SENIOR HOUSING PROPERTIES TRUST
Form 10-K405
March 28, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark one)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2001

OR

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

For the transition period from ______________ to ______________

Commission File Number 001-15319

SENIOR HOUSING PROPERTIES TRUST
(Exact name of registrant as specified in its charter)

Maryland	04-3445278
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

400 Centre Street, Newton, Massachusetts	02458
(Address of principal executive offices)	(Zip Code)

617-796-8350
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Shares of Beneficial Interest	New York Stock Exchange
Trust Preferred Securities of SNH Capital Trust I	New York Stock Exchange

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

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

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

The aggregate market value of the voting stock of the registrant held by non-affiliates was $633.9 million based on the $13.94 closing price per share for such stock on the New York Stock Exchange on March 15, 2002. For purposes of this calculation, 12,809,238 shares held by HRPT Properties Trust and an aggregate of 136,406 shares held directly or by affiliates of the trustees and executive officers of the registrant have been included in the number of shares held by affiliates.

Number of the registrant's Common Shares of Beneficial Interest, $0.01 par value, outstanding as of March 15, 2002: 58,422,200.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K is incorporated by reference from our definitive Proxy Statement for the annual meeting of shareholders currently scheduled to be held on May 7, 2002.

CERTAIN IMPORTANT FACTORS

This Annual Report on Form 10-K contains statements which constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the Securities Exchange Act of 1934, as amended. These forward looking statements include references to the possible expansion of our portfolio, the performance of our tenants and properties, our ability to pay interest and principal and make distributions, our policies and plans regarding investments, financings and other matters, our tax status as a real estate investment trust, our ability to appropriately balance the use of debt and equity and to access capital markets or other sources of funds and other statements or implications arising from such statements. Also, whenever we use words such as "believe", "expect", "anticipate", "intend", "plan", "estimate" or similar expressions, we are making forward looking statements. These forward looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those contained in or implied by the forward looking statements as a result of various factors. Such factors include, without limitation, the impact of changes in the economy and the capital markets (including prevailing interest rates) on us and our tenants, compliance with and changes to regulations and payment policies within the real estate, senior housing and healthcare industries, changes in financing terms, competition within the real estate, senior housing and healthcare industries, and changes in federal, state and local legislation. The accompanying information contained in this Annual Report on Form 10-K, including under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," identify other important factors that could cause such differences. You should not rely upon forward looking statements except as statements of our present intentions and of our present expectations which may or may not occur.

THE ARTICLES OF AMENDMENT AND RESTATEMENT ESTABLISHING SENIOR HOUSING PROPERTIES TRUST, DATED SEPTEMBER 20, 1999, A COPY OF WHICH, TOGETHER WITH ALL AMENDMENTS THERETO, AS DULY FILED IN THE OFFICE OF THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF MARYLAND, PROVIDES THAT THE NAME "SENIOR HOUSING PROPERTIES TRUST" REFERS TO THE TRUSTEES UNDER THE DECLARATION OF TRUST AS TRUSTEES, BUT NOT INDIVIDUALLY OR PERSONALLY, AND THAT NO TRUSTEE, OFFICER, SHAREHOLDER, EMPLOYEE OR AGENT OF SENIOR HOUSING PROPERTIES TRUST SHALL BE HELD TO ANY PERSONAL LIABILITY FOR ANY OBLIGATION OF, OR CLAIM AGAINST, SENIOR HOUSING PROPERTIES TRUST. ALL PERSONS DEALING WITH SENIOR HOUSING PROPERTIES TRUST, IN ANY WAY, SHALL LOOK ONLY TO THE ASSETS OF SENIOR HOUSING PROPERTIES TRUST FOR THE PAYMENT OF ANY SUM OR THE PERFORMANCE OF ANY OBLIGATION.

SENIOR HOUSING PROPERTIES TRUST
2001 FORM 10-K ANNUAL REPORT

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References in this Annual Report on Form 10-K to the "Company", "Senior Housing", "we", "us" or "our" include Senior Housing Properties Trust and its consolidated subsidiaries, unless the context indicates otherwise.

PART I

Item 1. Business

The Company. Senior Housing Properties Trust is a Maryland real estate investment trust ("REIT") which was organized on December 16, 1998 as a 100% owned subsidiary of HRPT Properties Trust ("HRPT"). On October 12, 1999, HRPT distributed 50.7% of its ownership in us to HRPT shareholders. We invest in senior housing real estate, including apartment buildings for aged residents, independent living properties, assisted living facilities and nursing homes. Our

principal executive offices are located at 400 Centre Street, Newton, Massachusetts 02458, and our telephone number is (617) 796-8350.

As of December 31, 2001, we owned 83 properties located in 23 states. On that date, our undepreciated carrying value of these properties, net of impairment losses, was $593.2 million.

Location of Properties by State	Number of Properties	Undepreciated Carrying Value
		(in thousands)
Arizona	5	$28,137
California	7	49,322
Colorado	7	28,666
Connecticut	2	11,103
Florida	5	131,990
Georgia	4	12,564
Illinois	1	36,742
Iowa	7	12,037
Kansas	1	1,377
Maryland	1	33,080
Massachusetts [1]	5	73,422
Michigan	2	9,166
Missouri	2	3,865
Nebraska	14	14,120
New Jersey	1	13,007
Ohio	1	3,445
Pennsylvania	1	15,598
South Dakota	3	7,589
Texas	1	12,410
Virginia	3	57,666
Washington	1	5,192
Wisconsin	7	25,294
Wyoming	2	7,407
Total investments	83	$593,199

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1 On January 2, 2002, the five nursing home properties in Massachusetts were exchanged for two rehabilitation hospitals. The investment in the two new hospitals is $43,308, the net book value of the five nursing home properties given up at the time of the exchange.

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We believe that the aging of the United States population will increase the demand for existing senior apartments, independent living properties, assisting living facilities and nursing homes and encourage development of new properties. Our basic business plan is to profit from this increasing demand in two ways. First, we intend to purchase additional properties and lease them at initial rents that are greater than our costs of acquisition capital. Second, we intend to structure leases that provide for periodic rental increases.

Our present business plan contemplates investments in properties which offer four types of senior housing accommodations, including some properties that combine more than one type in a single building or campus.

Senior Apartments. Senior apartments are marketed to residents who are generally capable of caring for themselves. Residence is usually restricted on the basis of age. Purpose built properties may have special function rooms, concierge services, high levels of security and assistance call systems for

emergency use. Residents at these properties who need healthcare or assistance with the activities of daily living are expected to contract independently for these services with homemakers or home healthcare companies.

Independent Living Properties. Independent living properties, or congregate communities, also provide high levels of privacy to residents and require residents to be capable of relatively high degrees of independence. Unlike a senior apartment property, an independent living property usually bundles several services as part of a regular monthly charge--for example, one or two meals per day in a central dining room, weekly maid service or a social director may be offered. Additional services are generally available from staff employees on a fee-for-service basis. In some independent living properties, separate parts of the property are dedicated to assisted living or nursing services.

Assisted Living Facilities. Assisted living facilities are typically comprised of one bedroom suites which include private bathrooms and efficiency kitchens. Services bundled within one charge usually include three meals per day in a central dining room, daily housekeeping, laundry, medical reminders and 24 hour availability of assistance with the activities of daily living such as dressing and bathing. Professional nursing and healthcare services are usually available at the property on call or at regularly scheduled times. Since the early 1990s, there has been significant growth in the number of purpose built assisted living facilities.

Nursing Homes. Nursing homes generally provide extensive nursing and healthcare services similar to those available in hospitals, without the high costs associated with operating theaters, emergency rooms or intensive care units. A typical purpose built nursing home includes mostly two-bed units with a separate bathroom in each unit and shared dining and bathing facilities. Some private rooms are often available for those residents who pay higher rates or for patients whose medical conditions require segregation. Nursing homes are generally staffed by licensed nursing professionals 24 hours per day.

During the past few years, nursing home owners and operators have faced two significant business challenges. First, the rapid expansion of the assisted living industry which started in the early 1990s has attracted a number of residents away from nursing homes. This was especially significant because the residents who chose assisted living facilities often previously had been the most profitable residents in the nursing homes. These residents required a lesser amount of care and were able to pay higher private rates rather than government rates.

The second major challenge arose as a result of Medicare and Medicaid cost containment laws, particularly 1997 federal legislation that required the Medicare program to implement a prospective payment program for various subacute services provided in nursing homes. Implementation of this Medicare prospective payment program began on July 1, 1998. Prior to the prospective payment program, Medicare generally paid nursing home operators based upon audited costs for services provided. The prospective payment system sets Medicare rates based upon government estimated costs of treating specified medical conditions. Although it is possible that a nursing home may increase its profit if it is able to provide quality services at below average costs, we believe that the effect of the new Medicare rate setting methodology has been and will be to reduce the profitability of Medicare services in nursing homes. This belief is based upon our observation of the impact of similar Medicare changes that were implemented for hospitals during the 1980s and the large number of bankruptcies which have occurred in the nursing home industry since the implementation of the Medicare prospective payment system began.

Recent Developments.

Spin-Off of Five Star Quality Care, Inc. On December 31, 2001, we distributed substantially all of our equity ownership of Five Star Quality Care, Inc. ("Five Star"), one of our wholly-owned subsidiaries, to our shareholders, resulting in Five Star becoming a separately listed public company (the "Five Star Spin-Off"). Five Star was created to conduct the operations of the 56 facilities that were repossessed or acquired from bankrupt former tenants in July 2000 and operated for our account through December 31, 2001. Internal Revenue Code of 1986, as amended ("IRC"), rules applicable to REITs restrict the manner and period these operations may be conducted and make the profits from these operations subject to income tax. In connection with the Five Star Spin-Off, Five Star, which is not a REIT, leased 55 facilities from us and directly assumed a third party lease for an additional property. By completing the Five Star Spin-Off, we are permitted under the IRC to continue indefinitely our ownership of these facilities, and the rent we will receive from Five Star may generally be distributed to our shareholders without any federal income tax being paid by us.

We completed the Five Star Spin-Off by distributing 4,342,170 shares of Five Star common stock, or one share of Five Star common stock for every ten of our common shares owned, to our shareholders. Following completion of the Five Star Spin-Off, we continue to own 35,000 shares of Five Star common stock. We also entered into a transaction agreement to govern the initial capitalization of Five Star and other events related to the Five Star Spin-Off. Pursuant to the transaction agreement, we provided initial capitalization of $50.0 million of equity to Five Star which consisted of cash and working capital related to the operations of the 56 facilities and two facilities with a net book value of $2.2 million.

We agreed to pay all costs relating to the Five Star Spin-Off. At December 31, 2001, total costs incurred were $3.7 million, which included costs of distributing Five Star shares to shareholders, legal and accounting fees, Securities and Exchange Commission ("SEC") filing fees and Five Star's American Stock Exchange listing fees.

Settlement with HEALTHSOUTH. During 2001, HEALTHSOUTH Corporation ("HEALTHSOUTH"), one of our tenants, had committed a non-monetary default by closing one of our nursing homes which it leased. On January 2, 2002, this default was settled by a property exchange. We delivered to HEALTHSOUTH title to five nursing homes which it leased from us. In exchange, HEALTHSOUTH delivered to us title to two rehabilitation hospitals and HEALTHSOUTH leased these hospitals from us. As part of this settlement, HEALTHSOUTH's lease was extended to December 31, 2011, from January 1, 2006, and the annual rent was reduced from $10.3 million to $8.7 million.

Acquisition of 31 Marriott Senior Living Communities. On January 11, 2002, we acquired 31 senior living communities for approximately $600.0 million. These communities are managed by a subsidiary of Marriott International, Inc. and leased to Five Star under long-term agreements.

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Tenants. Our financial condition depends, in part, on the financial condition of our tenants and upon our properties' operations. The following table presents our current tenants and property operators, the current rent we receive from our tenants and the current lease terminations. The transactions discussed in "Recent Developments" are reflected in this table (dollars in thousands):

Percent of	Curren

Tenant/Operator	Current Annual Rent	Current Annual Rent	Lease Expirat
Five Star/Marriott(1)	$63,000	55%	12/31/1
Marriott	30,482	26%	12/31/1
HEALTHSOUTH(2)	8,700	8%	12/31/1
Five Star(3)	7,000	6%	12/31/1
Genesis Health	1,483	1%	12/31/0
Integrated Health	1,200	1%	12/31/1
Private companies (by location):			
Huron & Sioux Falls, SD (3 properties)	1,074	1%	1/31/13
Fresno, CA	900	1%	9/30/15
Seattle, WA	803	1%	12/31/0
Grove City, OH	378	-%	12/31/0
St. Joseph, MO	307	-%	Month to m
	$115,327	100%	

Marriott. Marriott International, Inc. ("Marriott") is our most important tenant and property operator. We own 14 independent living properties and assisted living facilities located in seven states with 4,030 units that are leased to a subsidiary of Marriott. Our historic investment in these properties is $325.5 million. The current lease expires in 2013 and Marriott has four all-or-none renewal options for five years each. This lease requires minimum annual rent of $28.0 million, plus percentage rent equal to 4.5% of net patient revenue increases at these properties after 1994. Marriott has guaranteed our lease for these 14 properties.

Effective January 11, 2002, we leased an additional 31 properties to Five Star which are managed by a subsidiary of Marriott. The minimum rent for these 31 properties is $63.0 million per year plus 5% of net patient revenues increases at these properties after 2002. In addition, a varying percentage of gross revenues each year is required to be paid as additional rent to us and escrowed for future capital expenditures at the leased facilities. Marriott has not guaranteed Five Star's lease obligations. Marriott is a NYSE listed company whose major businesses are developing, operating and managing hotels, senior living properties and timeshare resorts. At December 28, 2001, Marriott reported total assets of $9.1 billion and stockholders' equity of $3.5 billion and its unsecured senior debt obligations are investment grade rated.

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The following table presents summary financial information of Marriott from its Annual Report on Form 10-K for the three fiscal years ended December 28, 2001.

