Expected to be completed in December 2006. If we purchase this facility upon completion of construction, we will lease it back to North Cypress for an initial term of 15 years.

(5) Expected to be completed in October 2006.

(6) Based on the lease in place as of the date of this prospectus, estimated total development costs and estimated date of completion. Assumes completion of construction in October 2006.

(7) Following completion, the lease term will extend for a period of 15 years.

Table of Contents

(8) Expected to be completed in October 2006.

(9) Based on the lease in place as of the date of this prospectus, estimated total development costs and estimated date of completion. Assumes completion of construction in October 2006.

(10) Following completion, the lease term will extend for a period of 15 years.

Vibra Facilities and Loans

General. We own or ground lease the six Vibra Facilities located in Bowling Green, Kentucky; Marlton, New Jersey; Fresno, California; Kentfield, California; Thornton, Colorado; and New Bedford, Massachusetts. We acquired these facilities from Care Ventures, Inc., an unaffiliated third party, in July and August 2004 for an aggregate purchase price of approximately $127.4 million, including acquisition costs. The purchase price was arrived at through arms-length negotiations with Care Ventures, Inc., based upon our analysis of various factors. These factors included the demographics of the area in which the facility is located, the capabilities of the tenant to operate the facility, healthcare spending trends in the geographic area, the structural integrity of the facility, governmental regulatory trends which may impact the services provided by the tenant, and the financial and economic returns which we require for making an investment. The Vibra Facilities are leased to subsidiaries of Vibra. Our leases of the Vibra Facilities require the tenant to carry customary insurance which is adequate to satisfy our underwriting standards.

Vibra is an affiliate of The Hollinger Group. Vibra has been recently formed and had engaged in no meaningful operations prior to entering into the leases for the Vibra Facilities in July and August 2004. The principals of The Hollinger Group have extensive experience in developing, acquiring, managing and operating specialty healthcare facilities and senior care facilities. Mr. Hollinger, the principal owner of Vibra and the founder and chief executive officer of The Hollinger Group, has 18 years experience in all phases of senior care and healthcare activities. For financial information respecting Vibra and its subsidiaries, see the audited financial statements included elsewhere in this prospectus.

Vibra Loans and Fees Receivable. At the time we acquired the Vibra Facilities, MPT Development Services, Inc., our taxable REIT subsidiary, made a loan of approximately $41.4 million to Vibra to acquire the operations at these locations. We refer to this loan as the acquisition loan. The acquisition loan accrues interest at the rate of 10.25% per year and is to be repaid over 15 years with interest only for the first three years and the principal balance amortizing over the remaining 12 year period. The acquisition loan may be prepaid at any time without penalty. In connection with the Vibra transactions, Vibra agreed to pay us commitment fees of approximately $1.5 million. MPT Development Services, Inc. also made secured loans totaling approximately $6.2 million to Vibra and its subsidiaries for working capital purposes. The commitment fees were paid, and the working capital loans were repaid, on February 9, 2005.

As security for the acquisition loan, Vibra has pledged to us all of its interests in each of the tenants of the Vibra Facilities, and Mr. Hollinger has pledged to us his entire interest in Vibra. In addition, Mr. Hollinger, The Hollinger Group and Vibra Management, LLC, another affiliate of Mr. Hollinger, have guaranteed the repayment of the acquisition loan; however, The Hollinger Group and Vibra Management, LLC do not have substantial assets and the liability of Mr. Hollinger under his guaranty is limited to $5.0 million. See Lease Guaranties and Security.

Vibra has entered into a $20.0 million credit facility with Merrill Lynch, and that loan is secured by an interest in Vibra s receivables related to the Vibra Facilities. There was approximately $12.9 million outstanding under the facility on September 30, 2005. Our loan to Vibra is subordinate to Merrill Lynch with respect to Vibra s receivables. At March 31, 2005, Vibra was not in compliance with a facility rent coverage covenant under its Merrill Lynch credit facility. The Merrill Lynch credit facility documents were subsequently amended to retroactively change the rent coverage covenant from a by facility rent coverage to a consolidated rent coverage calculation, such that Vibra was in compliance with the amended covenant at March 31, 2005.

Leases. Each lease for the Vibra Facilities provides that, so long as the acquisition loan is outstanding, after January 1, 2005, and beginning with the calendar month after the month in which aggregate gross revenues for the Vibra Facilities exceed a revenue threshold, the tenant will pay, in

Table of Contents

addition to base rent, percentage rent in an amount equal to 2% of revenues for the preceding month. The percentage rent will be paid on a quarterly basis. Each calendar month thereafter during the term of each lease, the percentage rent will be decreased pro rata based on the amount of the principal reduction of the acquisition loan during the previous calendar month; however, the percentage rent will not be decreased below 1% of revenues.

On March 31, 2005, the leases for the Vibra Facilities were amended to provide (i) that the testing of certain financial covenants will be deferred until the quarter beginning July 1, 2006 and ending September 30, 2006, (ii) that these same financial covenants will be tested on a consolidated basis for all of the Vibra Facilities, (iii) that the reduction in the rate of percentage rent will be made on a monthly rather than annual basis and (iv) that Vibra will escrow insurance premiums and taxes related to the Vibra Facilities at our request. Prior to execution of this amendment, Vibra did not meet the fixed charge coverage ratios required by the lease agreements for the Vibra Facilities. One covenant required that each Vibra Facility maintain a ratio of earnings before interest expense, income tax expense, depreciation expense, amortization expense and base rent (EBITDAR) to total debt payments plus base rent, measured at the end of each quarter, in excess of 125%. The second covenant required that each Vibra Facility maintain a ratio of EBITDAR to base rent, measured at the end of each quarter, in excess of 150%. In the event that either ratio for any Vibra Facility was below the required level for two consecutive fiscal quarters, an event of default would have occurred.

Capital Improvements. The tenant under each lease for the Vibra Facilities is responsible for all capital expenditures required to keep the facility in compliance with applicable laws and regulations. Beginning on July 1, 2005, each tenant was required to begin making quarterly deposits into a capital improvement reserve account for the particular facility in the amount of $1,500 per bed per year, except that the first deposit will be pro-rated based on one-half of a year. On each January 1 thereafter, the payment of $1,500 per bed per year into the capital improvement reserve will be increased by 2.5%. All capital expenditures made in each year during the term of the lease will be funded first from the capital improvement reserve, and the tenant is required to pay into its respective capital improvement reserve such funds as necessary for all replacements and repairs.

Lease and Loan Guaranties and Security. We have obtained guaranty agreements from Mr. Hollinger, Vibra, Vibra Management, LLC and The Hollinger Group that obligate them to make loan and lease payments in the event that Vibra or the tenants for the Vibra Facilities fail to do so. We believe that these agreements are important elements of our underwriting of newly-formed healthcare operating companies because they create incentives for their owners and managements to successfully operate our tenants. However, we do not believe that these parties have sufficient financial resources to satisfy a material portion of the total lease or loan obligations. Mr. Hollinger s guaranty is limited to $5.0 million, Vibra Management, LLC and The Hollinger Group do not have substantial assets and Vibra s assets are substantially comprised of operations at the Vibra Facilities. The guaranties of Vibra, Vibra Management and The Hollinger Group relating to the leases for the Vibra Facilities and the Vibra loan are of equal priority with the guaranties relating to the lease for the Redding Facility.