Summary Financial Information of Marriott International, Inc.
(in millions)

	As of or for the year ended		
	December 28, 2001	December 29, 2000	December 31, 1999
Sales	$10,152	$10,080	$8,739
Net income	236	479	400
Total assets	9,107	8,237	7,324
Debt	2,815	2,016	1,676

Equity........................	3,478	3,267	2,908

HEALTHSOUTH. On September 6, 2001, we were notified by HEALTHSOUTH that it intended to close one of the five healthcare facilities which it leased from us, but that it expected to continue paying rent to us for this facility through the remainder of the lease term. We notified HEALTHSOUTH that its closure of this facility was a default under its lease even if the rent were to be continuously paid. On January 2, 2002, this default was settled by a property exchange. We delivered to HEALTHSOUTH title to the five nursing homes which it leased from us. In exchange, HEALTHSOUTH delivered to us title to two rehabilitation hospitals with 364 beds and HEALTHSOUTH leases these hospitals from us. As part of this settlement, HEALTHSOUTH's lease was extended to December 31, 2011 from January 1, 2006 and HEALTHSOUTH has two all-or-none renewal options for 10 years each. In addition, the annual rent was reduced from $10.3 million to $8.7 million. Our historic investment in the five properties prior to the exchange was $73.4 million (net book value of $43.3 million). Our historic investment in the new properties is $43.3 million, which was the net book value of the properties given up at the time of the exchange. HEALTHSOUTH is a NYSE listed company whose principal businesses are in-hospital rehabilitation services, outpatient rehabilitation services and outpatient surgery services. At December 31, 2001, HEALTHSOUTH reported total assets of $7.6 billion and stockholders' equity of $3.8 billion and its senior unsecured long-term debt obligations are currently rated Ba1 by Moody's Investors Service and BBB- by Standard & Poor's.

Five Star. In 2000, two of our tenants, Integrated Health Services, Inc. ("Integrated") and Mariner Post-Acute Network, Inc. ("Mariner"), filed for bankruptcy. Effective July 1, 2000, we entered settlements with these tenants. Pursuant to the Integrated settlement, we assumed the financial responsibility for 41 nursing homes, operations for five nursing homes formerly managed by Integrated were assumed by the primary tenant, HEALTHSOUTH, and the lease for one nursing home was amended as described below. Pursuant to the Mariner settlement, we assumed financial responsibility for 17 nursing homes. Subsequent to July 1, 2000, we closed operations at two of these nursing homes, and we purchased an assisted living facility in the vicinity of a nursing home formerly leased to Mariner. As a result of these activities, 56 healthcare properties, including 54 nursing homes and two assisted living facilities, located in 12 states, with 5,166 beds were managed for our account from July 1, 2000 to December 31, 2001. As previously discussed in "Recent Developments", we completed a spin-off of substantially all of our equity ownership of Five Star to our shareholders on December 31, 2001. Five Star began to lease 55 of these healthcare properties as of the spin-off date and Five Star directly assumed a third party lease for an additional property. The carrying value of our historic investment in these properties, net of previously reported impairment losses, is $144.6 million. The Five Star lease expires in 2018 and Five Star has one-all-or none renewal option for 15 years. The annual rent payable to us is $7.0 million plus increases beginning in 2004 equal to 3% of revenues at each property during a year in excess of revenues at each property during 2003. We also lease 31 senior living communities operated by a subsidiary of Marriott to Five Star. This lease expires in 2017 and the annual rent payable to us is $63.0 million plus increases beginning in 2003 equal to 5% of revenues at each property during a year in excess of revenues at each property during 2002. Five Star is a public company listed on the American Stock Exchange; its book equity capitalization at the time of the spin-off was $50.0 million and Five Star has no debt.

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Integrated. We lease one nursing home with 140 beds to Integrated. Our historic investment in this property is $15.6 million. This lease expires in 2010 and Integrated has three renewal options for 10 years each. The annual rent payable to us is $1.2 million plus annual increases beginning in 2004 based upon changes in the consumer price index. Integrated is a large, publicly owned,

nursing home and home health services company. Integrated filed for bankruptcy in 2000, but the lease for this property was amended pursuant to an agreement of the parties, and our lease payments have remained current since then.

Genesis. We lease one nursing home with 150 beds to a subsidiary of Genesis Health Ventures, Inc. ("Genesis"). Our historic investment in this property is $13.0 million. This lease expires in 2005 and Genesis has three renewal options totaling an additional 25 years. The lease currently requires annual rent of $1.5 million and increases annually by $13,000. Genesis is a large, publicly owned, nursing home company. Genesis and its subsidiary filed for bankruptcy in 2000. A plan of reorganization was confirmed and both Genesis and its subsidiary emerged from bankruptcy on October 2, 2001.

In addition to the tenants described above, we currently lease seven properties located in five states with an aggregate of 964 units to five separate privately owned tenants. Our historic investment in these properties is $21.1 million. These leases require total annual rent of $3.5 million. These leases are currently being paid according to their contractual terms, except for one lease of a facility in St. Joseph, Missouri which is presently not current in its lease obligations to us.

Lease Terms. Our leases are so called "triple net" leases which require the tenants to maintain our properties during the lease terms and to indemnify us for liability which may arise by reason of our ownership of the properties. Lease terms generally include the following:

Maintenance and Alterations. Our tenants are required to maintain, at their expense, the leased properties in good order and repair, including structural and nonstructural components. Except in the case of properties leased to Marriott, alterations and additions to any leased property which exceed threshold amounts may only be made with our prior consent. Any alterations or improvements made to any leased property during the terms of the leases become our property at the expiration of the lease, subject in some cases to our obligation to pay to the tenants unamortized costs. At the end of the leases, tenants are required to surrender the leased properties in substantially the same condition as existed on the commencement dates of the leases, subject to permitted alterations and subject to ordinary wear and tear.

Assignment and Subletting. Our consent is generally required for any direct or indirect assignment or sublease of our properties. In the event of any assignment or subletting, the initial tenant remains liable under the lease and all guarantees and other security remain in place.

Environmental Matters. Our tenants are required, at their expense, to remove and dispose of any hazardous substances at the leased properties in compliance with all applicable environmental laws and regulations and to pay any costs we incur in connection with removal and disposal. Each tenant has indemnified us for any liability which may arise as a result of the presence of hazardous substances at the leased property and from any violation or alleged violation of any applicable environmental law or regulation.

Indemnification and Insurance. Each tenant is required to indemnify us from all liabilities which may arise from our ownership or their use of our properties. Each tenant is required to maintain insurance for our properties covering:

- comprehensive general liability for damage to property or injury arising out of the ownership, use, occupancy or maintenance of the property;
- commercial property "all risk" liability for damage to improvements, merchandise, trade fixtures, furnishings, equipment and personal

property;

- workers' compensation liability;

- business interruption loss;
- in some cases, medical malpractice;
- flood loss, if a property is located in whole or in part in a flood plain; and
- other losses customarily insured by businesses similar to the business conducted at our properties.

The leases require that we be named as an additional insured under these policies.

Damage, Destruction or Condemnation. If any of our properties is damaged by fire or other casualty, or is taken for a public use, we receive all insurance or taking proceeds and our tenants are required to pay any difference between the amount of proceeds and the historical investment by us in the affected property. In the event of material destruction or condemnation, some tenants have a right to purchase the affected property for amounts at least equal to our historical investment in the property.

Events of Default. Events of default include:

- the failure of the tenant to pay rent or any other sum when due;
- the failure of the tenant to perform terms, covenants or conditions of its lease and the continuance thereof for a specified period after written notice;
- the occurrence of events of insolvency with respect to the tenant;
- the failure of the tenant to maintain required insurance coverages; or
- the revocation of any material license necessary for the tenant's operation of our property.

Default Remedies. Upon the occurrence of any event of default, we may (subject to applicable law):

- terminate the affected lease and accelerate the rent;
- terminate the tenant's rights to occupy and use the affected property, relet the property and recover from the tenant the difference between the amount of rent which would have been due under the lease and the rent received under the reletting;
- make any payment or perform any act required to be performed by the tenant under its lease;
- exercise our rights with respect to any collateral securing the lease; and
- require the defaulting tenant to reimburse us for all payments made and all costs and expenses incurred in connection with any exercise of the foregoing remedies.

Ground Lease Terms. During 2001, the land underlying two of our properties was leased. These ground leases terminate in 2079 and 2086. The annual rents payable under these ground leases in 2001 totaled approximately $140,000. If any ground lease terminates, the lease with respect to the property on such ground-leased land will also terminate. Our leases require the tenants to pay and perform all obligations arising under these ground leases. If our tenants fail to pay the applicable ground rent or elect not to renew any ground lease, we may have to do so in order to protect our investment in these properties. Any pledge of our interests in a ground lease may also require the consent of the applicable ground lessor and its lenders. We have no current requirement to make any pledge of our ground lease interests.

Of the 31 properties acquired on January 11, 2002, there are three ground leases, two of which terminate in 2016 and one which terminates in 2028. The current annual rents payable under these ground leases total approximately $1.6 million per year.

Investment Policies

Our investment policies are established by our Board of Trustees and may be changed by our Board of Trustees at any time without shareholder approval.

Acquisitions. Our present investment goals are to acquire additional senior apartments, independent living properties, assisted living facilities and nursing homes, primarily for income and secondarily for their appreciation potential. In making acquisitions, we will consider a range of factors including:

- the acquisition price of the proposed property;
- the estimated replacement cost of the proposed property;
- proposed lease terms;
- the financial strength and operating reputation of the proposed tenant;
- historical and projected cash flows of the property to be acquired;
- the location and competitive market environment of the proposed property;
- the physical condition of the proposed property and its potential for redevelopment or expansion; and
- the price segment and payment sources in which the proposed property is operated.

We intend to acquire properties which will enhance the diversity of our portfolio with respect to tenants, types of services provided and locations. However, we have no policies which specifically limit the percentage of our assets which may be invested in any individual property, in any one type of property, in properties leased to any one tenant or in properties leased to an affiliated group of tenants.

Form of Investments. We prefer wholly-owned investments in fee interests. However, circumstances may arise in which we may invest in leaseholds, joint ventures, mortgages and other real estate interests. We may invest in real estate joint ventures if we conclude that by doing so we may

benefit from the participation of co-venturers or that our opportunity to participate in the investment is contingent on the use of a joint venture structure. We may invest in participating, convertible or other types of mortgages if we conclude that by doing so, we may benefit from the cash flow or appreciation in the value of a property which is not available for purchase.

Other Types of Real Estate. During the past year we have on several occasions considered investing in real estate different from senior housing properties. We have focused upon purpose built specialized real estate which is triple net leased for long terms. To date we have not made any such investments, but we may continue to explore such alternative investments.

Completed Acquisitions. During 2001 we completed no new investments.

Disposition Policies

From time to time we consider the sale of one or more properties. Disposition decisions are made based on a number of factors including the following:

- the proposed sale price;

- the strategic fit of the property with the rest of our portfolio;
- potential opportunities to increase revenues by reinvesting sale proceeds;
- the potential for, or the existence of, any environmental or regulatory problems affecting a particular property;
- our capital needs; and
- the requirements for our continued qualification as a REIT under the IRC.

We assumed nursing home operations as a result of lease terminations and foreclosures arising from two tenant bankruptcies in 2000. Under applicable IRC provisions governing REITs, we were required to dispose of these operations within three years, subject to extension periods for up to an additional three years. After these operations were stabilized we leased these properties on a long term basis to Five Star.

Financing Policies

We have a $270.0 million revolving bank credit facility. The facility requires payment of interest only at LIBOR plus a premium until maturity on September 15, 2002. Outstanding borrowings under the facility were zero at December 31, 2001. This revolving bank credit facility is secured by first mortgages upon, and a collateral assignment of leases for, the 14 properties leased to Marriott. This revolving bank credit facility has several covenants typically found in revolving loan facilities including covenants to maintain a minimum net worth and minimum collateral value, which prohibit us from incurring debt in excess of 60% of our total capital.

We may use our revolving bank credit facility to fund acquisitions, for working capital and for general business purposes. Periodically, we expect to repay amounts drawn under the revolving bank credit facility with proceeds of equity and long term debt offerings. Our organizational documents do not limit the amount of indebtedness we may incur. At present we expect to maintain a capital structure in which our debt will not exceed 60% of our total capital. We

will consider future equity offerings when, in our judgment, doing so will improve our capital structure without materially adversely affecting the market value of our shares. In the future, we may modify our current financing policies in light of then current economic conditions, relative costs of debt and equity capital, acquisition opportunities and other factors; and our intended ratio of debt to total capital may change.

Policies with Respect to Other Activities

We operate in a manner that will not subject us to regulation under the Investment Company Act of 1940. Except for the possible acquisition of other REITs, we do not currently intend to invest in the securities of other companies for the purpose of exercising control, to underwrite securities of other companies or to trade actively in loans or other investments.

We may make investments other than as previously described. We have authority to repurchase or otherwise reacquire our shares or other securities we issue and may do so in the future. We may issue shares or other securities in exchange for property. Also, although we have no current intention to do so, we may make loans to third parties, including to our trustees and officers and to joint ventures in which we participate.

Our Investment Manager and Other Operating Arrangements

We have no employees. Services which would be provided to us by employees are provided by our investment manager, REIT Management & Research LLC ("RMR"). RMR is a Delaware limited liability company beneficially owned by Gerard M. Martin and Barry M. Portnoy. RMR's principal executive offices are located at 400 Centre Street, Newton, Massachusetts 02458, and its telephone number is (617) 928-1300. The Directors of RMR are Gerard M. Martin, Barry M. Portnoy and David J. Hegarty. The executive officers of RMR are David J. Hegarty, President and Secretary, John G. Murray, Executive Vice President, John C. Popeo,

Treasurer, and Evrett W. Benton, John A. Mannix, David M. Lepore, Thomas M. O'Brien, Jennifer B. Clark, John R. Hoadley and Bruce J. Mackey Jr., all Vice Presidents. Gerard M. Martin and Barry M. Portnoy are our Managing Trustees, and David J. Hegarty and John R. Hoadley are our officers.

In accordance with applicable IRC provisions, we hired FSQ, Inc., an independent third party manager, to manage the operations of the 56 facilities conducted by Five Star. See "Federal Income Tax Considerations - REIT Qualification Requirements." FSQ, Inc. was owned by Gerard M. Martin and Barry M. Portnoy, our Managing Trustees. On January 2, 2002, in connection with the Five Star Spin-Off, Five Star acquired FSQ, Inc. in order for Five Star to acquire the personnel, systems and assets necessary to operate the 56 facilities. The consideration for this merger was 125,000 shares of Five Star common stock payable to each of Messrs. Martin and Portnoy. In connection with the merger, our Board of Trustees received an opinion from an internationally recognized investment banking firm to the effect that, the consideration provided for in the merger was fair, from a financial point of view, to Five Star.

The title to certain nursing homes operated for our own account were delivered to us in partial satisfaction of our claims against one of our former bankrupt tenants. Because we did not own or mortgage these properties prior to their delivery to us, these properties were not foreclosure properties as defined in applicable IRC regulations. Accordingly, we created new subsidiaries to take title to these properties and assume these operations, which subsidiaries were 99% beneficially owned by us with no voting control and 0.5%

beneficially owned with 50% voting control by each of our Managing Trustees, Gerard M. Martin and Barry M. Portnoy. Effective January 1, 2001, the IRC laws concerning permissible REIT activities were changed and we acquired 100% ownership interests of these entities from Messrs. Martin and Portnoy at their cost.