Each lease for the Vibra Facilities is cross-defaulted with all other leases and other agreements between us, or our affiliates, on the one hand, and the tenant and Mr. Hollinger, or their affiliates, on the other hand, including the lease for the Redding Facility and the Vibra loan. In addition, Vibra has pledged to us all of its interests in each of the tenants, and Mr. Hollinger has pledged to us his interest in Vibra. As security for the leases for the Vibra Facilities, each of the tenants for the Vibra Facilities has granted us a security interest in all personal property, other than receivables, located at the Vibra Facilities. The management fees that the tenants for the Vibra Facilities pay to Vibra Management, LLC are subordinated to the rents payable to us under the leases for the Vibra Facilities.

We have included the audited and unaudited consolidated financial statements for Vibra as of and for the year ended December 31, 2004 and as of and for the nine months ended September 30, 2005. We believe that the financial statements of Vibra are the most meaningful financial information respecting the ability of Vibra to make the lease and loan payments which it is obligated to make to us. We do not

Table of Contents

believe that historical financial information on the Vibra Facilities prior to our acquisition of those facilities would be meaningful because the facilities had three different owners in the year prior to our acquisition. Also during that time, the owners did not lease those facilities to lessees but operated the facilities themselves, and the facilities were not operated in the same manner as they are currently being operated. We also believe that the financial statements of the guarantors provide limited financial information due to the limited resources which those guarantors possess. We do not believe the financial statements of the Vibra guarantors other than Vibra would be helpful to prospective investors. Therefore, we have provided the financial statements of Vibra Healthcare, LLC, which includes consolidated financial information on the actual lessees of the Vibra Facilities and the parent entity, which is one of the guarantors of the leases and the borrower under the Vibra loan.

Purchase Option. At the expiration of each lease for the Vibra Facilities, each tenant will have the option to purchase the facility at a purchase price equal to the greater of (i) the appraised value of the facility, determined assuming the lease is still in place, or (ii) the purchase price we paid for the facility, including acquisition costs, increased by 2.5% per annum from the date of purchase.

Depreciation and Real Estate Taxes. The following table sets forth information, as of December 31, 2004, regarding the depreciation and real estate taxes for the Vibra Facilities:

	Federal Tax Basis		Depreciation			2004 Real Estate	
	Land	Buildings	Annual Rate	Method	Life in Years	Taxes	Rate
Bowling Green, KY	$ 3,070,000	$ 35,141,658	2.5%	Straight-line	40	$ 24,750	0.07%
Thornton, CO	2,130,000	6,361,481	2.5%	Straight-line	40	186,188	2.18%
Fresno, CA	1,550,000	17,131,255	2.5%	Straight-line	40	102,359	0.61%
Kentfield, CA	2,520,000	5,122,332	2.5%	Straight-line	40	91,201	1.28%
Marlton, NJ		32,267,622	2.5%	Straight-line	40	321,903	1.00%
New Bedford, NJ	1,400,000	20,677,847	2.5%	Straight-line	40	251,476	1.14%

Bowling Green, Kentucky

General. This facility, licensed for 60 beds, is an approximately 62,500 gross square foot rehabilitation hospital located in Bowling Green, Kentucky, which is approximately 60 miles from Nashville, Tennessee. Construction of the facility was completed in 1992. We acquired a fee simple interest in this facility on July 1, 2004 for a purchase price of approximately $38.2 million including acquisition costs.

Lease. This facility is 100% leased to 1300 Campbell Lane Operating Company, LLC, a wholly-owned subsidiary of Vibra, pursuant to a 15-year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. The tenant has three options to renew for five years each. Beginning on July 1, 2005, the per annum base rent is equal to 12.23% of the purchase price, including acquisition costs. On January 1, 2006 and on each January 1 thereafter, the base rent will be increased by 2.5%.

Marlton, New Jersey

General. This facility, licensed for 76 beds, is an approximately 89,139 gross square foot rehabilitation hospital located in Marlton, New Jersey, which is approximately 15 miles from Philadelphia, Pennsylvania. Construction of the facility was completed in 1994. We acquired a ground lease interest in this facility on July 1, 2004 for a purchase price of approximately $32.3 million including acquisition costs. We ground lease the property on which the facility is located from Virtua West Jersey Health System, a New Jersey non-profit corporation, pursuant to a ground lease dated July 15, 1993. The initial term of the ground lease expires in 2030. We have the right to renew the ground lease for an additional term of 35 years upon the satisfaction of certain conditions as set forth in the ground lease.

Table of Contents

Lease. This facility is 100% leased to 92 Brick Road Operating Company, LLC, a wholly-owned subsidiary of Vibra, pursuant to a 15 year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. The tenant has three options to renew for five years each. Beginning on July 1, 2005, the per annum base rent is equal to 12.23% of the purchase price, including acquisition costs. On January 1, 2006 and on each January 1 thereafter, the base rent will be increased by 2.5%.

HBA Management, Inc., or HBA, has subleased the entire third floor of the hospital facility, approximately 26,896 square feet, for the operation of a 30-bed pediatric comprehensive rehabilitation unit and related office use, together with certain fixtures, furnishings and equipment located in the subleased premises. The current term of the sublease expires on August 31, 2013. HBA has the option to extend the sublease term for two additional terms of five years each. Base annual rent due under the sublease through September 30, 2005 is approximately $1,112,980 per annum, with adjustments annually thereafter. In addition to base annual rent, HBA is required to pay its proportionate share of all reimbursable expenses.

Fresno, California

General. This facility, licensed for 62 beds, is an approximately 78,258 gross square foot rehabilitation hospital located in Fresno, California. Construction of the facility was completed in 1990. We acquired a fee simple interest in this facility on July 1, 2004 for approximately $18.7 million including acquisition costs.

Lease. This facility is 100% leased to 7173 North Sharon Avenue Operating Company, LLC, a wholly-owned subsidiary of Vibra, pursuant to a 15 year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. The tenant has three options to renew for five years each. Beginning on July 1, 2005, the per annum base rent is equal to 12.23% of the purchase price, including acquisition costs. On January 1, 2006 and on each January 1 thereafter, the base rent will be increased by 2.5%.

Thornton, Colorado

General. This facility is an approximately 141,388 gross square foot rehabilitation hospital located in Thornton, Colorado, which is approximately 10 miles from Denver, Colorado. The facility is licensed for 70 rehabilitation beds, 24 long-term care beds and 23 psychiatric beds. Construction of the original facility was completed in 1962 with additions completed as recently as 1975. We acquired a fee simple interest in this facility on August 17, 2004 for a purchase price of approximately $8.5 million including acquisition costs.