Employees

As of March 15, 2002, we had no employees. RMR, which administers our day-to-day operations, had about 250 full-time employees.

Regulation and Reimbursement

Our own and our tenants' operations of our properties must comply with numerous federal, state and local statutes and regulations. The healthcare industry depends significantly upon federal and federal/state programs for revenues and, as a result, is vulnerable to the budgetary policies of both the federal and state governments.

Government Regulation and Rate Setting

Senior Apartments. Generally, government programs do not pay for housing in senior apartments. Rents are paid from the residents' private resources. Accordingly, the government regulations that apply to these types of properties are generally limited to zoning, building and fire codes, Americans with Disabilities Act requirements and other life safety type regulations applicable to residential real estate. Government rent subsidies and government assisted development financing for low income senior housing are exceptions to these general statements. The development and operation of subsidized senior housing properties are subject to numerous governmental regulations. While it is possible that we may lease some subsidized senior apartment facilities, we do not expect these facilities to be a major part of our future business, and we do not own senior apartments where rent subsidies are applicable.

Independent Living Apartments. Government benefits generally are not available for services at independent living apartments and the resident charges in these facilities are paid from private resources. However, a number of Federal Supplemental Security Income program benefits pay housing costs for elderly or disabled residents to live in these types of residential facilities. The Social Security Act requires states to certify that they will establish and enforce standards for any category of group living arrangement in which a significant number of supplemental security income residents reside or are likely to reside. Categories of living arrangements which may be subject to these state standards include independent living apartments and assisted living facilities. Because independent living apartments usually offer common dining facilities, in many locations they are required to obtain licenses applicable to food service establishments in addition to complying with land use and

life safety requirements. In many states, independent living apartments are licensed by state health departments, social service agencies, or offices on aging with jurisdiction over group residential facilities for seniors. To the extent that independent living apartments include units in which assisted living or nursing services are provided, these units are subject to applicable state licensing regulations, and if the facilities receive Medicaid or Medicare funds, to certification standards. In some states, insurance or consumer protection agencies regulate independent living apartments in which residents pay entrance fees or prepay other costs.

Assisted Living. According to the National Academy for State Health Policy, approximately 39 states provide or are approved to provide Medicaid

payments for residents in some assisted living facilities under waivers granted by the Federal Centers for Medicare and Medicaid Services, known as CMS, or under Medicaid state plans, and eight other states are planning some Medicaid funding by requesting waivers implementing assisted living pilot programs or demonstration projects. Because rates paid to assisted living facility operators are lower than rates paid to nursing home operators, some states use Medicaid funding of assisted living as a means of lowering the cost of services for residents who may not need the higher intensity of health-related services provided in nursing homes. States that administer Medicaid programs for assisted living facilities are responsible for monitoring the services at, and physical conditions of, the participating facilities. Different states apply different standards in these matters, but generally we believe these monitoring processes are similar to the concerned states' inspection processes for nursing homes.

In light of the large number of states using Medicaid to purchase services at assisted living facilities and the growth of assisted living in the 1990s, a majority of states have adopted licensing standards applicable to assisted living facilities. According to the National Academy for State Health Policy, 29 states have licensing statutes or standards specifically using the term "assisted living". The majority of states have revised their licensing regulations recently or are reviewing their policies or drafting or revising their regulations. State regulatory models vary; there is no national consensus on a definition of assisted living, and no uniform approach by the states to regulating assisted living facilities. Most state licensing standards apply to assisted living facilities whether or not they accept Medicaid funding. Also, according to the National Academy for State Health Policy, seven states require certificates of need from state health planning authorities before new assisted living facilities may be developed and two states have exempted assisted living facilities from certificate of need laws. Based on our analysis of current economic and regulatory trends, we believe that assisted living facilities that become dependent upon Medicaid payments for a majority of their revenues may decline in value because Medicaid rates may fail to keep up with increasing costs. We also believe that assisted living facilities located in states that adopt certificate of need requirements or otherwise restrict the development of new assisted living facilities may increase in value because these limitations upon development may help ensure higher occupancy and higher non-governmental rates.

Two federal government studies provide background information and make recommendations regarding the regulation of, and the possibility of increased governmental funding for, the assisted living industry. The first study, an April 1999 report by the General Accounting Office to the Senate Special Committee on Aging on assisted living facilities in four states, found a variety of residential settings serving a wide range of resident health and care needs. The General Accounting Office found that consumers often receive insufficient information to determine whether a particular facility can meet their needs and that state licensing and oversight approaches vary widely. The General Accounting Office anticipates that as the states increase the use of Medicaid to pay for assisted living, federal financing will likewise grow, and these trends will focus more public attention on the place of assisted living in the continuum of long-term care and upon state standards and compliance approaches. The second study, a National Study of Assisted Living for the Frail Elderly, was funded by the U.S. Department of Health and Human Services Assistant Secretary for Planning and Evaluation and is expected to result in a report on the effects of different service and privacy arrangements on resident satisfaction, aging in place and affordability. In 2001, the Senate Special Committee on Aging held hearings on assisted living and its role in the continuum of care and on community-based alternatives to nursing homes. We cannot predict whether these studies will result in governmental policy changes or new legislation, or what impact any changes may have. Based upon our analysis of current economic and regulatory trends, we do not believe that the federal government is likely to have a material impact upon the current regulatory environment in which the

assisted living industry operates unless it also undertakes expanded funding obligations, and we do not believe a materially increased financial commitment from the federal government is presently likely. However, we do anticipate that assisted

living facilities will increasingly be licensed and regulated by the various states, and that in absence of federal standards, the states' policies will continue to vary widely.

Nursing homes.

Reimbursement. About 58% of all nursing home revenues in the U.S. in 2000 came from government Medicare and Medicaid programs, including about 48% from Medicaid programs. Nursing homes are among the most highly regulated businesses in the country. The federal and state governments regularly monitor the quality of care provided at nursing homes. State health departments conduct surveys of resident care and inspect the physical condition of nursing home properties. These periodic inspections and occasional changes in life safety and physical plant requirements sometimes require nursing home operators to make significant capital improvements. These mandated capital improvements have in the past usually resulted in Medicare and Medicaid rate adjustments, albeit on the basis of amortization of expenditures over expected useful lives of the improvements. A new Medicare prospective payment system, often referred to as PPS, began being phased in over three years beginning with cost reporting years starting on or after July 1, 1998. Under this new Medicare payment system, capital costs are part of the prospective rate and are not facility specific. This new Medicare payment system and other recent legislative and regulatory actions with respect to state Medicaid rates are limiting the reimbursement levels for some nursing home and other eldercare services. At the same time federal and state enforcement and oversight of nursing homes are increasing, making licensing and certification of these facilities more rigorous. These actions have adversely affected the revenues and increased the expenses of many nursing home operators, including our tenants. The new Medicare payment system was established by the Balanced Budget Act of 1997, and was intended to reduce the rate of growth in Medicare payments for skilled nursing facilities. Before the new Medicare payment system, Medicare rates were facility-specific and cost-based. Under the new Medicare payment system, facilities receive a fixed payment for each day of care provided to residents who are Medicare beneficiaries. Each resident is assigned to one of 44 care groups depending on that resident's medical characteristics and service needs. Per diem payment rates are based on these care groups. Medicare payments cover substantially all services provided to Medicare residents in skilled nursing facilities, including ancillary services such as rehabilitation therapies. The new Medicare payment system is intended to provide incentives to providers to furnish only necessary services and to deliver those services efficiently. During the three year phase-in period, Medicare rates for skilled nursing facilities have been based on a blend of facility specific costs and rates established by the new Medicare payment system. According to the General Accounting Office, between fiscal year 1998 and fiscal year 1999, the first full year of the new Medicare payment system phase-in, the average Medicare payment per day declined by about nine percent.

Since November 1999, Congress has provided some relief from the impact of the Balanced Budget Act of 1997. Effective April 1, 2000, the Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 temporarily boosted payments for certain skilled nursing cases by 20 percent and allowed nursing facilities to transition more rapidly to the federal payment system. This Act also increased the new Medicare payment rates by 4% for fiscal years 2001 and 2002 and imposed a two-year moratorium on some therapy limitations for skilled nursing patients covered under Medicare Part B.

In December 2000, the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 was approved. Effective April 1, 2001 to October 1, 2002, this Act increases the nursing component of the payment rate for each care group by 16.66%. This Act also increased annual inflation adjustments for fiscal year 2001, increased rehabilitation care group rates by 6.7%, and maintained the previously temporary 20% increase in the other care group rates established in 1999.

Effective October 1, 2002, the 4% across-the-board increase in Medicare payment rates, the 16.66% increase in the nursing component of the rates, and the 6.7% increase in rehabilitation care group rates, are scheduled to expire. The 20% increase for the skilled nursing care groups will expire when the current resource utilization groups are refined. The Bush administration's fiscal year 2003 budget proposal assumes that the add-ons to the Medicare rates will expire as scheduled and does not provide for additional Medicaid funding for nursing homes. The Medicare Payment Advisory Commission has recommended that Congress incorporate the 20% increases into the base rate for fiscal year 2003 and that the other add-ons expire as scheduled.

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Survey And Enforcement. CMS has begun to implement an initiative to increase the effectiveness of Medicare and Medicaid nursing facility survey and enforcement activities. CMS' initiative follows a July 1998 General Accounting Office investigation which found inadequate care in a significant proportion of California nursing homes and the CMS' July 1998 report to Congress on the effectiveness of the survey and enforcement system. In 1999, the U.S. Department of Health and Human Services Office of Inspector General issued several reports concerning quality of care in nursing homes, and the General Accounting Office issued reports in 1999 and 2000 which recommended that CMS and the states strengthen their compliance and enforcement practices to better ensure that nursing homes provide adequate care. Since 1998, the Senate Special Committee on Aging has been holding hearings on these issues. CMS is taking steps to focus more survey and enforcement efforts on nursing homes with findings of substandard care or repeat violations of Medicare and Medicaid standards and to identify chain operated facilities with patterns of noncompliance. CMS is increasing its oversight of state survey agencies and requiring state agencies to use enforcement sanctions and remedies more promptly when substandard care or repeat violations are identified, to investigate complaints more promptly, and to survey facilities more consistently. In addition, CMS has adopted regulations expanding federal and state authority to impose civil money penalties in instances of noncompliance. Medicare survey results for each nursing home are posted on the internet at http://www.medicare.gov. When deficiencies under state licensing and Medicare and Medicaid standards are identified, sanctions and remedies such as denials of payment for new Medicare and Medicaid admissions, civil monetary penalties, state oversight and loss of Medicare and Medicaid participation or licensure may be imposed. Our tenants and their managers receive notices of potential sanctions and remedies from time to time, and such sanctions have been imposed from time to time on facilities operated by them. If they are unable to cure deficiencies which have been identified or which are identified in the future, such sanctions may be imposed, and if imposed, may adversely affect our tenants' abilities to pay their rents.

In 2000, CMS issued a report on its study linking nursing staffing levels with quality of care, and CMS is assessing the impact that minimum staffing requirements would have on facility costs and operations. In a report to be presented to Congress in 2002, the Department of Health and Human Services has found that 90% of nursing homes lack the nurse and nurse aide staffing necessary to provide adequate care to residents. The Bush administration has indicated that it does not intend to impose minimum staffing levels or to increase Medicare or Medicaid rates to cover the costs of increased staff at

this time, but is considering publishing the staffing level at each nursing home to increase market demand.

Federal efforts to target fraud and abuse and violations of anti-kickback laws and physician referral laws by Medicare and Medicaid providers have also increased. In March 2000, the U.S. Department of Health and Human Services Office of Inspector General issued compliance guidelines for nursing facilities, to assist them in developing voluntary compliance programs to prevent fraud and abuse. Also, new rules governing the privacy, use and disclosure of individually identified health information became final in 2001 and will require compliance by 2003, with civil and criminal sanctions for noncompliance. An adverse determination concerning any of our tenants' licenses or eligibility for Medicare or Medicaid reimbursement or compliance with applicable federal or state regulations could negatively affect their ability to pay rent to us.

Certificates Of Need. Most states also limit the number of nursing homes by requiring developers to obtain certificates of need before new facilities may be built. Even states such as California and Texas that have eliminated certificate of need laws often have retained other means of limiting new nursing home development, such as the use of moratoria, licensing laws or limitations upon participation in the state Medicaid program. We believe that these governmental limitations generally make nursing homes more valuable by limiting competition.

A number of legislative proposals that would affect major reforms of the healthcare system have been introduced in Congress, such as additional Medicare and Medicaid reforms and cost containment measures. We cannot predict whether any of these legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our business.

Competition

We compete with other real estate investment trusts. We also compete with banks, non-bank finance companies, leasing companies and insurance companies which invest in real estate. Some of these competitors have resources that are greater than ours and have lower costs of capital.

Environmental Matters

Under various laws, owners of real estate may be required to investigate and clean up hazardous substances present at a property, and may be held liable for property damage or personal injuries that result from such contamination. These laws also expose us to the possibility that we become liable to reimburse the government for damages and costs it incurs in connection with the contamination. We review environmental surveys of the facilities we own prior to their purchase. Based upon those surveys we do not believe that any of our properties are subject to material environmental contamination. However, no assurances can be given that environmental liabilities are not present in our properties or that costs we incur to remediate contamination will not have a material adverse effect on our business or financial condition.

Segment Information

For financial information about our segments see Note 11 to our Consolidated Financial Statements.

FEDERAL INCOME TAX CONSIDERATIONS

The following summary of federal income tax consequences is based on

existing law, and is limited to investors who own our shares as investment assets rather than as inventory or as property used in a trade or business. The summary does not discuss the particular tax consequences that might be relevant to you if you are subject to special rules under the federal income tax law, for example if you are:

- a bank, life insurance company, regulated investment company, or other financial institution,
- a broker or dealer in securities or foreign currency,
- a person who has a functional currency other than the U.S. dollar,
- a person who acquires our shares in connection with employment or other performance of services,
- a person subject to alternative minimum tax,
- a person who owns our shares as part of a straddle, hedging transaction, constructive sale transaction, or conversion transaction, or
- except as specifically described in the following summary, a tax-exempt entity or a foreign person.

The sections of the Internal Revenue Code that govern the federal income tax qualification and treatment of a REIT and its shareholders are complex. This presentation is a summary of applicable Internal Revenue Code provisions, related rules and regulations and administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect. Future legislative, judicial, or administrative actions or decisions could affect the accuracy of statements made in this summary. We have not received a ruling from the IRS with respect to any matter described in this summary, and we cannot assure you that the IRS or a court will agree with the statements made in this summary. In addition, the following summary is not exhaustive of all possible tax consequences, and does not discuss any estate, gift, state, local, or foreign tax consequences. For all these reasons, we urge you and any prospective acquirer of our shares to consult with a tax advisor about the federal income tax and other tax consequences of the acquisition, ownership and disposition of our shares.

Your federal income tax consequences may differ depending on whether or not you are a "U.S. shareholder." For purposes of this summary, a "U.S. shareholder" for federal income tax purposes is:

- a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under the federal income tax laws,
- a corporation, partnership or other entity treated as a corporation or partnership for federal income tax purposes, that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, unless otherwise provided by Treasury regulations,
- an estate the income of which is subject to federal income taxation regardless of its source, or
- a trust if a court within the United States is able to exercise

primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or electing trusts in existence on August 20, 1996 to the extent provided in Treasury regulations,

whose status as a U.S. shareholder is not overridden by an applicable tax treaty. Conversely, a "non-U.S. shareholder" is a beneficial owner of our shares who is not a U.S. shareholder.

Taxation as a REIT

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, commencing with our taxable year ending December 31, 1999. Our REIT election, assuming continuing compliance with the qualification tests summarized below, continues in effect for subsequent taxable years. Although no assurance can be given, we believe that we are organized, have operated, and will continue to operate in a manner that qualifies us to be taxed under the Internal Revenue Code as a REIT.

As a REIT, we generally will not be subject to federal income tax on our net income distributed as dividends to our shareholders. Distributions to our shareholders generally will be includable in their income as dividends to the extent of our current or accumulated earnings and profits. A portion of these dividends may be treated as capital gain dividends, as explained below. No portion of any dividends will be eligible for the dividends received deduction for corporate shareholders. Distributions in excess of current or accumulated earnings and profits generally will be treated for federal income tax purposes as a return of capital to the extent of a recipient shareholder's basis in our shares, and will reduce this basis. Our current or accumulated earnings and profits will generally be allocated first to distributions made on our preferred shares, if any, and thereafter to distributions made on our common shares.

Our counsel, Sullivan & Worcester LLP, has opined that we have been organized and have qualified as a REIT under the Internal Revenue Code for our 1999 through 2001 taxable years, and that our current investments and plan of operation will enable us to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code. Our actual qualification and taxation as a REIT will depend upon our ability to meet the various qualification tests imposed under the Internal Revenue Code and summarized below. While we believe that we will operate in a manner to satisfy the various REIT qualification tests, our counsel has not reviewed and will not review compliance with these tests on a continuing basis. If we fail to qualify as a REIT in any year, we will be subject to federal income taxation as if we were a C corporation, and our shareholders will be taxed like shareholders of C corporations. In this event, we could be subject to significant tax liabilities, and the amount of cash available for distribution to our shareholders may be reduced or eliminated.

If we qualify as a REIT and meet the annual distribution tests described below, we generally will not be subject to federal income taxes on the amounts we distribute. However, even if we qualify as a REIT, we may be subject to federal tax in the following circumstances:

- We will be taxed at regular corporate rates on any undistributed "real estate investment trust taxable income," including our undistributed net capital gains.

- If our alternative minimum taxable income exceeds our taxable income, we may be subject to the corporate alternative minimum tax on our items of tax preference.

- If we have net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business or other nonqualifying income from foreclosure property, we will be subject to tax on this net income from foreclosure property at the highest regular corporate rate, which is currently 35%. We expect to have little or no net income from foreclosure property in 2001 or 2002.

- If we have net income from prohibited transactions, including sales or other dispositions of inventory or property held primarily for sale to customers in the ordinary course of business other than foreclosure property, we will be subject to tax on this income at a 100% rate.

- If we fail to satisfy the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintain our qualification as a REIT, we will be subject to tax at a 100% rate on the greater of the amount by which we fail the 75% or the 95% test, multiplied by a fraction intended to reflect our profitability.

- If we fail to distribute for any calendar year at least the sum of 85% of our REIT ordinary income for that year, 95% of our REIT capital gain net income for that year, and any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the amounts actually distributed.

- If we acquire an asset from a corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of a present or former C corporation, and if we subsequently recognize gain on the disposition of this asset during the ten-year period beginning on the date on which the asset ceased to be owned by the C corporation, then we will pay tax at the highest regular corporate tax rate, which is currently 35%, on the lesser of the excess of the fair market value of the asset over the C corporation's basis in the asset on the date the asset ceased to be owned by the C corporation, or the gain recognized in the disposition.

- If we have succeeded to undistributed earnings and profits from an acquired C corporation, to preserve our status as a REIT we must generally distribute all of these undistributed earnings and profits not later than the end of the taxable year of the acquisition. However, if we fail to do so, relief provisions would allow us to maintain our status as a REIT provided we distribute any subsequently discovered C corporation earnings and profits and pay an interest charge in respect of the period of delayed distribution. As discussed below, we acquired several C corporations on January 11, 2002 as part of our acquisition of 31 senior living facilities. Some of these C corporations had operated for several years as subsidiaries of different parent companies. Our investigation of these C corporations indicates that they do not have retained earnings and profits that will jeopardize our status as a REIT. However, upon review or audit, the IRS may disagree with our conclusion.

- As explained below, we are permitted within limits to own stock and securities of a "taxable REIT subsidiary." A taxable REIT subsidiary of ours will be separately taxed on its net income as a C corporation, and will be subject to limitations on the deductibility of interest expense paid to us. In addition, we will be subject to a 100% tax on redetermined rents, redetermined deductions, and excess interest expense, in order to ensure that transactions between and among us, our tenants, and our taxable REIT subsidiaries are at arm's length.

If we invest in properties in foreign countries, our profits from those investments will generally be subject to tax in the countries where those properties are located. The nature and amount of this taxation will depend on the laws of the countries where the properties are located. If we operate as we currently intend, then we will distribute our taxable income to our shareholders and we will generally not pay federal income tax, and thus we generally cannot recover the cost of foreign taxes imposed on our foreign investments by claiming foreign tax credits against our federal income tax liability. Also, we cannot pass through to our shareholders any foreign tax credits.

If we fail to qualify or elect not to qualify as a REIT in any taxable year, then we will be subject to federal income tax in the same manner as a C corporation. Any distributions to our shareholders in a year in which we fail to qualify as a REIT will not be deductible, nor will these distributions be required under the Internal Revenue Code. In that event, to the extent of our current and accumulated earnings and profits, any distributions to our shareholders will be taxable as ordinary dividends and, subject to limitations in the Internal Revenue Code, will be eligible for the dividends received deduction for corporate recipients. Also, we will generally be disqualified from federal income taxation as a REIT for the four taxable years following disqualification. Failure to qualify for federal income taxation as a REIT for even one year could result in reduction or elimination of distributions to our shareholders, or in our incurring substantial indebtedness or liquidating substantial investments in order to pay the resulting corporate-level taxes.

REIT Qualification Requirements

General Requirements. Section 856(a) of the Internal Revenue Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;

(3) that would be taxable, but for Sections 856 through 859 of the Internal Revenue Code, as a C corporation;

(4) that is not a financial institution or an insurance company subject to special provisions of the Internal Revenue Code;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) that is not "closely held" as defined under the personal holding company stock ownership test, as described below; and

(7) that meets other tests regarding income, assets and distributions, all as described below.

Section 856(b) of the Internal Revenue Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a pro rata part of a taxable year of less than 12 months. Section 856(h)(2) of the Internal Revenue Code provides that neither condition (5) nor (6) need be met for our first taxable year as a REIT. We believe that we have satisfied conditions (1) to (6), inclusive, during each of the requisite periods ending on or before December 31, 2001, and that we will continue to satisfy those conditions in future taxable years. There can, however, be no assurance in this regard.

By reason of condition (6) above, we will fail to qualify as a REIT for a taxable year if at any time during the last half of the year more than 50% in value of our outstanding shares is owned directly or indirectly by five or fewer individuals. To help comply with condition (6), our declaration of trust restricts transfers of our shares. In addition, if we comply with applicable Treasury regulations to ascertain the ownership of our shares and do not know, or by exercising reasonable diligence would not have known, that we failed condition (6), then we will be

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treated as satisfying condition (6). However, our failure to comply with these regulations for ascertaining ownership may result in a penalty of $25,000, or $50,000 for intentional violations. Accordingly, we intend to comply with these regulations, and to request annually from record holders of significant percentages of our shares information regarding the ownership of our shares. Under our declaration of trust, our shareholders are required to respond to these requests for information.

For purposes of condition (6) above, REIT shares held by a pension trust are treated as held directly by the pension trust's beneficiaries in proportion to their actuarial interests in the pension trust. Consequently, five or fewer pension trusts could own more than 50% of the interests in an entity without jeopardizing that entity's federal income tax qualification as a REIT. However, as discussed below, if a REIT is a "pension-held REIT," each pension trust owning more than 10% of the REIT's shares by value generally may be taxed on a portion of the dividends it receives from the REIT.

Our Wholly-Owned Subsidiaries and Our Investments through Partnerships. Except in respect of taxable REIT subsidiaries as discussed below, Section 856(i) of the Internal Revenue Code provides that any corporation, 100% of whose stock is held by a REIT, is a qualified REIT subsidiary and shall not be treated as a separate corporation. The assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary are treated as the REIT's. We believe that each of our direct and indirect wholly-owned subsidiaries, other than the taxable REIT subsidiaries discussed below, will either be a qualified REIT subsidiary within the meaning of Section 856(i) of the Internal Revenue Code, or a noncorporate entity that for federal income tax purposes is not treated as separate from its owner under regulations issued under Section 7701 of the Internal Revenue Code. Thus, except for the taxable REIT subsidiaries discussed below, in applying all the federal income tax REIT qualification requirements described in this summary, all assets, liabilities and items of income, deduction and credit of our direct and indirect wholly-owned subsidiaries are treated as ours.

We may invest in real estate through one or more limited or general partnerships or limited liability companies that are treated as partnerships for federal income tax purposes. In the case of a REIT that is a partner in a partnership, regulations under the Internal Revenue Code provide that, for purposes of the REIT qualification requirements regarding income and assets discussed below, the REIT is deemed to own its proportionate share of the assets of the partnership corresponding to the REIT's proportionate capital interest in the partnership and is deemed to be entitled to the income of the partnership attributable to this proportionate share. In addition, for these purposes, the character of the assets and gross income of the partnership generally retain the same character in the hands of the REIT. Accordingly, our proportionate share of the assets, liabilities, and items of income of each partnership in which we are a partner is treated as ours for purposes of the income tests and asset tests discussed below. In contrast, for purposes of the distribution requirement discussed below, we must take into account as a partner our share of the partnership's income as determined under the general federal income tax rules

governing partners and partnerships under Sections 701 through 777 of the Internal Revenue Code.

Taxable REIT Subsidiaries. We are permitted to own any or all of the securities of a "taxable REIT subsidiary" as defined in Section 856(l) of the Internal Revenue Code, provided that no more than 20% of our assets, at the close of each quarter of our taxable year, is comprised of our investments in the stock or securities of our taxable REIT subsidiaries. Among other requirements, a taxable REIT subsidiary must:

(1) be a non-REIT corporation for federal income tax purposes in which we directly or indirectly own shares,

(2) join with us in making a taxable REIT subsidiary election,

(3) not directly or indirectly operate or manage a lodging facility or a health care facility, and

(4) not directly or indirectly provide to any person, under a franchise, license, or otherwise, rights to any brand name under which any lodging facility or health care facility is operated, except that in limited circumstances a subfranchise, sublicense or similar right can be granted to an independent contractor to operate or manage a lodging facility.

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In addition, a corporation other than a REIT in which a taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value will automatically be treated as a taxable REIT subsidiary. Subject to the discussion below, we believe that we and each of our taxable REIT subsidiaries have complied with, and will continue to comply with, the requirements for taxable REIT subsidiary status during all times each subsidiary's taxable REIT subsidiary election remains in effect, and we believe that the same will be true for any taxable REIT subsidiary that we later form or acquire.

Our ownership of stock and securities in taxable REIT subsidiaries is exempt from the 10% and 5% REIT asset tests discussed below. Also, as discussed below, taxable REIT subsidiaries can perform services for our tenants without disqualifying the rents we receive from those tenants under the 75% or 95% gross income tests discussed below. Moreover, because taxable REIT subsidiaries are taxed as C corporations that are separate from us, their assets, liabilities and items of income, deduction and credit are not imputed to us for purposes of the REIT qualification requirements described in this summary. Therefore, taxable REIT subsidiaries can generally undertake third-party management and development activities and activities not related to real estate.

Restrictions are imposed on taxable REIT subsidiaries to ensure that they will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary may not deduct interest paid in any year to an affiliated REIT to the extent that the interest payments exceed, generally, 50% of the taxable REIT subsidiary's adjusted taxable income for that year. However, the taxable REIT subsidiary may carry forward the disallowed interest expense to a succeeding year, and deduct the interest in that later year subject to that year's 50% adjusted taxable income limitation. In addition, if a taxable REIT subsidiary pays interest, rent, or other amounts to its affiliated REIT in an amount that exceeds what an unrelated third party would have paid in an arm's length transaction, then the REIT generally will be subject to an excise tax equal to 100% of the excessive portion of the payment. Finally, if in comparison to an arm's length transaction, a tenant has overpaid rent to the REIT in exchange for underpaying the taxable REIT subsidiary for services rendered, then the REIT may be subject to an excise tax equal to 100% of the overpayment. There can be no assurance that arrangements involving our taxable REIT subsidiaries

will not result in the imposition of one or more of these deduction limitations or excise taxes, but we do not believe that we are or will be subject to these impositions.