Lease. This facility is 100% leased to 8451 Pearl Street Operating Company, LLC, a wholly-owned subsidiary of Vibra, pursuant to a 15 year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. The tenant has three options to renew for five years each. Beginning on August 17, 2005, the per annum base rent is equal to 12.23% of the purchase price, including acquisition costs. On January 1, 2006 and on each January 1 thereafter, the base rent will be increased by 2.5%.

New Bedford, Massachusetts

General. This facility, licensed for 90 beds, is an approximately 70,657 gross square foot long-term acute care hospital located in New Bedford, Massachusetts, which is approximately 45 miles from Boston, Massachusetts. Construction of the original facility was completed in 1942 with additions completed as recently as 1995. We acquired a fee simple interest in this facility on August 17, 2004 for a purchase price of approximately $22.0 million including acquisition costs.

Lease. This facility is 100% leased to 4499 Acushnet Avenue Operating Company, LLC, a wholly-owned subsidiary of Vibra, pursuant to a 15 year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. The tenant has three

Table of Contents

options to renew for five years each. Beginning on August 17, 2005, the per annum base rent is equal to 12.23% of the purchase price, including acquisition costs. On January 1, 2006 and on each January 1 thereafter, the base rent will be increased by 2.5%.

Kentfield, California

General. This facility, licensed for 60 beds, is an approximately 43,500 gross square foot long-term acute care hospital located in Kentfield, California, which is approximately 15 miles from San Francisco, California. Construction of the facility was completed in 1963 with the last renovations in 1988. We acquired a fee simple interest in this facility on July 1, 2004 for a purchase price of approximately $7.6 million including acquisition costs.

Lease. This facility is 100% leased to 1125 Sir Francis Drake Boulevard Operating Company, LLC, a wholly-owned subsidiary of Vibra, pursuant to a 15 year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. The tenant has three options to renew for five years each. Beginning on July 1, 2005, the per annum base rent is equal to 12.23% of the purchase price, including acquisition costs. On January 1, 2006 and on each January 1 thereafter, the base rent will be increased by 2.5%.

West Houston Facilities

General. In June 2004, we entered into agreements with Stealth and GPMV to develop the West Houston Hospital and the adjacent West Houston MOB in Houston, Texas. GPMV completed development of the 105 bed, 121,884 gross square foot West Houston Hospital in November 2005. Seventy-one beds are acute care beds operated by Stealth and 34 are long-term acute care beds operated by Triumph Southwest, L.P., or Triumph, a tenant of Stealth. A third-party developer completed development of the adjacent 120,000 gross square foot West Houston MOB on the property in October 2005. Pursuant to the agreements with Stealth and GPMV, we have formed two Delaware limited partnerships, MPT West Houston Hospital, or the hospital limited partnership, which owns the West Houston Hospital, and MPT West Houston MOB, L.P., or the MOB limited partnership, which owns the adjoining West Houston MOB. Stealth will be required to maintain insurance that is adequate to satisfy our underwriting standards.

West Houston GP, L.P., an affiliate of GPMV, holds a 25% general partnership interest in Stealth. The limited partners of Stealth, which currently hold a 75% interest, consist of 85 physicians. The sole business of Stealth is the operation of the West Houston Hospital offering multi-specialty services and the West Houston MOB. Because those facilities are still in the construction phase, Stealth has had no meaningful operations to date. Our operating partnership owns an approximate 94% limited partnership interest in the hospital limited partnership and Stealth owns an approximate 6% limited partnership interest. MPT West Houston Hospital, LLC. a wholly-owned limited liability company of our operating partnership, owns the 0.1% general partnership interest in the hospital limited partnership. Currently, our operating partnership owns approximately 76% of the limited partnership interests in the MOB limited partnership and MPT West Houston MOB, LLC, a wholly-owned subsidiary of our operating partnership, owns the 0.1% general partnership interest. Physicians and others associated with our tenant or subtenants of the West Houston MOB own approximately 24% of the aggregate equity interests in the MOB limited partnership.

The hospital limited partnership and MOB limited partnership each own a fee simple interest in the land on which the facilities were constructed, as well as adjacent undeveloped land. In addition, Stealth has an option, exercisable until November 2010, to reacquire approximately 14.5 acres of land owned by the hospital limited partnership, which land is located adjacent to the land on which the facilities are being constructed. The option price for this parcel is equal to the original cost, plus any amounts subsequently paid by us with respect to this parcel. Stealth also has a right of first offer, exercisable until November 2010, to purchase this parcel should we determine to sell it to a third party. In consideration for Stealth s agreement to limit the term of the foregoing option and right of first offer, we have agreed to pay Stealth

Table of Contents

up to $3.5 million, upon its request and in $500,000 increments, which amount will be payable over such period as may be requested by Stealth. Any additional amounts paid will be included in total development costs, will increase the rental payable to us and will be added to the purchase price if Stealth elects to purchase the parcel. We have no further obligation to honor any payment requests after August 31, 2006.

In connection with the development of the West Houston Facilities, we are entitled to a commitment fee of approximately $932,125. This fee is to be paid 15 years from the date of completion of the hospital facility, with interest thereon at the rate of 10.75% per year, and is unsecured but is cross-defaulted with the leases we have with Stealth at the West Houston Facilities. Stealth is to commence making monthly interest payments beginning in December 2005.

In addition, MPT Development Services, Inc., our taxable REIT subsidiary, has agreed to make a working capital loan to Stealth in an amount up to $1.62 million. Stealth has borrowed $1.3 million under this loan as of the date of this prospectus. This loan is to be repaid 15 years from the date of completion of the West Houston Hospital, with interest at the rate of 10.75% per year, and is unsecured but cross-defaulted with the leases we have with Stealth at the West Houston Facilities. The loans are not guaranteed. The leases contain certain debt coverage ratio and other financial covenants, the default of which would constitute a default under the loans. Stealth is obligated to commence making monthly interest payments beginning the first month after completion of the West Houston Hospital. Either the fee or the working capital loan may be prepaid at any time without penalty, except that a minimum prepayment of $500,000 is required for the working capital loan.

If either we or Stealth determine in good faith, after consultation with healthcare counsel, that healthcare law prohibitions or restrictions require the physician-limited partners to divest their ownership interests in Stealth, we have agreed to issue up to $6.0 million of limited partnership interests in the hospital limited partnership to Stealth to be used as part of the consideration to completely redeem the physician-limited partners ownership interests in Stealth. We have agreed to lend Stealth the $6.0 million to purchase the limited partnership interests in the hospital limited partnership, which loan would accrue interest at the rate of not less than 10.75% per year, and would be paid over 10 years. We do not expect this transaction to be necessary.

Development Agreements. The hospital limited partnership has paid GPMV $542,480 of a development fee of approximately $700,000 and $175,223 of a construction management fee of approximately $200,000. The hospital limited partnership has also agreed to pay GPMV a contingent funds fee of approximately $450,000. The MOB limited partnership has paid the developer $440,000 of a development fee of approximately $550,000 and $240,000 of a construction management fee of approximately $300,000. The MOB limited partnership has also agreed to pay the developer a contingent funds fee of approximately $350,000.