In our 2000 taxable year, we took title to several healthcare facilities, valued in the aggregate at less than $9 million, through corporate subsidiaries in which we owned 99% of the outstanding common stock, all of which was nonvoting, and in which individual shareholders owned 1% of the outstanding common stock, all of which was voting. We could not take direct title to these particular facilities and operate them under the "foreclosure property" rules discussed below, because the facilities were not leased by or mortgaged to us at the time of our tenant-mortgagor's default with respect to other facilities, nor could we lease these facilities on suitable terms because of market conditions at that time. Accordingly, our 99% subsidiaries took title to these particular facilities and retained an independent contractor to operate and manage the facilities. Although there can be no assurance in this regard, we believe that these 99% subsidiaries' ownership and operational structure during our 2000 taxable year satisfied the then applicable REIT asset tests discussed below, because we did not own more than 10% of the voting securities of the 99% subsidiaries. As of January 1, 2001, we acquired 100% ownership of the formerly 99% owned corporate subsidiaries, and filed a taxable REIT subsidiary election with each of these subsidiaries effective January 1, 2001. These elections were revoked early in taxable year 2002, in connection with the spin-off of Five Star Quality Care, Inc. and our diminished ownership of these subsidiaries. We have received an opinion of counsel that, although the matter is not free from doubt, it is more likely than not that these subsidiaries were taxable REIT subsidiaries from January 1, 2001 until the revocation of the taxable REIT subsidiary elections. We had submitted a private letter ruling request to the IRS to confirm that these subsidiaries complied with the requirement that prohibits the direct or indirect operation or management of a healthcare facility by a taxable REIT subsidiary, but withdrew this request before any IRS ruling was issued. If it is determined that these subsidiaries were ineligible for taxable REIT subsidiary status, we believe that the subsidiaries would instead have been qualified REIT subsidiaries under Section 856(i) of the Internal Revenue Code because we owned 100% of them and they were not properly classified as taxable REIT subsidiaries. As our qualified REIT subsidiaries, the gross income from the subsidiaries' healthcare facilities would be treated as our own, and as a general matter would be nonqualifying income for purposes of the 75% and 95% gross income tests discussed below. We expect to take steps to qualify for the 75% and 95% gross income tests under the relief provision described below, including for example attaching an applicable schedule of gross income to our 2001

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federal income tax return as required by Section 856(c)(6)(A) of the Internal Revenue Code. Thus, even if the IRS or a court ultimately determines that these subsidiaries failed to qualify as our taxable REIT subsidiaries, and that this failure thereby implicated our compliance with the 75% and 95% gross income tests discussed below, we expect we would qualify for the gross income tests' relief provision and thereby preserve our qualification as a REIT. If this relief provision were to apply to us, we would be subject to tax at a 100% rate on the greater of the amount by which we failed the 75% or the 95% gross income test, with adjustments, multiplied by a fraction intended to reflect our profitability for the taxable year; however, we would expect to owe little or no tax in these circumstances.

Income Tests. There are two gross income requirements for qualification as a REIT under the Internal Revenue Code:

- At least 75% of our gross income, excluding gross income from sales or other dispositions of property held primarily for sale, must be

derived from investments relating to real property, including "rents from real property" as defined under Section 856 of the Internal Revenue Code, mortgages on real property, or shares in other REITs. When we receive new capital in exchange for our shares or in a public offering of five-year or longer debt instruments, income attributable to the temporary investment of this new capital in stock or a debt instrument, if received or accrued within one year of our receipt of the new capital, is generally also qualifying income under the 75% test.

- At least 95% of our gross income, excluding gross income from sales or other dispositions of property held primarily for sale, must be derived from a combination of items of real property income that satisfy the 75% test described above, dividends, interest, payments under interest rate swap or cap agreements, options, futures contracts, forward rate agreements, or similar financial instruments, and gains from the sale or disposition of stock, securities, or real property.

For purposes of these two requirements, income derived from a "shared appreciation provision" in a mortgage loan is generally treated as gain recognized on the sale of the property to which it relates. Although we will use our best efforts to ensure that the income generated by our investments will be of a type which satisfies both the 75% and 95% gross income tests, there can be no assurance in this regard.

In order to qualify as "rents from real property" under Section 856 of the Internal Revenue Code, several requirements must be met:

- The amount of rent received generally must not be based on the income or profits of any person, but may be based on receipts or sales.

- Rents do not qualify if the REIT owns 10% or more by vote or value of the tenant, whether directly or after application of attribution rules. While we intend not to lease property to any party if rents from that property would not qualify as rents from real property, application of the 10% ownership rule is dependent upon complex attribution rules and circumstances that may be beyond our control. For example, an unaffiliated third party's ownership directly or by attribution of 10% or more by value of our shares, or 10% or more by value of HRPT Properties Trust's shares for so long as HRPT Properties Trust owns 10% or more by value of us, as well as 10% or more by vote or value of the stock of one of our tenants, would result in that tenant's rents not qualifying as rents from real property. Our declaration of trust disallows transfers or purported acquisitions, directly or by attribution, of our shares that could result in disqualification as a REIT under the Internal Revenue Code and permits our trustees to repurchase the shares to the extent necessary to maintain our status as a REIT under the Internal Revenue Code. Nevertheless, there can be no assurance that these provisions in our declaration of trust will be effective to prevent REIT status under the Internal Revenue Code from being jeopardized under the 10% affiliated tenant rule. Furthermore, there can be no assurance that we will be able to monitor and enforce these restrictions, nor will our shareholders necessarily be aware of ownership of shares attributed to them under the Internal Revenue Code's attribution rules.

- For our 2001 taxable year and thereafter, there is a limited exception to the above prohibition on earning "rents from real property" from a 10% affiliated tenant, if the tenant is a taxable REIT subsidiary. If

at least 90% of the leased space of a property is leased to tenants other than taxable REIT subsidiaries and 10% affiliated tenants, and if the taxable REIT subsidiary's rent for space at that property is substantially comparable to the rents paid by nonaffiliated tenants for comparable space at the property, then otherwise qualifying rents paid by the taxable REIT subsidiary to the REIT will not be disqualified on account of the rule prohibiting 10% affiliated tenants.

- In order for rents to qualify, we generally must not manage the property or furnish or render services to the tenants of the property, except through an independent contractor from whom we derive no income or, for our 2001 taxable year and thereafter, through one of our taxable REIT subsidiaries. There is an exception to this rule permitting a REIT to perform customary tenant services of the sort which a tax-exempt organization could perform without being considered in receipt of "unrelated business taxable income" as defined in Section 512(b)(3) of the Internal Revenue Code. In addition, a de minimis amount of noncustomary services will not disqualify income as "rents from real property" so long as the value of the impermissible services does not exceed 1% of the gross income from the property.

- If rent attributable to personal property leased in connection with a lease of real property is 15% or less of the total rent received under the lease, then the rent attributable to personal property will qualify as "rents from real property", if this 15% threshold is exceeded, the rent attributable to personal property will not so qualify. For our taxable years through December 31, 2000, the portion of rental income treated as attributable to personal property is determined according to the ratio of the tax basis of the personal property to the total tax basis of the real and personal property which is rented. For our 2001 taxable year and thereafter, the ratio will be determined by reference to fair market values rather than tax bases.

We believe that all or substantially all our rents have qualified and will qualify as rents from real property for purposes of Section 856 of the Internal Revenue Code.

In order to qualify as mortgage interest on real property for purposes of the 75% test, interest must derive from a mortgage loan secured by real property with a fair market value, at the time the loan is made, at least equal to the amount of the loan. If the amount of the loan exceeds the fair market value of the real property, the interest will be treated as interest on a mortgage loan in a ratio equal to the ratio of the fair market value of the real property to the total amount of the mortgage loan.

In our 2000 taxable year, we reduced to possession several healthcare facilities, including both the real property and the incidental personal property at these facilities, in each case after a default or imminent default on either a loan secured by the facility or a lease of the facility. As of and subsequent to December 31, 2001, these facilities are leased to Five Star Quality Care, Inc., and we believe the rents from these facilities qualify as "rents from real property". For periods before we began leasing these facilities to Five Star Quality Care, Inc., gross operating income from the facilities would not have qualified under the 75% and 95% gross income tests in the absence of "foreclosure property" treatment under Section 856(e) of the Internal Revenue Code, and would likely have disqualified us from being a REIT. As foreclosure property, however, gross operating income from our repossessed facilities qualified under the 75% and 95% gross income tests. Further, any gain we recognized on the sale of foreclosure property, plus any income we received from foreclosure property that would not qualify under the 75% gross income test in

the absence of foreclosure property treatment, reduced by our expenses directly connected with the production of those items of income, was subject to tax at the maximum corporate rate of 35%.

We believe that we were eligible, pursuant to Section 856(e) of the Internal Revenue Code, to treat our repossessed facilities as "foreclosure property," and we made an election to that effect with our 2000 federal income tax return. However, a repossessed facility's status as foreclosure property would have ceased upon the earlier of:

- the date we began to lease the facility on terms that gave rise to income that did not qualify under the 75% gross income test, or the date we began to receive or accrue income pursuant to a lease, directly or indirectly, that did not qualify under the 75% gross income test,

- the first day after repossession on which construction took place, other than completion of a building or other improvement where more than 10% of the construction was completed before our tenant's or debtor's default became imminent, or

- the first day more than 90 days after repossession that we did not retain an independent contractor, from whom we did not derive or receive any income, to operate the facility on our behalf.

We do not believe that foreclosure property status for the repossessed facilities terminated at any point before our lease of these properties to Five Star Quality Care, Inc. began. We retained an independent contractor from whom we did not derive or receive any income to oversee the day-to-day operation of our repossessed facilities, and although there can be no assurance in this regard, we believe that our repossessed facilities qualified as foreclosure property under Section 856(e) of the Internal Revenue Code. Accordingly, we believe that gross operating income from these repossessed facilities qualified under the 75% and 95% gross income tests.

Other than sales of foreclosure property, any gain we realize on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business will be treated as income from a prohibited transaction that is subject to a penalty tax at a 100% rate. This prohibited transaction income also may adversely affect our ability to satisfy the 75% and 95% gross income tests for federal income tax qualification as a REIT. We cannot provide assurances as to whether or not the IRS might successfully assert that one or more of our dispositions is subject to the 100% penalty tax. However, we believe that dispositions of assets that we might make will not be subject to the 100% penalty tax, because we intend to:

- own our assets for investment with a view to long-term income production and capital appreciation;

- engage in the business of developing, owning and operating our existing properties and acquiring, developing, owning and operating new properties; and

- make occasional dispositions of our assets consistent with our long-term investment objectives.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if:

- our failure to meet the test was due to reasonable cause and not due

to willful neglect;

- we report the nature and amount of each item of our income included in the 75% or 95% gross income tests for that taxable year on a schedule attached to our tax return; and
- any incorrect information on the schedule was not due to fraud with intent to evade tax.

It is impossible to state whether in all circumstances we would be entitled to the benefit of this relief provision for the 75% and 95% gross income tests. Even if this relief provision did apply, a special tax equal to 100% is imposed upon the greater of the amount by which we failed the 75% test or the 95% test with certain adjustments, multiplied by a fraction intended to reflect our profitability.

Asset Tests. At the close of each quarter of each taxable year, we must also satisfy these asset percentage tests in order to qualify as a REIT for federal income tax purposes:

- At least 75% of our total assets must consist of real estate assets, cash and cash items, shares in other REITs, government securities, and stock or debt instruments purchased with proceeds of a

stock offering or an offering of our debt with a term of at least five years, but only for the one-year period commencing with our receipt of the offering proceeds.

- Not more than 25% of our total assets may be represented by securities other than those securities that count favorably toward the preceding 75% asset test.
- Of the investments included in the preceding 25% asset class, the value of any one non-REIT issuer's securities that we own may not exceed 5% of the value of our total assets, and we may not own more than 10% of any one non-REIT issuer's outstanding voting securities. For our 2001 taxable year and thereafter, we may not own more than 10% of the vote or value of any one non-REIT issuer's outstanding securities, unless that issuer is our taxable REIT subsidiary or the securities are straight debt securities.
- For our 2001 taxable year and thereafter, our stock and securities in a taxable REIT subsidiary are exempted from the preceding 10% and 5% asset tests. However, no more than 20% of our total assets may be represented by stock or securities of taxable REIT subsidiaries.

When a failure to satisfy the above asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. We intend to maintain records of the value of our assets to document our compliance with the above asset tests, and to take actions as may be required to cure any failure to satisfy the tests within 30 days after the close of any quarter.

Our Relationship with Five Star. In 2001, we and HRPT Properties Trust spun off substantially all of our Five Star Quality Care, Inc. common shares. In addition, our leases with Five Star, Five Star's charter and bylaws, and the transaction agreement governing the spin-off collectively contain restrictions upon the ownership of Five Star common shares and require Five Star to refrain from taking any actions that may jeopardize our qualification as a REIT under

the Internal Revenue Code, including actions which would result in our or our principal shareholder, HRPT Properties Trust, obtaining actual or constructive ownership of 10% or more of the Five Star common shares. Accordingly, commencing with our 2002 taxable year, we expect that the rental income we receive from Five Star and its subsidiaries will be "rents from real property," and thus qualifying income under the 75% and 95% gross income tests described above.

Annual Distribution Requirements. In order to qualify for taxation as a REIT under the Internal Revenue Code, we are required to make annual distributions other than capital gain dividends to our shareholders in an amount at least equal to the excess of:

(A) the sum of 90% of our "real estate investment trust taxable income," as defined in Section 857 of the Internal Revenue Code, computed by excluding any net capital gain and before taking into account any dividends paid deduction for which we are eligible, and 90% of our net income after tax, if any, from property received in foreclosure, over

(B) the sum of our qualifying noncash income, e.g., imputed rental income or income from transactions inadvertently failing to qualify as like-kind exchanges.

Prior to our 2001 taxable year, the preceding 90% percentages were 95%. The distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the earlier taxable year and if paid on or before the first regular distribution payment after that declaration. If a dividend is declared in October, November, or December to shareholders of record during one of those months, and if the dividend is paid during the following January, then for federal income tax purposes the dividend will be treated as having been both paid and received on December 31 of the prior taxable year. A distribution which is not pro rata within a class of our beneficial interests entitled to a distribution, or which is not consistent with the rights to distributions among our classes of beneficial interests, is a preferential distribution that is not taken into consideration for purposes of the distribution requirements, and accordingly the payment of a preferential distribution could affect our ability to meet the distribution requirements. Taking into account our

distribution policies, including the dividend reinvestment plan we have adopted, we expect that we will not make any preferential distributions. The distribution requirements may be waived by the IRS if a REIT establishes that it failed to meet them by reason of distributions previously made to meet the requirements of the 4% excise tax discussed below. To the extent that we do not distribute all of our net capital gain and all of our real estate investment trust taxable income, as adjusted, we will be subject to tax on undistributed amounts.

In addition, we will be subject to a 4% excise tax to the extent we fail within a calendar year to make required distributions to our shareholders of 85% of our ordinary income and 95% of our capital gain net income plus the excess, if any, of the "grossed up required distribution" for the preceding calendar year over the amount treated as distributed for that preceding calendar year. For this purpose, the term "grossed up required distribution" for any calendar year is the sum of our taxable income for the calendar year without regard to the deduction for dividends paid and all amounts from earlier years that are not treated as having been distributed under the provision.

If we do not have enough cash or other liquid assets to meet the 90% distribution requirements, we may find it necessary to arrange for new debt or equity financing to provide funds for required distributions, or else our REIT status for federal income tax purposes could be jeopardized. We can provide no

assurance that financing would be available for these purposes on favorable terms.