Stealth is obligated to pay MPT Development Services, Inc., our taxable REIT subsidiary, a project inspection fee for construction coordination services of $100,000 in the case of the West Houston Hospital and $50,000 in the case of the adjacent West Houston MOB. These fees are being paid, with interest at the rate of 10.75% per year, over a 15 year period beginning in November 2005. The total development costs for the facilities, including acquisition cost, development services fee, commitment fee, project management fee, and construction costs, are estimated to be $42.6 million for the hospital facility and $20.5 million for the medical office building. During the construction period, we advanced funds pursuant to requests made in accordance with the terms of the development agreements between us and the developers. We have agreed to fund 100% of the total development costs for the West Houston Hospital and the adjacent West Houston MOB. Our agreement with Stealth provides that $17,006,803 of this funding will be in the form of an equity contribution for the West Houston Hospital, with the remaining funding being in the form of debt, and for the adjoining West Houston MOB, our agreement with Stealth provides that $5.0 million of the funding will be in the form of an equity contribution or subordinated debt, with the remaining funding being in the form of debt. If we obtain third-party construction financing, the debt portion of the development costs will be provided by the third-party lender.

Table of Contents

Leases. The facilities were leased to Stealth during the construction phase with rent accruing until the completion dates and the accrued rent to be paid over the remaining lease term. Following the completion dates, the lease term will extend for a period of 15 years for the West Houston Hospital and 10 years for the West Houston MOB. Stealth will have three options to renew each lease for a period of five years each. On January 1, 2006 and on each January 1 thereafter, the base rent for the West Houston Hospital will increase 2.5% and the base rent for the West Houston MOB will increase 2.0%. The leases are net-leases with Stealth responsible for all costs and expenses associated with the operation, maintenance and repair of the facilities. Triumph has subleased an entire floor of the West Houston Hospital in order to operate 34 long-term acute care beds. The sublease is for a term of 180 months following the completion of the construction of the West Houston Hospital. The sublease grants to Triumph options to extend the term of the sublease for three additional periods of five years each. The sublease requires Triumph to pay rent in an amount equal to 12% of all rent and other charges payable by Stealth to us under our lease with Stealth, with certain exclusions. The sublease provides that Stealth s obligations under the sublease are conditioned upon the execution of a guaranty by Triumph HealthCare of Texas, L.L.C. and Triumph HealthCare, L.L.P. The sublease grants Stealth the right to relocate Triumph to a new facility to be constructed adjacent to and attached to the West Houston Hospital. In order to exercise the relocation right, Stealth must give Triumph at least 270 days notice prior to the date of such relocation. Triumph must vacate the subleased premises on or before the relocation date specified in the notice from Stealth, which cannot be earlier than 270 days after the date of the relocation notice.

Triumph has subleased 9,726 square feet of net rentable area in the West Houston MOB for use as a medical office exclusively for the practice of medicine, the operation of a medical office and the provision of related administrative services, or medical related use. The sublease is for a term of 120 months following the earlier of the date of final completion of the leasehold improvements, or the date on which Triumph commences business in the subleased premises. The sublease grants to Triumph options to extend the term of the sublease for four additional periods of five years each. The sublease requires Triumph to pay annual base rent for years one through ten calculated at $20 per net rentable square foot. Beginning on the first anniversary of the lease and on each anniversary date thereafter, base rent is increased to an amount equal to 1.02 times or 102% of the base rent payable in the previous year. The lease also requires Triumph to pay its pro rata share of annual operating expenses, taxes and insurance relating to the West Houston MOB. The sublease provides that Stealth s obligations under the sublease are conditioned upon the execution of a guaranty by Triumph HealthCare of Texas, L.L.C. and Triumph HealthCare, L.L.P. The West Houston MOB sublease with Triumph also runs concurrently with Stealth s lease with us. In the event our lease with Stealth is terminated, the sublease on the hospital with Triumph is also terminated.

Purchase Option. After the first full 12 month period after construction of each of the West Houston Facilities is completed, as long as Stealth is not in default under either of its leases with us or any of the leases with its physician subtenants, Stealth has the right to purchase the West Houston MOB and the West Houston Hospital at a purchase price equal to the greater of (i) that amount determined under a formula that would provide us an internal rate of return of at least 18% or (ii) the appraised value based on a 15 year lease in place. To arrive at the appraised value, each of the parties chooses an appraiser. If the appraisals obtained are not materially different, (meaning a 10% or more variance), 50% of the sum of each appraised value is used as the option price, if the two appraisals are materially different, then the two appraisers appoint a third appraiser and the appraiser s valuation which differs greatest from the other two appraisers is excluded and 50% of the sum of the two remaining determinations is used as the option price. The costs of the appraisal process are borne equally by the parties. Upon written notice to us within 90 days of the expiration of the applicable lease, as long as Stealth is not in default under either of its leases with us or any of the leases with its physician subtenants, Stealth will have the option to purchase the West Houston MOB or the West Houston Hospital at a price equal to the greater of (i) the total development costs (including any capital additions funded by us, but excluding any capital additions funded by Stealth) increased by 2.5% per year, or (ii) the appraised value based on a 15 year lease in place. To arrive at the appraised value, each of the parties chooses an appraiser. if the appraisals obtained are not materially different, (meaning a 10% or more variance), 50% of the sum of each appraised value is used as the option price. If the two appraisals are materially different, then the two appraisers appoint a

Table of Contents

third appraiser and the appraiser s valuation which differs greatest from the other two appraisers is excluded and 50% of the sum of the two remaining determinations is used as the option price. The costs of the appraisal process are borne equally by the parties.

The leases also provide that under certain limited circumstances, the tenant will have the right to present us with a choice of one out of three proposed exchange facilities to be substituted for the leased facility. The tenant will have the right to propose substitute facilities, if not in default, at any time prior to the expiration of the term, if (i) in the good faith judgment of the tenant the facility becomes uneconomic or unsuitable for its primary intended use, (ii) there is an eviction or interference caused by any claim of paramount title, or (iii) if for other prudent business reasons, the tenant desires to terminate the lease. The tenant will have the obligation to substitute facilities if it has discontinued use of the facility for a period in excess of one year, and we have not exercised our right to terminate the lease. Each proposed substitution facility must: (i) provide us with an annual return on our equity in such facility, or yield, substantially equivalent to our yield from the original facility (ii) provide us with rent with a substantially equivalent yield taking into account any cash adjustment paid or received by us and any other relevant factors, and (iii) have a fair market value in an amount equal to the fair market value of the original facility, taking into account any cash adjustment paid or received by us. If we elect to consummate the exchange, the existing lease would terminate and the parties would enter into a new lease for the substituted facility. If we elect not to proceed with the exchange. the tenant would have the right to terminate the lease and purchase the leased facility for appraised value, determined assuming the lease is still in place.