If we fail to distribute sufficient dividends for any year, we may be able to rectify this failure by paying "deficiency dividends" to shareholders in a later year. These deficiency dividends may be included in our deduction for dividends paid for the earlier year, but an interest charge would be imposed upon us for the delay in distribution. Although we may be able to avoid being taxed on amounts distributed as deficiency dividends, we will remain liable for the 4% excise tax discussed above.

In addition to the other distribution requirements above, to preserve our status as a REIT we are required to timely distribute earnings and profits that we inherit from acquired C corporations, for example, the subsidiaries we acquired on January 11, 2002. However, as explained below, our investigation indicates that we did not inherit earnings and profits from these subsidiaries that will jeopardize our status as a REIT.

The Acquisition of 31 Senior Living Communities

On January 11, 2002, we acquired all of the outstanding stock of a subsidiary of a domestic C corporation. At the time of that acquisition, this subsidiary directly or indirectly owned all of the outstanding equity interests in lower tier, corporate and noncorporate subsidiaries. Upon our acquisition, each of the acquired entities became either our qualified REIT subsidiary under Section 856(i) of the Internal Revenue Code or a disregarded entity under Treasury regulations issued under Section 7701 of the Internal Revenue Code. Thus, after the acquisition, all assets, liabilities and items of income, deduction and credit of wholly-owned subsidiaries have been treated as ours for purposes of the various REIT qualification tests described above. In addition, we generally are treated as the successor to the acquired subsidiaries' federal income tax attributes, such as those entities' adjusted tax bases in their assets and their depreciation schedules; we are also treated as the successor to the acquired corporate subsidiaries' earnings and profits for federal income tax purposes, if any.

Built-in Gains from C Corporations. As described above, notwithstanding our qualification and taxation as a REIT, we may still be subject to corporate taxation in particular circumstances. Specifically, if we acquire an asset from a C corporation in a transaction in which our adjusted tax basis in the asset is determined by reference to the adjusted tax basis of that asset in the hands of the C corporation, and if we subsequently recognize gain on the disposition of that asset during the ten year period following the acquisition, then we will generally pay tax at the highest regular corporate tax rate, currently 35%, on the lesser of (1) the excess at the time we acquired the asset, if any, of the asset's fair market value over its then adjusted tax basis, or (2) our gain recognized in the disposition. Accordingly, any taxable disposition of an asset acquired in the January 11, 2002 transaction during the ten-year period commencing on that date could be subject to tax under these rules. However, except as described below, we have not disposed, and have no present plan or intent to dispose, of any assets acquired in this transaction.

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Also on January 11, 2002, we conveyed to Five Star and its subsidiaries operating assets that were of a type that are typically owned by the tenant of a senior living facility. In exchange, Five Star and its subsidiaries assumed related operating liabilities. The aggregate adjusted tax basis in the transferred operating assets was less than the related liabilities assumed, and Five Star and its subsidiaries have received a cash payment from us in the amount of the estimated difference. We believe that the fair market value of these conveyed operating assets will equal their adjusted tax bases, and we and

Five Star agreed to do our respective tax return reporting to that effect. Accordingly, although Sullivan & Worcester LLP is unable to render an opinion on factual determinations such as assets' fair market value, we expect to report no gain or loss, and therefore to owe no corporate level tax under the rules for dispositions of former C corporation assets, in respect of this conveyance of operating assets to Five Star.

Earnings and Profits. A REIT may not at the end of any taxable year have any undistributed earnings and profits for federal income tax purposes that are attributable to a C corporation. Upon the closing of the January 11, 2002 transaction, we succeeded to the undistributed earnings and profits, if any, of the acquired corporate subsidiaries. Thus, we need to distribute all of these earnings and profits no later than December 31, 2002. If we fail to do so, we will not qualify as a REIT for 2002 and thereafter unless a relief provision applies.

Although Sullivan & Worcester LLP is unable to render an opinion on factual determinations such as the amount of undistributed earnings and profits, we have made a preliminary investigation of the amount of undistributed earnings and profits that we inherited in the January 11, 2002 transaction. At present, we believe that we did not acquire any undistributed earnings and profits in this transaction that will remain undistributed on December 31, 2002 after taking into account our anticipated distributions for 2002. However, there can be no assurance that the IRS would not, upon subsequent examination, propose adjustments to the undistributed earnings and profits that we inherited as a result of the January 11, 2002 transaction. In examining the calculation of undistributed earnings and profits that we inherited, the IRS might consider all taxable years of the acquired subsidiaries as open for review for purposes of its proposed adjustments.

If we discover that we have inherited undistributed earnings and profits in the January 11, 2002 transaction that would not be eliminated by December 31, 2002 through our distributions made during 2002, we may choose to preserve our qualification and taxation as a REIT by making a special distribution for our 2002 taxable year. If, despite these best efforts during our 2002 taxable year, it is subsequently determined that we had undistributed earnings and profits from the January 11, 2002 transaction at December 31, 2002, we may be eligible for a relief provision similar to the "deficiency dividends" procedure described above. To utilize this relief provision, we would have to pay an interest charge for the delay in distributing the undistributed earnings and profits; in addition, we would be required to distribute to our shareholders, in addition to our other REIT distribution requirements, the amount of the undistributed earnings and profits less the interest charge paid.

Depreciation and Federal Income Tax Treatment of Leases

Our initial tax bases in our assets will generally be our acquisition cost. We will generally depreciate our real property on a straight-line basis over 40 years and our personal property over 12 years. These depreciation schedules may vary for properties that we acquire through tax-free or carryover basis acquisitions.

The initial tax bases and depreciation schedules for our assets we held immediately after we were spun off from HRPT Properties Trust depends upon whether the deemed exchange that resulted from that spin-off was an exchange under Section 351(a) of the Internal Revenue Code. We believe that Section 351(a) treatment was appropriate. Therefore, we carried over HRPT Properties Trust's tax basis and depreciation schedule in each of the assets, and to the extent that HRPT Properties Trust recognized gain on an asset in the deemed exchange, we obtained additional tax basis in that asset which we depreciate in the same manner as we depreciate newly purchased assets. In contrast, if Section 351(a) treatment was not appropriate for the deemed exchange, then we will be

treated as though we acquired all our assets at the time of the spin-off in a fully taxable acquisition, thereby acquiring aggregate tax bases in these assets equal to the aggregate amount realized by HRPT Properties Trust in the deemed exchange, and it would then be appropriate to depreciate these tax bases in the same manner as we depreciate newly purchased assets. We believe, and Sullivan & Worcester LLP has opined, that it is likely that the deemed exchange was an exchange under Section 351(a) of the Internal Revenue Code, and we will perform all our tax reporting accordingly. We may be required to amend these tax reports, including those sent to

our shareholders, if the IRS successfully challenges our position that the deemed exchange is an exchange under Section 351(a) of the Internal Revenue Code. We intend to comply with the annual REIT distribution requirements regardless of whether the deemed exchange was an exchange under Section 351(a) of the Internal Revenue Code.

We will be entitled to depreciation deductions from our facilities only if we are treated for federal income tax purposes as the owner of the facilities. This means that the leases of the facilities must be classified for federal income tax purposes as true leases, rather than as sales or financing arrangements, and we believe this to be the case. In the case of sale-leaseback arrangements, the IRS could assert that we realized prepaid rental income in the year of purchase to the extent that the value of a leased property, at the time of purchase, exceeded the purchase price for that property. While we believe that the value of leased property at the time of purchase did not exceed purchase prices, because of the lack of clear precedent we cannot provide assurances as to whether the IRS might successfully assert the existence of prepaid rental income in any of our sale-leaseback transactions.

Taxation of U.S. Shareholders

As long as we qualify as a REIT for federal income tax purposes, a distribution to our U.S. shareholders that we do not designate as a capital gain dividend will be treated as an ordinary income dividend to the extent that it is made out of current or accumulated earnings and profits. Distributions made out of our current or accumulated earnings and profits that we properly designate as capital gain dividends will be taxed as long-term capital gains, as discussed below, to the extent they do not exceed our actual net capital gain for the taxable year. However, corporate shareholders may be required to treat up to 20% of any capital gain dividend as ordinary income under Section 291 of the Internal Revenue Code.

In addition, we may elect to retain net capital gain income and treat it as constructively distributed. In that case:

(1) we will be taxed at regular corporate capital gains tax rates on retained amounts,

(2) each U.S. shareholder will be taxed on its designated proportionate share of our retained net capital gains as though that amount were distributed and designated a capital gain dividend,

(3) each U.S. shareholder will receive a credit for its designated proportionate share of the tax that we pay,

(4) each U.S. shareholder will increase its adjusted basis in our shares by the excess of the amount of its proportionate share of these retained net capital gains over its proportionate share of this tax that we pay, and

(5) both we and our corporate shareholders will make commensurate

adjustments in our respective earnings and profits for federal income tax purposes.

If we elect to retain our net capital gains in this fashion, we will notify our U.S. shareholders of the relevant tax information within 60 days after the close of the affected taxable year.

For noncorporate U.S. shareholders, long-term capital gains are generally taxed at maximum rates of 20% or 25%, depending upon the type of property disposed of and the previously claimed depreciation with respect to this property. If for any taxable year we designate as capital gain dividends any portion of the dividends paid or made available for the year to our U.S. shareholders, including our retained capital gains treated as capital gain dividends, then the portion of the capital gain dividends so designated that will be allocated to the holders of a particular class of shares will on a percentage basis equal the ratio of the amount of the total dividends paid or made available for the year to the holders of that class of shares to the total dividends paid or made available for the year to holders of all classes of our shares. We will similarly designate the portion of any capital gain dividend that is to be taxed to noncorporate U.S. shareholders at the maximum rates of 20% or 25% so that the designations will be proportionate among all classes of our shares.

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Distributions in excess of current or accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that they do not exceed the shareholder's adjusted basis in the shareholder's shares, but will reduce the shareholder's basis in those shares. To the extent that these excess distributions exceed the adjusted basis of a U.S. shareholder's shares, they will be included in income as capital gain, with long-term gain generally taxed to noncorporate U.S. shareholders at a maximum rate of 20%. No U.S. shareholder may include on his federal income tax return any of our net operating losses or any of our capital losses.

Dividends that we declare in October, November or December of a taxable year to U.S. shareholders of record on a date in those months will be deemed to have been received by shareholders on December 31 of that taxable year, provided we actually pay these dividends during the following January. Also, items that are treated differently for regular and alternative minimum tax purposes are to be allocated between a REIT and its shareholders under Treasury regulations which are to be prescribed. It is possible that these Treasury regulations will require tax preference items to be allocated to our shareholders with respect to any accelerated depreciation or other tax preference items that we claim.

A U.S. shareholder's sale or exchange of our shares will result in recognition of gain or loss in an amount equal to the difference between the amount realized and the shareholder's adjusted basis in the shares sold or exchanged. This gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the shareholder's holding period in the shares exceeds one year. In addition, any loss upon a sale or exchange of our shares held for six months or less will generally be treated as a long-term capital loss to the extent of our long-term capital gain dividends during the holding period.

Noncorporate U.S. shareholders who borrow funds to finance their acquisition of our shares could be limited in the amount of deductions allowed for the interest paid on the indebtedness incurred. Under Section 163(d) of the Internal Revenue Code, interest paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment is generally deductible only to the extent of the investor's net investment income. A U.S. shareholder's net investment income will include ordinary income dividend distributions received from us and, if an appropriate election is made by the

shareholder, capital gain dividend distributions received from us; however, distributions treated as a nontaxable return of the shareholder's basis will not enter into the computation of net investment income.

Taxation of Tax-Exempt Shareholders

In Revenue Ruling 66-106, the IRS ruled that amounts distributed by a REIT to a tax-exempt employees' pension trust did not constitute "unrelated business taxable income," even though the REIT may have financed some its activities with acquisition indebtedness. Although revenue rulings are interpretive in nature and subject to revocation or modification by the IRS, based upon the analysis and conclusion of Revenue Ruling 66-106, our distributions made to shareholders that are tax-exempt pension plans, individual retirement accounts, or other qualifying tax-exempt entities should not constitute unrelated business taxable income, unless the shareholder has financed its acquisition of our shares with "acquisition indebtedness" within the meaning of the Internal Revenue Code.

Special rules apply to tax-exempt pension trusts, including so-called 401(k) plans but excluding individual retirement accounts or government pension plans, that own more than 10% by value of a "pension-held REIT" at any time during a taxable year. The pension trust may be required to treat a percentage of all dividends received from the pension-held REIT during the year as unrelated business taxable income. This percentage is equal to the ratio of:

(1) the pension-held REIT's gross income derived from the conduct of unrelated trades or businesses, determined as if the pension-held REIT were a tax-exempt pension fund, less direct expenses related to that income, to

(2) the pension-held REIT's gross income from all sources, less direct expenses related to that income,

except that this percentage shall be deemed to be zero unless it would otherwise equal or exceed 5%. A REIT is a pension-held REIT if:

- o the REIT is "predominantly held" by tax-exempt pension trusts, and
- o the REIT would otherwise fail to satisfy the "closely held" ownership requirement discussed above if the stock or beneficial interests in the REIT held by tax-exempt pension trusts were viewed as held by tax-exempt pension trusts rather than by their respective beneficiaries.

A REIT is predominantly held by tax-exempt pension trusts if at least one tax-exempt pension trust owns more than 25% by value of the REIT's stock or beneficial interests, or if one or more tax-exempt pension trusts, each owning more than 10% by value of the REIT's stock or beneficial interests, own in the aggregate more than 50% by value of the REIT's stock or beneficial interests. Because of the restrictions in our declaration of trust regarding the ownership concentration of our shares, we believe that we are not and will not be a pension-held REIT. However, because our shares are publicly traded, we cannot completely control whether or not we are or will become a pension-held REIT.

Taxation of Non-U.S. Shareholders

The rules governing the United States federal income taxation of non-U.S. shareholders are complex, and the following discussion is intended only as a summary of these rules. If you are a non-U.S. shareholder, we urge you to consult with your own tax advisor to determine the impact of United States federal, state, local, and foreign tax laws, including any tax return filing and

other reporting requirements, with respect to your investment in our shares.

In general, a non-U.S. shareholder will be subject to regular United States federal income tax in the same manner as a U.S. shareholder with respect to its investment in our shares if that investment is effectively connected with the non-U.S. shareholder's conduct of a trade or business in the United States. In addition, a corporate non-U.S. shareholder that receives income that is or is deemed effectively connected with a trade or business in the United States may also be subject to the 30% branch profits tax under Section 884 of the Internal Revenue Code, which is payable in addition to regular United States federal corporate income tax. The balance of this discussion of the United States federal income taxation of non-U.S. shareholders addresses only those non-U.S. shareholders whose investment in our shares is not effectively connected with the conduct of a trade or business in the United States.

A distribution by us to a non-U.S. shareholder that is not attributable to gain from the sale or exchange of a United States real property interest and that is not designated as a capital gain dividend will be treated as an ordinary income dividend to the extent that it is made out of current or accumulated earnings and profits. A distribution of this type will generally be subject to United States federal income tax and withholding at the rate of 30%, or the lower rate that may be specified by a tax treaty if the non-U.S. shareholder has in the manner prescribed by the IRS demonstrated its entitlement to benefits under a tax treaty. Because we cannot determine our current and accumulated earnings and profits until the end of the taxable year, withholding at the rate of 30% or applicable lower treaty rate will generally be imposed on the gross amount of any distribution to a non-U.S. shareholder that we make and do not designate a capital gain dividend. Notwithstanding this withholding on distributions in excess of our current and accumulated earnings and profits, these distributions are a nontaxable return of capital to the extent that they do not exceed the non-U.S. shareholder's adjusted basis in our shares, and the nontaxable return of capital will reduce the adjusted basis in these shares. To the extent that distributions in excess of current and accumulated earnings and profits exceed the non-U.S. shareholder's adjusted basis in our shares, the distributions will give rise to tax liability if the non-U.S. shareholder would otherwise be subject to tax on any gain from the sale or exchange of these shares, as discussed below. A non-U.S. shareholder may seek a refund from the IRS of amounts withheld on distributions to him in excess of our current and accumulated earnings and profits.

For any year in which we qualify as a REIT, distributions that are attributable to gain from the sale or exchange of a United States real property interest are taxed to a non-U.S. shareholder as if these distributions were

gains effectively connected with a trade or business in the United States conducted by the non-U.S. shareholder. Accordingly, a non-U.S. shareholder will be taxed on these amounts at the normal capital gain rates applicable to a U.S. shareholder, subject to any applicable alternative minimum tax and to a special alternative minimum tax in the case of nonresident alien individuals; the non-U.S. shareholder will be required to file a United States federal income tax return reporting these amounts, even if applicable withholding is imposed as described below; and corporate non-U.S. shareholders may owe the 30% branch profits tax under Section 884 of the Internal Revenue Code in respect of these amounts. We will be required to withhold from distributions to non-U.S. shareholders, and remit to the IRS, 35% of the maximum amount of any distribution that could be designated as a capital gain dividend. In addition, for purposes of this withholding rule, if we designate prior distributions as capital gain dividends, then subsequent distributions up to the amount of the designated prior distributions will be treated as capital gain dividends. The amount of any tax withheld is creditable against the non-U.S. shareholder's

United States federal income tax liability, and any amount of tax withheld in excess of that tax liability may be refunded if an appropriate claim for refund is filed with the IRS. If for any taxable year we designate as capital gain dividends any portion of the dividends paid or made available for the year to our shareholders, including our retained capital gains treated as capital gain dividends, then the portion of the capital gain dividends so designated that will be allocated to the holders of a particular class of shares will on a percentage basis equal the ratio of the amount of the total dividends paid or made available for the year to the holders of that class of shares to the total dividends paid or made available for the year to holders of all classes of our shares.

Tax treaties may reduce the withholding obligations on our distributions. Under some treaties, however, rates below 30% that are applicable to ordinary income dividends from United States corporations may not apply to ordinary income dividends from a REIT. You must generally use an applicable IRS Form W-8, or substantially similar form, to claim tax treaty benefits. If the amount of tax withheld by us with respect to a distribution to a non-U.S. shareholder exceeds the shareholder's United States federal income tax liability with respect to the distribution, the non-U.S. shareholder may file for a refund of the excess from the IRS. In this regard, note that the 35% withholding tax rate on capital gain dividends corresponds to the maximum income tax rate applicable to corporate non-U.S. shareholders but is higher than the 20% and 25% maximum rates on capital gains generally applicable to noncorporate non-U.S. shareholders. Treasury regulations also provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, our distributions to a non-U.S. shareholder that is an entity should be treated as paid to the entity or to those owning an interest in that entity, and whether the entity or its owners are entitled to benefits under the tax treaty. These Treasury regulations require the use of the IRS Forms W-8 series.

If our shares are not "United States real property interests" within the meaning of Section 897 of the Internal Revenue Code, a non-U.S. shareholder's gain on sale of these shares generally will not be subject to United States federal income taxation, except that a nonresident alien individual who was present in the United States for 183 days or more during the taxable year will be subject to a 30% tax on this gain. Our shares will not constitute a United States real property interest if we are a "domestically controlled REIT." A domestically controlled REIT is a REIT in which at all times during the preceding five-year period less than 50% in value of its shares is held directly or indirectly by foreign persons. We believe that we are and will be a domestically controlled REIT and thus a non-U.S. shareholder's gain on sale of our shares will not be subject to United States federal income taxation. However, because our shares are publicly traded, we can provide no assurance that we will be a domestically controlled REIT. If we are not a domestically controlled REIT, a non-U.S. shareholder's gain on sale of our shares will not be subject to United States federal income taxation as a sale of a United States real property interest, if that class of shares is "regularly traded," as defined by applicable Treasury regulations, on an established securities market like the New York Stock Exchange, and the non-U.S. shareholder has at all times during the preceding five years owned 5% or less by value of that class of shares. If the gain on the sale of our shares were subject to United States federal income taxation, the non-U.S. shareholder will generally be subject to the same treatment as a U.S. shareholder with respect to its gain, will be required to file a United States federal income tax return reporting that gain, and in the case of corporate non-U.S. shareholders might owe branch profits tax under Section 884 of the Internal Revenue Code. A purchaser of our shares from a non-U.S. shareholder will not be required to withhold on the purchase price if the purchased shares are regularly traded on an established securities market or if we are a domestically controlled REIT. Otherwise, a purchaser of our shares from a non-U.S. shareholder may be required to withhold 10% of the purchase price paid to the non-U.S. shareholder and to remit the withheld amount to the

IRS.

Backup Withholding and Information Reporting

Information reporting and backup withholding may apply to distributions or proceeds paid to our shareholders under the circumstances discussed below. The backup withholding rate is currently 30%, but this rate will fall to 28% over the next several years. Amounts withheld under backup withholding are generally not an additional tax and may be refunded or credited against the REIT shareholder's federal income tax liability.

A U.S. shareholder will be subject to backup withholding when it receives distributions on our shares or proceeds upon the sale, exchange, redemption, retirement or other disposition of our shares, unless the U.S. shareholder properly executes under penalties of perjury an IRS Form W-9 or substantially similar form that:

- provides the U.S. shareholder's correct taxpayer identification number; and

- certifies that the U.S. shareholder is exempt from backup withholding because it is a corporation or comes within another exempt category, it has not been notified by the IRS that it is subject to backup withholding, or it has been notified by the IRS that it is no longer subject to backup withholding.

If the U.S. shareholder does not provide its correct taxpayer identification number on the IRS Form W-9 or substantially similar form, it may be subject to penalties imposed by the IRS and the REIT or other withholding agent may have to withhold a portion of any capital gain distributions paid to it. Unless the U.S. shareholder has established on a properly executed IRS Form W-9 or substantially similar form that it is a corporation or comes within another exempt category, distributions on our shares paid to it during the calendar year, and the amount of tax withheld, if any, will be reported to it and to the IRS.

Distributions on our shares to a non-U.S. shareholder during each calendar year and the amount of tax withheld, if any, will generally be reported to the non-U.S. shareholder and to the IRS. This information reporting requirement applies regardless of whether the non-U.S. shareholder is subject to withholding on distributions on our shares or whether the withholding was reduced or eliminated by an applicable tax treaty. Also, distributions paid to a non-U.S. shareholder on our shares may be subject to backup withholding, unless the non-U.S. shareholder properly certifies its non-U.S. shareholder status on an IRS Form W-8 or substantially similar form in the manner described above. Similarly, information reporting and backup withholding will not apply to proceeds a non-U.S. shareholder receives upon the sale, exchange, redemption, retirement or other disposition of our shares, if the non-U.S. shareholder properly certifies its non-U.S. shareholder status on an IRS Form W-8 or substantially similar form. Even without having executed an IRS Form W-8 or substantially similar form, however, in some cases information reporting and backup withholding will not apply to proceeds that a non-U.S. shareholder receives upon the sale, exchange, redemption, retirement or other disposition of our shares if the non-U.S. shareholder receives those proceeds through a broker's foreign office.

Other Tax Consequences

You should recognize that our and our shareholders' federal income tax treatment may be modified by legislative, judicial, or administrative actions at

any time, which actions may be retroactive in effect. The rules dealing with federal income taxation are constantly under review by the Congress, the IRS and the Treasury Department, and statutory changes, new regulations, revisions to existing regulations, and revised interpretations of established concepts are issued frequently. No prediction can be made as to the likelihood of passage of new tax legislation or other provisions either directly or indirectly affecting us and our shareholders. Revisions in federal income tax laws and interpretations of these laws could adversely affect the tax consequences of an investment in our shares. We and our shareholders may also be subject to state or local taxation in various state or local jurisdictions, including those in which we or our shareholders transact business or reside. State and local tax consequences may not be comparable to the federal income tax consequences discussed above. For example, if a state has not updated its REIT taxation provisions to permit taxable REIT subsidiaries, then our use of a taxable REIT subsidiary may disqualify us from favorable taxation as a REIT in that state.

ERISA PLANS, KEOGH PLANS AND INDIVIDUAL RETIREMENT ACCOUNTS

General Fiduciary Obligations

Fiduciaries of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, ERISA, must consider whether:

- their investment in our shares satisfies the diversification requirements of ERISA;
- the investment is prudent in light of possible limitations on the marketability of our shares;
- they have authority to acquire our shares under the applicable governing instrument and Title I of ERISA; and
- the investment is otherwise consistent with their fiduciary responsibilities.

Trustees and other fiduciaries of an ERISA plan may incur personal liability for any loss suffered by the plan on account of a violation of their fiduciary responsibilities. In addition, these fiduciaries may be subject to a civil penalty of up to 20% of any amount recovered by the plan on account of a violation. Fiduciaries of any IRA, Roth IRA, Keogh Plan or other qualified retirement plan not subject to Title I of ERISA, referred to as "non-ERISA plans," should consider that a plan may only make investments that are authorized by the appropriate governing instrument. Fiduciary shareholders should consult their own legal advisors if they have any concern as to whether the investment is consistent with the foregoing criteria.

Prohibited Transactions

Fiduciaries of ERISA plans and persons making the investment decision for an IRA or other non-ERISA plan should consider the application of the prohibited transaction provisions of ERISA and the Internal Revenue Code in making their investment decision. Sales and other transactions between an ERISA or non-ERISA plan, and persons related to it, are prohibited transactions. The particular facts concerning the sponsorship, operations and other investments of an ERISA plan or non-ERISA plan may cause a wide range of other persons to be treated as disqualified persons or parties in interest with respect to it. A prohibited transaction, in addition to imposing potential personal liability upon fiduciaries of ERISA plans, may also result in the imposition of an excise

tax under the Internal Revenue Code or a penalty under ERISA upon the disqualified person or party in interest with respect to the plan. If the disqualified person who engages in the transaction is the individual on behalf of whom an IRA or Roth IRA is maintained or his beneficiary, the IRA or Roth IRA may lose its tax-exempt status and its assets may be deemed to have been distributed to the individual in a taxable distribution on account of the prohibited transaction, but no excise tax will be imposed. Fiduciary shareholders should consult their own legal advisors as to whether the ownership of our shares involves a prohibited transaction.

Special Fiduciary and Prohibited Transactions Consequences

The Department of Labor, which has administrative responsibility over ERISA plans as well as non-ERISA plans, has issued a regulation defining "plan assets." The regulation generally provides that when an ERISA or non-ERISA plan acquires a security that is an equity interest in an entity and that security is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act of 1940, the ERISA plan's or non-ERISA plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established either that the entity is an operating company or that equity participation in the entity by benefit plan investors is not significant.

Each class of our shares, that is, our common shares and any class of preferred shares that we may issue, must be analyzed separately to ascertain whether it is a publicly offered security. The regulation defines a publicly offered security as a security that is "widely held," "freely transferable" and either part of a class of securities registered under the Securities Exchange Act of 1934, or sold under an effective registration statement under the Securities Act of 1933, provided the securities are registered under the Securities Exchange Act of 1934 within

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120 days after the end of the fiscal year of the issuer during which the offering occurred. All our outstanding shares have been registered under the Securities Exchange Act of 1934.

The regulation provides that a security is "widely held" only if it is part of a class of securities that is owned by 100 or more investors independent of the issuer and of one another. However, a security will not fail to be "widely held" because the number of independent investors falls below 100 subsequent to the initial public offering as a result of events beyond the issuer's control. Our common shares have been widely held and we expect our common shares to continue to be widely held. We expect the same to be true of any class of preferred stock that we may issue, but we can give no assurance in that regard.

The regulation provides that whether a security is "freely transferable" is a factual question to be determined on the basis of all relevant facts and circumstances. The regulation further provides that, where a security is part of an offering in which the minimum investment is $10,000 or less, some restrictions on transfer ordinarily will not, alone or in combination, affect a finding that these securities are freely transferable. The restrictions on transfer enumerated in the regulation as not affecting that finding include:

- any restriction on or prohibition against any transfer or assignment which would result in a termination or reclassification for federal or state tax purposes, or would otherwise violate any state or federal law or court order;

- o any requirement that advance notice of a transfer or assignment be given to the issuer and any requirement that either the transferor or transferee, or both, execute documentation setting forth representations as to compliance with any restrictions on transfer which are among those enumerated in the regulation as not affecting free transferability, including those described in the preceding clause of this sentence;

- o any administrative procedure which establishes an effective date, or an event prior to which a transfer or assignment will not be effective; and

- o any limitation or restriction on transfer or assignment which is not imposed by the issuer or a person acting on behalf of the issuer.

We believe that the restrictions imposed under our declaration of trust on the transfer of shares do not result in the failure of our shares to be "freely transferable." Furthermore, we believe that at present there exist no other facts or circumstances limiting the transferability of our shares which are not included among those enumerated as not affecting their free transferability under the regulation, and we do not expect or intend to impose in the future, or to permit any person to impose on our behalf, any limitations or restrictions on transfer which would not be among the enumerated permissible limitations or restrictions.

Assuming that each class of our shares will be "widely held" and that no other facts and circumstances exist which restrict transferability of these shares, we have received an opinion of our counsel Sullivan & Worcester LLP that our shares will not fail to be "freely transferable" for purposes of the regulation due to the restrictions on transfer of the shares under our declaration of trust and that under the regulation the shares are publicly offered securities and our assets will not be deemed to be "plan assets" of any ERISA plan or non-ERISA plan that invests in our shares.