Right of First Offer to Purchase. At any time during the term of the applicable lease for either of the West Houston Facilities, as long as Stealth is not in default under either of its leases with us or any of the leases with its physician subtenants, we are required to notify Stealth if we intend to sell either facility to a third party. If Stealth wishes to offer to purchase the facility, it must notify us in writing within 15 days, setting forth the terms and conditions of the proposed purchase. if we accept Stealth s offer, Stealth must close the purchase within 45 days of the date of our acceptance.

Security. The leases for the West Houston Facilities are cross-defaulted and are guaranteed by West Houston G.P., L.P. and West Houston Joint Ventures, Inc., affiliates of Stealth. To secure its performance of its lease obligations under the West Houston Hospital lease, Stealth obtained a certificate of deposit in the amount of $1,905,234; however, Stealth did not execute or deliver the documents required by us to perfect our security interest in the certificate of deposit. The certificate of deposit matured in July 2005 and has not been renewed. The sublease between Stealth and Triumph requires Triumph to obtain a certificate of deposit in the amount of $400,000 to secure the performance of its obligations under its sublease with Stealth. However, subject to execution of definitive agreements, we, Stealth and Triumph have agreed that Triumph shall obtain and deliver to us a $400,000 letter of credit, in lieu of the certificate of deposit, to be held by us. The sublease has been assigned to us as collateral security for Stealth s performance under its lease. Under the lease and the sublease, each of Stealth and Triumph are required to give us a security interest in these certificates of deposit and to enter into control agreements with us and the issuing banks which provide that the banks will follow our instructions regarding the certificates of deposit. Once the West Houston Hospital commences operations, Stealth is required to substitute a letter of credit in the amount of $1,905,234 in place of the $1,905,234 certificate of deposit; and on May 1, 2005, the sublease required that Triumph substitute a letter of credit in the amount of $1.0 million in place of the $400,000 certificate of deposit. Triumph has not yet made this substitution. The lease further provides that the Stealth letter of credit may be released in two increments of 50% of the total amount of the letter of credit over a two year period following the date on which Stealth generates a total rent, excluding additional charges, coverage from EBITDAR of at least 200% for 12 consecutive months.

Stealth has provided to us unaudited financial statements reflecting that, as of September 30, 2005, it had tangible assets of approximately $7.7 million, including cash of approximately $4.7 million, liabilities of approximately $1.7 million and owners equity of approximately $6.0 million. Neither of the guarantors has any substantial assets, other than its interest in Stealth.

Table of Contents

Capital Improvements. Stealth is responsible for all capital expenditures required to keep the West Houston Facilities in compliance with applicable laws and regulations. Beginning on January 1, 2005, Stealth is required to make monthly deposits into a capital improvement reserve in the amount of $3,000 per year in the case of the West Houston MOB and $2,500 per bed per annum in the case of the West Houston Hospital. On each January 1 thereafter, the payment into the capital improvement reserve will be increased by 2.0% in the case of the West Houston MOB and by 2.25% in the case of the West Houston Hospital. All capital expenditures made in each year during the term of the lease will be funded first from the capital improvement reserve, and the tenant will pay into its respective capital improvement reserve such funds as necessary for all replacements and repairs.

Depreciation and Real Estate Taxes. The following table sets forth information, as of December 31, 2004, regarding the estimated depreciation and real estate taxes for the Houston Facilities:

	Estimated Federal Tax Basis		Depreciation			Estimated 2005 Real Estate	
	Land	Buildings	Annual Rate	Method	Life in Years	Taxes	Rate
West Houston Hospital	$ 8,400,000	$ 34,200,000	2.5%	Straight-line	40	$ 1,324,860	3.11%
West Houston MOB	1,800,000	18,700,000	2.5	Straight-line	40	637,550	3.11

Chino Facility

General. On November 30, 2005, Prime Healthcare Services, LLC exercised a purchase option assigned to it by Veritas, and purchased a fee simple interest in the Chino Facility from Kasirer Family Holdings #4, LLC, or KFH. On the same date, Prime Healthcare Services, LLC sold the Chino Facility to us for a purchase price of approximately $21.0 million. The purchase price for the facility was determined through arms-length negotiations with Prime based upon our analysis of various factors. These factors included the demographics of the area in which the facility is located, the capability of the tenant to operate the facility, healthcare spending trends in the geographic area, the structural integrity of the facility, governmental regulatory trends which may impact the services provided by the tenant, and the financial and economic returns which we require for making an investment. Also on November 30, 2005, Prime Healthcare Services, LLC assigned to us all of its right, title and interest in a lease for a parking lot adjacent to the facility, or the parking lot lease. The parking lot lease expires in December 2013.

The Chino Facility, located in Chino, California, which is approximately 35 miles from Los Angeles, California, is an approximately 113,388 square foot community hospital facility, built in 1972. The facility is currently licensed for 126 beds.

Lease. This facility is 100% leased to Veritas, an affiliate of Prime, and the prior operator of the facility. The principals of Prime have experience in developing, acquiring, managing and operating hospital facilities. The lease is a 15 year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. Veritas has three options to renew for five years each. Currently, the annual base rent is equal to 10% of the purchase price, or the annual rate of $2.1 million. On January 1, 2007, and on each January 1 thereafter, the base rent will be increased by an amount equal to the greater of (i) 2% per year of the prior year s base rent or (ii) the percentage by which the CPI as published by the United States Department of Labor, Bureau of Labor Statistics on January 1 shall have increased over the CPI figure in effect on the immediately preceding January 1, annualized based on the highest annual rate effective during the preceding year if the previous year s base rent is for a partial year. The lease requires Veritas to carry customary insurance which is adequate to satisfy our underwriting standards.

Lease Guaranties and Security. The Chino Facility lease is guaranteed by Prime, Prime Healthcare Services, LLC, DVH and DVMG. The guaranty is an absolute and irrevocable guaranty. The lease is cross-defaulted with any other

leases or other agreements between us or any of our affiliates and Veritas, any guarantor and any of their affiliates, excluding any lease related to the Sherman Oaks facility. In addition, as security for the lease, Veritas has granted us a security interest in all personal property, other than receivables, located at the Chino Facility, subject to purchase money liens on equipment. Prime

Table of Contents

Healthcare Services, LLC has also granted us a security interest in certain of its personal property leased or subleased to Veritas and located at the Chino facility. Prime, an affiliate of Veritas and a guarantor of the lease, has provided to us unaudited financial statements showing that, as of September 30, 2005, it had consolidated tangible assets of approximately $53.8 million, consolidated liabilities of approximately $23.2 million, and consolidated tangible net worth of approximately $30.6 million and for the nine months ended September 30, 2005, had consolidated net income of approximately $15.1 million.

Reserve for Extraordinary Repairs. Veritas is responsible for all maintenance and repairs and all extraordinary repairs required to keep the facility in compliance with all applicable laws and regulations and as required under the lease. Veritas is required to make quarterly deposits into a reserve account in the amount of $2,500 per bed per year. Beginning on January 1, 2007 and on each January 1 thereafter, the payment of $2,500 per bed per year into the improvement reserve will be increased by 2%. Amounts drawn from the reserve are to be replenished at the rate of 1/12th of the total drawn per month until completely replenished.

Purchase Options. At any time after November 30, 2008, so long as Veritas and its affiliates are not in default under any lease with us or any of the leases with its subtenants, Veritas or Prime Healthcare Services, LLC will have the option, upon 90 days prior written notice, to purchase the facility at a purchase price equal to the sum of (i) the purchase price of the facility, and (ii) that amount determined under a formula that would provide us an internal rate of return of 11% per year, taking into account all payments of base rent received by us.

If we receive notice that the parking lot lease will not be renewed beyond December 2013, that our rights under the parking lot lease are or will be terminated, or that the parking lot may not be used for parking for the facility, we have the right, upon 90 days prior written notice, or the put notice, to cause Veritas to purchase the Chino Facility and our interest in the parking lot lease at a purchase price equal to the sum of (i) the purchase price of the facility, and (ii) that amount determined under a formula that would provide us an internal rate of return of 11% per year, taking into account all payments of base rent received by us. Upon receipt of the put notice, however, Veritas has the right, within 30 days following the put notice, to substitute one or more properties to be used for parking for the facility. We are not obligated to accept any substitute property which does not satisfy applicable zoning and use laws, ordinances, rules or regulations or which, in our sole discretion, would create an undue burden or inconvenience for parking at the facility.

Commitment Fee. We were paid a commitment fee of $105,000 in connection with this transaction.

Depreciation and Real Estate Taxes. The following table sets forth information, as of December 31, 2004, regarding the depreciation and real estate taxes for the Chino Facility:

	Federal Tax Basis		Depreciation			2004 Real Estate	
	Land	Buildings	Annual Rate	Method	Life in Years	Taxes	Rate
Chino, California	$ 2,220,000	$ 18,780,000	2.5%	Straight-line	40	$ 103,927	1.05%

Redding Facility

General. On June 30, 2005, Ocadian Care Centers, LLC, or Ocadian, assigned a long-term ground lease for land located in Redding, California to Northern California Rehabilitation Hospital, LLC, a subsidiary of Vibra. On the same date, Ocadian sold the facility located on the land, which we refer to in this prospectus as the Redding Facility, to the Vibra subsidiary, subject to the ground lease. Also on June 30, 2005, the Vibra subsidiary assigned this ground lease interest to us and we purchased the Redding Facility. On the same date, we subleased the land and leased the Redding Facility back to the Vibra subsidiary. The term of the ground lease expires on November 16, 2075. See Lease below for more detail. The Vibra subsidiary has subleased the operations and the right to occupy the Redding Facility back to Ocadian during a transition term until the Vibra subsidiary obtains certain healthcare licenses necessary to operate the Redding Facility. The Vibra subsidiary will manage the facility on behalf of Ocadian during this transition term. Upon receipt of the healthcare licenses, the sublease and

85

Table of Contents

management agreement between the Vibra subsidiary and Ocadian will terminate. The Vibra subsidiary expects this sublease and management arrangement to continue for about 30 to 60 days from the date of this prospectus.

The Redding Facility contains approximately 70,000 square feet of space and is currently licensed for a total of 88 beds including 14 acute care beds, 24 rehabilitation beds and 50 skilled nursing beds. The Vibra subsidiary intends to convert a portion of the Redding Facility s licensed skilled nursing, general acute care and rehabilitation beds to long-term acute care beds.

Our purchase price for assignment of the ground lease interest and for the Redding Facility was $20,750,000 million; however, payment of $2.0 million of the purchase price is being deferred pending completion, to our satisfaction, of the conversion of certain beds to long-term acute care beds, and an additional $750,000 of the purchase price is being deferred and will be paid out of a special reserve account to pay for renovations. The Vibra subsidiary used and will use the proceeds from the concurrent sale and assignment to us to acquire the Redding Facility and the operations at the facility, upgrade equipment, make certain renovations, convert certain beds to long-term acute care beds and for working capital. The purchase price for the Redding Facility was arrived at through arms-length negotiations based upon our analysis of various factors, including the demographics of the area in which the facility is located, the capability of the tenant to operate the facility, healthcare spending trends in the geographic area, the structural integrity of the facility, governmental regulatory trends which may impact the services provided by the tenant, and the financial and economic returns which we require for making an investment.

The Redding Facility is owned by MPT of Redding, LLC. Currently, our operating partnership owns all of the membership interests in this limited liability company; however, we have agreed, subject to applicable healthcare regulations, to offer up to 20% of the interests in the limited liability company to local physicians and other persons.

Lease. The Redding Facility is 100% leased to Northern California Rehabilitation Hospital, LLC, a Vibra subsidiary, for a 15-year term, with three options to renew for five years each. The lease is a net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. Currently, the annual base rent is equal to 10.5% per year of the purchase price actually paid. On each January 1, beginning on January 1, 2006, the base rent will be increased by an amount equal to the greater of (A) 2.5% per year of the prior year s base rent, or (B) the percentage by which the CPI on January 1 shall have increased over the CPI in effect on the then just previous January 1. The lease requires the tenant to pay an annual inspection fee of $5,000. The annual inspection fee will increase by 2.5% each January 1 during the lease term. The lease also requires the tenant to carry customary insurance which is adequate to satisfy our underwriting standards.

Reserve for Extraordinary Repairs. Beginning on January 1, 2006, the tenant will be required to make deposits into a reserve account equal to $1,500 per bed, increasing on each subsequent January 1 by the greater of 2.5% or the increase in CPI for the previous year. Any amounts drawn from the reserve would be replenished 1/12th of the amount drawn per month, until completely replenished.

Lease Guaranty and Security. The lease is guaranteed by Vibra, Vibra Management, LLC and The Hollinger Group, and is cross-defaulted with all other leases and other agreements between us, or our affiliates, on the one hand, and the tenant and Mr. Hollinger, or their affiliates, on the other hand, including the leases for the Vibra Facilities and the Vibra loan. The guaranties of Vibra, Vibra Management and The Hollinger Group of the lease for the Redding Facility are of equal priority with the guaranties relating to the leases for the Vibra Facilities and the Vibra loan. We believe that these agreements are important elements of our underwriting of newly-formed healthcare operating companies because they create incentives for their owners and managements to successfully operate our tenants. However, we do not believe that these parties have sufficient financial resources to satisfy a material portion of the total lease obligations. We have included the audited and unaudited consolidated financial statements for Vibra Healthcare, LLC as of and for the year ended December 31, 2004 and as of and for the six months ended June 30, 2005, respectively.

Table of Contents

In addition, as security for the lease, the tenant has granted us a security interest in all personal property other than receivables, and subject to the prior lien of any purchase money lender, with respect to tangible personal property, located at and to be located at the facility, and an assignment of rents and leases. The tenant has also made a cash deposit with us in an amount equal to three months base rent under the lease.

Commitment Fee. We received a commitment fee equal to 0.5% of the purchase price.

Depreciation and Real Estate Taxes. The following table sets forth information, as of June 30, 2005, regarding the depreciation and real estate taxes for the Redding Facility:

	Federal Tax Basis		Depreciation			2004 Real Estate	
	Land	Buildings	Annual Rate	Method	Life in Years	Taxes	Rate
Redding, California	$	$ 20,750,000	2.5%	Straight-line	40	$ 49,681	1.1%

Sherman Oaks Facility

General. On December 30, 2005, we acquired a fee simple interest in the Sherman Oaks Facility from Prime II and Prime A for a purchase price of approximately $20.0 million. The purchase price for the facility was determined through arms-length negotiations with Prime and its affiliates based upon our analysis of various factors, including the demographics of the area in which the facility is located, the capability of the tenant to operate the facility, healthcare spending trends in the geographic area, the structural integrity of the facility, governmental regulatory trends which may impact the services provided by the tenant, and the financial and economic returns which we require for making an investment. The Sherman Oaks Facility is located in Sherman Oaks, California, which is approximately 14 miles from Los Angeles, California. The facility is an approximately 135,000 square foot community hospital facility, currently licensed for 153 beds. Construction of the original facility was completed in 1956 with additions completed as recently as 1980. Also on December 30, 2005, Prime A assigned to us all of its right, title and interest in an air rights agreement which gave G&L Realty Partnership, L.P., an unrelated third party, air rights, support rights, access rights and other rights for the construction, use and maintenance of a parking structure building adjacent to the Sherman Oaks Facility. The air rights agreement gives us the right to use a portion of the parking areas on the parking structure.

Lease. The facility is 100% leased to Prime II, an affiliate of Prime. The principals of Prime have experience in developing, acquiring, managing and operating hospital facilities. The lease is a 15 year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. Prime II has three options to renew for five years each. The initial annual base rent is equal to 10.5% of the purchase price, or the annual rate of $2.1 million. On January 1, 2007, and on each January 1 thereafter, the base rent will be increased by an amount equal to the greater of (i) 2% per year of the prior year s base rent or (ii) the percentage by which the CPI on January 1 shall have increased over the CPI figure in effect on the immediately preceding January 1, annualized based on the highest annual rate effective during the preceding year if the previous year s base rent is for a partial year. The lease requires Prime II to carry customary insurance which is adequate to satisfy our underwriting standards.

Lease Guaranties and Security. The Sherman Oaks Facility lease is unconditionally and irrevocably guaranteed by Prime, DVH, DVMG and Prime A until two years after the commencement of the lease term, and that after that date, Prime, DVH, DVMG and Prime A will guaranty the obligations under the Sherman Oaks lease for up to $5.0 million. When Prime II satisfies certain financial conditions under the lease, the lease guaranty will terminate. As security for the lease, Prime II has granted us a security interest in all personal property, other than receivables and inventory located at the Sherman Oaks Facility, subject to purchase money liens on equipment. Prime has provided to us unaudited financial statements showing that, as of September 30, 2005, it had consolidated tangible assets of approximately $53.8 million, consolidated liabilities of approximately $23.2 million, and consolidated tangible net worth of approximately $30.6 million and for the nine months ended September 30, 2005, had consolidated net

income of approximately $15.1 million.

Table of Contents

Reserve for Extraordinary Repairs. Prime II is responsible for all maintenance and repairs and all extraordinary repairs required to keep the facility in compliance with all applicable laws and regulations and as required under the lease. Prime II is required to make quarterly deposits into a reserve account in the amount of $2,500 per bed per year. Beginning on January 1, 2007 and on each January 1 thereafter, the payment of $2,500 per bed per year into the improvement reserve will be increased by 2%, and that amounts drawn from the reserve are to be replenished at the rate of 1/12th of the total drawn per month until completely replenished.

Purchase Options. The letter of commitment provides that at any time after the tenth anniversary of the commencement of the lease term, so long as Prime II and its affiliates are not in default under any lease with us or any of the leases with its subtenants, Prime A will have the option, upon 90 days prior written notice, to purchase the facility at a purchase price equal to the sum of (i) the purchase price of the facility (including any additional financing by us), and (ii) that amount determined under a formula that would provide us an internal rate of return of 11% per year, taking into account all payments of base rent received by us, but in no event would this amount be less than the purchase price (including any additional financing by us). Prime A also has the right at any time while the guaranty is outstanding, and providing there is no existing default, to petition to purchase the facility for the same purchase price, and we would then have the option to release the guaranty or sell the property. Finally, if there is a non-monetary default, other than an intentional default, that occurs before the tenth anniversary of the lease date, and we desire to terminate the lease, Prime A would also have the option to purchase the facility, but at an internal rate of return to us of 12.5%.

Commitment Fee. We have been paid a commitment fee of $100,000 in connection with this transaction.

Depreciation and Real Estate Taxes. The following table sets forth information, as of June 30, 2005, regarding the depreciation and real estate taxes for the Sherman Oaks Facility:

	Federal Tax Basis		Depreciation			2005 Real Estate	
	Land	Buildings	Annual Rate	Method	Life in Years	Taxes	Rate
Sherman Oaks, California	$ 1,785,714	$ 18,214,286	2.5%	Straight-line	40	$ 210,200	1.05%

Facility Expansion. We have agreed to fund up to $5.0 million for the purpose of expanding our Sherman Oaks Facility. The lease provides that the parties will use their commercially reasonable efforts to enter into an agreement respecting the timing and terms of this funding. Upon execution of a definitive development agreement,, Prime II will be obligated to pay us a fee in cash equal to 0.5% of the maximum amount that can be funded. The expansion amount will be treated as a capital addition under the lease and, accordingly as such expansion costs are funded, the annual rent payable under the lease will increase by an amount equal to the then-current lease rate multiplied by the amount of expansion cost incurred. Such additional rent will continue to be payable for the remaining term of the lease. For purposes of the repurchase options contained in the lease, the purchase price will be increased by the total cost of the addition. We will not generate any revenues from this transaction until Prime II begins drawing the committed funds.

Desert Valley Facility

General. On February 28, 2005, we acquired a fee simple interest in the Desert Valley Facility located in Victorville, California, which is approximately 75 miles from Los Angeles, California. The approximately 122,140 square foot community hospital facility, built in 1994, is licensed for 83 beds and has an integrated medical office building comprising approximately 50,000 square feet. We acquired the facility from Prime A, an unaffiliated third party but an affiliate of Prime, for a purchase price of approximately $28.0 million. The purchase price was determined through arms-length negotiations with Prime based upon our analysis of various factors. These factors included the demographics of the area in which the facility is located, the capability of the tenant to operate the facility, healthcare spending trends in the geographic area, the structural integrity of the facility, governmental

regulatory trends which may impact the services provided by the tenant, and the financial and economic returns which we require for making an investment.

Table of Contents

Lease. This facility is 100% leased to DVH, an affiliate of Prime. The principals of DVH have experience in developing, acquiring, managing and operating acute care hospital facilities. The lease is a 15 year net-lease with the tenant responsible for all costs of the facility, including, but not limited to, taxes, utilities, insurance and maintenance. DVH has three options to renew for five years each. Currently, the annual base rent is equal to 10% of the purchase price, or the annual rate of $2.8 million. On January 1, 2006, and on each January 1 thereafter, the base rent will be increased by an amount equal to the greater of (i) 2% per year of the prior year s base rent or (ii) the percentage by which the CPI as published by the United States Department of Labor, Bureau of Labor Statistics on January 1 shall have increased over the CPI figure in effect on the immediately preceding January 1, annualized based on the highest annual rate effective during the preceding year if the previous year s base rent is for a partial year. The lease requires DVH to carry customary insurance which is adequate to satisfy our underwriting standards.

DVH has subleased approximately 40,110 square feet of space in the medical office portion of the facility to its affiliate, Desert Valley Medical Group, Inc., or DVMG, for office use. The DVMG lease requires DVMG to pay rent of $50,138 per month, to be adjusted commencing on January 1, 2006 by changes in the CPI. The DVMG sublease expires on December 31, 2011. DVH has also subleased approximately 500 square feet of space in the facility to Network Pharmaceuticals, Inc. for the operation of a pharmacy. The pharmacy sublease requires the tenant to pay rent of $2,000 per month. The pharmacy sublease currently expires on May 15, 2007, subject to the pharmacy s option to renew for a term of 10 years.

Lease Guaranties and Security. The Desert Valley lease is guaranteed by Prime A, Prime and DVMG. The guaranty is an absolute and irrevocable guaranty. The lease is cross-defaulted with any other leases between us or any of our affiliates and DVH, any guarantor and any of their affiliates. In addition, as security for the lease, DVH has granted us a security interest in all personal property, other than receivables, located at the Desert Valley Facility, subject to purchase money liens on equipment. Desert Valley Hospital, Inc. has provided to us unaudited financial statements reflecting that, as of September 30, 2005, it had tangible assets of approximately $20.1 million, liabilities of approximately $19.4 million and stockholders equity of approximately $0.7 million, and for the three months ended September 30, 2005, had net income of approximately $14.1 million.

Prime, the parent of DVH and a guarantor of the lease, has provided to us unaudited financial statements showing that, as of September 30, 2005, it had consolidated tangible assets of approximately $53.8 million, consolidated liabilities of approximately $23.2 million, and consolidated tangible net worth of approximately $30.6 million and for the nine month period ended September 30, 2005, had consolidated net income of approximately $15.1 million.

Reserve for Extraordinary Repairs. DVH is responsible for all maintenance and repairs and all extraordinary repairs required to keep the facility in compliance with all applicable laws and regulations and as required under the lease. DVH is required to make quarterly deposits into a reserve account in the amount of $2,500 per bed per year. Beginning on January 1, 2006 and on each January 1 thereafter, the payment of $2,500 per bed per year into the improvement reserve will be increased by 2%. All extraordinary repair expenditures made in each year during the term of the lease are to be funded first from the reserve, and DVH is to pay into the reserve such funds as necessary for all extraordinary repairs.

Purchase Options. At any time after February 28, 2007, so long as DVH and its affiliates are not in default under any lease with us or any of the leases with its subtenants, DVH will have the option, upon 90 days prior written notice, to purchase the facility at a purchase price equal to the sum of (i) the purchase price of the facility, and (ii) that amount determined under a formula that would provide us an internal rate of return of 10% per year, increased by 2% of such percentage each year, taking into account all payments of base rent received by us. These same purchase rights also apply if we provide DVH with notice of the exercise of our right to change management as a result of a default, provided DVH gives us notice within five days following receipt of such notice. If during the term of the lease we receive from the previous owner or any of its affiliates a written offer to purchase the Desert Valley Facility and we are

Table of Contents

willing to accept the offer, so long as DVH and its affiliates are not in default under any lease with us or any of the subleases with its subtenants, we must first present the offer to DVH and allow DVH the right to purchase the facility upon the same price, terms and conditions as set forth in the offer; however, if the offer is made after February 28, 2007, in lieu of exercising its right of first refusal, DVH may exercise its option to purchase as provided above.

Depreciation and Real Estate Taxes. The following table sets forth information, as of December 31, 2004, regarding the depreciation and real estate taxes for the Desert Valley Facility:

	Federal Tax Basis		Depreciation			2004 Real Estate	
	Land	Buildings	Annual Rate	Method	Life in Years	Taxes	Rate
Victorville, California	$ 2,000,000	$ 26,000,000	2.5%	Straight-line	40	$ 289,905	1.07%

Facility Expansion. We have also entered into a letter agreement with DVH pursuant to which, subject to certain conditions, we have agreed to fund up to $20.0 million for the purpose of expanding our Desert Valley Facility. Subject to DVH providing us a development agreement, which it is not obligated to do, we have agreed to begin funding and DVH has agreed to begin drawing funds before February 28, 2006, in accordance with a disbursement schedule to be provided in the development agreement at the time of the first draw. Upon receipt and approval of the development agreement, DVH is obligated to pay us a fee in cash equal to 0.5% of the maximum amount that can be funded. This fee will be adjusted following the full and final funding of the expansion to a sum equal to 0.5% of the actual amount funded. Except for any adjustments to the fee that may result from funding less than the maximum amount, the fee is non-refundable. If DVH fails to provide a development agreement to us by February 28, 2006, we will have no further liability or obligation to provide the funding. The $20.0 million expansion amount will be treated as a capital addition under the lease and, accordingly, as such expansion costs are funded, the annual rent payable under the lease will increase by an amount equal to the then-current lease rate multiplied by the amount of expansion cost incurred. Such additional rent will continue to be payable for the remaining term of the lease. For purposes of the repurchase options contained in the lease, the purchase price will be increased by the total cost of the addition. DVH is not obligated to present us with a development agreement, and, if it does not, we have no obligation to provide funding to DVH for the expansion. We will not generate any revenues from this transaction unless and until we and DVH execute a definitive development agreement and DVH begins drawing the committed funds.

Covington, Louisiana

General. On June 9, 2005, we acquired a fee simple interest in a long-term acute care facility located in Covington, Louisiana, which is approximately 35 miles from New Orleans, Louisiana. The purchase agreement also provided for us to make a $6.0 million loan to Denham Springs Healthcare Properties, L.L.C., as well as our prospective purchase of a long-term acute facility in Denham Springs, Louisiana. We acquired the facility in Covington, Louisiana, which we refer to as the Covington Facility, from Covington Healthcare Properties, L.L.C., an unaffiliated third party. The Covington Facility contains approximately 43,250 square feet of space and is licensed for 58 beds.

The purchase price for the Covington Facility was $11.5 million. This purchase price was arrived at through arms-length negotiations based upon our analysis of various factors. These factors included the demographics of the area in which the facility is located, the capability of the tenant to operate the facility, healthcare spending trends in the geographic area, the structural integrity of the facility, governmental regulatory trends which may impact the services provided by the tenant, and the financial and economic returns which we require for making an investment.

The Covington Facility is owned by MPT of Covington, L.L.C. Currently, our operating partnership owns all of the membership interests in this limited liability company; however, we have agreed that, subject to applicable healthcare regulations, we will offer up to 30% of the equity interests in this limited liability company to local physicians.

90