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Item 2. Properties

At December 31, 2001, we had real estate investments totaling $593.2 million, at cost and after impairment loss write-downs, in 83 properties that were leased to tenants. At December 31, 2001, 14 properties with an aggregate cost of $325.5 million were mortgaged to secure our revolving bank credit facility and two properties with an aggregate cost of $9.2 were mortgaged for $9.1 million.

The following table summarizes some information about our properties as of December 31, 2001. All dollar amounts are in thousands. See "Item 1. Business."

Location	Property Type	Built/ Renovated(1)
Triple Net Leases:		
Marriott International, Inc.		
Scottsdale, AZ	Assisted Living	1990
Sun City, AZ	Assisted Living	1990
Laguna Hills, CA	Independent Living	1991
Boca Raton, FL	Independent Living	1999

Deerfield Beach, FL	Independent Living	1986
Fort Myers, FL	Independent Living	1987
Palm Harbor, FL	Independent Living	1992
Port St. Lucie, FL	Assisted Living	1993
Arlington Heights, IL	Independent Living	1986
Silver Spring, MD	Independent Living	1992
Bellaire, TX	Assisted Living	1991
Arlington, VA	Independent Living	1992
Charlottesville, VA	Independent Living	1991
Virginia Beach, VA	Assisted Living	1990
Five Star Quality Care, Inc.		
Phoenix, AZ	Nursing Home	1984
Yuma, AZ	Nursing Home	1984
Yuma, AZ	Independent Living	1984
Arleta, CA	Assisted Living	1976
Lancaster, CA	Nursing Home	1994
Stockton, CA	Nursing Home	1991
Thousand Oaks, CA	Nursing Home	1970
Van Nuys, CA	Nursing Home	1984
Canon City, CO	Nursing Home/ Senior Apartments	1984
Colorado Springs, CO	Nursing Home	1996
Delta, CO	Nursing Home	1978
Grand Junction, CO	Nursing Home	1986
Grand Junction, CO	Nursing Home	1995
Lakewood, CO	Nursing Home	1985
Littleton, CO	Nursing Home	1965
New Haven, CT	Nursing Home	1971
Waterbury, CT	Nursing Home	1974
College Park, GA	Nursing Home	1985
Dublin, GA	Nursing Home	1968
Glenwood, GA	Nursing Home	1972
Marietta, GA	Nursing Home	1973
Clarinda, IA	Nursing Home	1968
Council Bluffs, IA	Nursing Home	1963

Location	Property Type	Built/ Renovated(1)
Mediapolis, IA	Nursing Home	1973
Des Moines, IA	Nursing Home	1997
Glenwood, IA	Nursing Home	1982
Pacific Junction, IA	Nursing Home	1978
Winterset, IA	Nursing Home/ Senior Apartments	1995
Ellinwood, KS	Nursing Home	1972
Farmington, MI	Nursing Home	1991
Howell, MI	Nursing Home	1985
Tarkio, MO	Nursing Home	1996
Ainsworth, NE	Nursing Home	1995
Ashland, NE	Nursing Home	1996
Blue Hill, NE	Nursing Home	1996
Central City, NE	Nursing Home	1999

Columbus, NE	Nursing Home	1978
Edgar, NE	Nursing Home	1995
Exeter, NE	Nursing Home	1972
Grand Island, NE	Nursing Home	1996
Gretna, NE	Nursing Home	1995
Lyons, NE	Nursing Home	1974
Milford, NE	Nursing Home	1970
Sutherland, NE	Nursing Home	1995
Utica, NE	Nursing Home	1988
Waverly, NE	Nursing Home	1995
Brookfield, WI	Nursing Home	1995
Clintonville, WI	Nursing Home	1965
Clintonville, WI	Nursing Home	1969
Madison, WI	Nursing Home	1987
Milwaukee, WI	Nursing Home	1983
Pewaukee, WI	Nursing Home	1969
Waukesha, WI	Nursing Home	1995
Laramie, WY	Nursing Home	1986
Worland, WY	Nursing Home/ Senior Apartments	1996
HEALTHSOUTH Corporation (4)		
Boston, MA	Nursing Home	1985
Hyannis, MA	Nursing Home	1982
Middleboro, MA	Nursing Home	1987
North Andover, MA	Nursing Home	1985
Worcester, MA	Nursing Home	1990
Integrated Health Services, Inc.		
Canonsburg, PA	Nursing Home	1990
Genesis Health Ventures, Inc.		
Burlington, NJ	Nursing Home	1994
Private Company Tenants		
Fresno, CA	Nursing Home	1985
Grove City, OH	Nursing Home	1965

Location	Property Type	Built/ Renovated(1)
St. Joseph, MO	Nursing Home	1976
Huron, SD	Nursing Home	1977
Huron, SD	Assisted Living	1968
Sioux Falls, SD	Nursing Home	1979
Seattle, WA	Nursing Home	1964
Total Portfolio		

Location	Property Type	Built/Renovated	Units/Beds
Woburn, MA	Rehabilitation Hospital	1984	198
Braintree, MA	Rehabilitation Hospital	1975	166
			364

Item 3. Legal Proceedings

In the ordinary course of business we are and may become involved in legal proceedings. We are not aware of any pending or threatened legal proceedings affecting us or any of our properties the outcome of which we expect to have a material impact upon us.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of shareholders during the fourth quarter of the year covered by this Annual Report on Form 10-K.

PART II

Item 5. Market for Registrant's Common Stock and Related Shareholder Matters

Our common shares are traded on the New York Stock Exchange (symbol: SNH). The following table sets forth for the periods indicated the high and low closing sale prices for our shares as reported in the New York Stock Exchange Composite Transactions reports.

2001	High	Low
Fourth Quarter........................	$13.95	$12.21
Third Quarter.........................	13.85	12.40
Second Quarter........................	13.15	11.06
First Quarter.........................	11.27	9.75
2000		
Fourth Quarter........................	$10.31	$8.81
Third Quarter.........................	9.56	7.94
Second Quarter........................	10.25	7.33
First Quarter.........................	13.56	8.19

The closing price of our common shares on the New York Stock Exchange on March 15, 2002, was $13.94.

As of March 15, 2002, there were approximately 3,990 record holders of our common shares, and we estimate that as of that date there were in excess of 85,000 beneficial owners of our common shares.

The following table sets forth the amount of distributions paid and payable in 2001 and 2000 and the respective annualized rates.

Date Paid	Common Distribution Per Share	Annualized Common Distribution Rate
2001		

November 27, 2001	$0.30	$1.20
August 21, 2001	0.30	1.20
May 21, 2001	0.30	1.20
January 24, 2001	0.30	1.20
2000		
November 21, 2000	$0.30	$1.20
August 24, 2000	0.30	1.20
May 25, 2000	0.30	1.20
February 24, 2000	0.60	2.40

In addition to the distributions shown above, a non-cash distribution of $0.726 per share was made on December 31, 2001 in connection with the Five Star Spin-Off. Under IRC rules applicable to REITs, the distribution paid on January 24, 2001 was reported for tax purposes in 2000. As a result, the total distributions per share reported for tax purposes in 2001 and 2000 was $1.63 per share and $1.80 per share, respectively. The 2001 distributions are classified for tax purposes as 48.51% ordinary income and 51.49% return of capital. The 2000 distributions were classified for tax purposes as 12.95% ordinary income and 87.05% capital gain (of which, 30.1% was unrecaptured depreciation).

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In order to qualify for the beneficial tax treatment accorded to REITs by Sections 856 through 860 of the IRC, we are required to make distributions to shareholders which annually are equal to at least 90% (in our 2000 taxable year this requirement was 95%) of our taxable income. All distributions are made at the discretion of our Board of Trustees. Our Board of Trustees determines the amounts of distributions based upon our earnings, our cash flow available for distribution, our financial condition and other factors that the Trustees deem relevant.

Item 6. Selected Financial Data

Set forth below is selected financial data for the periods and dates indicated. Prior to October 12, 1999, we and our properties were owned by HRPT. The following data is presented as if we were a separate entity from HRPT for all periods. This financial data has been derived from HRPT's historical financial statements for periods prior to October 12, 1999. Per share data has been presented as if our shares were outstanding for all periods prior to October 12, 1999. The following table includes pro rata allocations of HRPT's interest expense and general and administrative expenses for periods prior to October 12, 1999. In the opinion of our management, the methods used for allocating interest and general and administrative expenses are reasonable. However, it is impossible to estimate all operating costs that we would have incurred as a public company separate from HRPT. Accordingly, the net income and funds from operations shown are not necessarily indicative of results that we would have realized as a separate company. Additionally, year to year comparisons are impacted by property acquisitions during historical periods. This data should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K. Amounts are in thousands, except per share information.

Income Statement Data:	Year Ended December 31,			
	2001	2000	1999	1998
Total revenues (1)	$279,012	$ 75,522	$ 90,790	$ 88,306

Income before gain on sale of properties (2)	17,018	31,022	14,834	46,236
Net income (2) (3)	17,018	58,437	14,834	46,236
Funds from operations (4)	44,517	47,638	67,091	64,533
Distributions(5)	79,613	46,722	15,601	--
Weighted average shares outstanding	30,859	25,958	26,000	26,000
Per share:				
Income before gain on sale of properties (2)	$ 0.55	$ 1.20	$ 0.57	$ 1.78
Net income (2) (3)	0.55	2.25	0.57	1.78
Distributions(5)	1.63	1.80	0.60	--

Balance Sheet Data:	At December 31,			
	2001	2000	1999	1998
Real estate properties, at cost	$593,199	$593,395	$708,739	$732,393
Real estate mortgages receivable, net	--	--	22,939	37,826
Total assets	867,303	530,573	654,000	686,296
Total indebtedness	252,707	97,000	200,000	--
Total shareholders' equity	574,624	422,310	409,406	642,069

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

The following information should be read in conjunction with the consolidated financial statements included in Item 14 of this Annual Report on Form 10-K.

This discussion includes references to funds from operations ("FFO"). FFO is net income calculated in accordance with generally accepted accounting principles ("GAAP"): plus depreciation, amortization, other non-cash expenses and non-recurring items; and less gains on property sales and gain on foreclosures and lease terminations. FFO is further defined in the White Paper on Funds from Operations as approved by the Board of Governors of the National Association of Real Estate Investments Trusts ("NAREIT") in March 1995 and as clarified from time to time thereafter. We consider FFO to be an appropriate measure of performance for an equity REIT, along with cash flow from operating activities, financing activities and investing activities, because it provides investors with an indication of an equity REIT's ability to incur and service debt, make capital expenditures, pay distributions and fund other cash needs. We compute FFO using the standards established by NAREIT, but exclude unusual and non-recurring items, certain non-cash items, and gains on sales of undepreciated properties, which may not be comparable to FFO reported by other REITs that define the term differently. FFO does not represent cash generated by operating activities in accordance with GAAP and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of financial performance or cash flow from operating activities, determined in accordance with GAAP, as a measure of liquidity. Cash flows provided by operating activities and cash available for distribution may not necessarily equal FFO because cash flows are affected by factors not included in the FFO calculation, such as changes in assets and liabilities.

RESULTS OF OPERATIONS

Year Ended December 31, 2001, Compared to Year Ended December 31, 2000

Total revenues for the year ended December 31, 2001, were $279.0 million, compared to total revenues of $75.5 million for the year ended December 31, 2000. Included in total revenues for the year ended December 31, 2001, are revenues from facilities' operations of $229.2 million. On July 1, 2000, we assumed nursing home operations from bankrupt former tenants. Because we had not received substantially all of the licenses required to operate these facilities, we accounted for the facilities' operations using the equity method of accounting during 2000. Included in total revenues for the year ended December 31, 2000, is Other Real Estate Income of $2.5 million, which represented the net operating income from these nursing home operations that we assumed as of July 1, 2000. As of January 1, 2001, we had obtained substantially all of the necessary licenses for these facilities and we consolidated the facilities' operations. On December 31, 2001, we distributed substantially all of our ownership of Five Star, one of our wholly-owned subsidiaries, to our shareholders, resulting in Five Star becoming a separate public company. Five Star was created to conduct the operations of the 56 facilities that were operated for our account through December 31, 2001. In connection with the Five Star Spin-Off, Five Star, which is not a REIT, leased 55 facilities from us and directly assumed a third party lease for an additional property. Beginning January 1, 2002, we will no longer consolidate the operations of the facilities which are conducted by Five Star, but we will receive rental income from Five Star.

For the year ended December 31, 2001, compared to the year ended December 31, 2000, rental income decreased to $47.4 million from $64.4 million. This decrease is primarily due to the sale of seven properties in 2000 and the tenant bankruptcies and resulting terminated leases and assumed operations by us.

Also included in total revenues for the year ended December 31, 2000, is a gain on foreclosures and lease terminations of $7.1 million, which represented the excess of the security deposits forfeited, properties received and acceleration of deferred revenues, over the professional fees incurred, third party liabilities incurred, fixed asset impairment write-downs and a reserve for funds to cure deferred maintenance, arising from the foreclosures and lease terminations settled in 2000.

Total expenses for the year ended December 31, 2001, were $262.0 million, compared to total expenses of $44.5 million for the year ended December 31, 2000. Total expenses for the year ended December 31, 2001 include expenses of $223.2 million from facilities' operations, which were consolidated beginning January 1, 2001. During 2000, we accounted for the facilities' operations using the equity method of accounting and did not report expenses of facilities' operations.

Interest expense was $9.5 million lower in the year ended December 31, 2001, compared to the same period in 2000 because the average balance outstanding and the weighted average interest rates on our credit facility were lower during the 2001 period. The decrease in the average balance outstanding is due mainly to our issuance of $27.4 million of trust preferred securities and 17.5 million of our common shares for net proceeds of $213.7 million during 2001 and the application of these net proceeds to borrowings outstanding under our revolving bank credit facility. The decrease in interest expense was partially

offset by distributions on the trust preferred securities.

Depreciation expense decreased in the year ended December 31, 2001, by $709,000 primarily due to the sale of seven properties in 2000 and the net effect of the assets disposed of versus the assets acquired in the settlement with our former tenants, offset by depreciation related to equipment purchases made since December 31, 2000.

Recurring general and administrative expense decreased by $1.3 million primarily due to the impact of the sale of seven properties in 2000. During the year ended December 31, 2001, we incurred nonrecurring general and administrative costs totaling approximately $4.2 million compared to $3.5 million in the prior year. These costs were incurred in connection with the establishment of operating systems for foreclosed and repossessed properties. Also during 2001, we incurred $3.7 million of non-recurring costs in connection with the Five Star Spin-Off.

Net income was $17.0 million, or $0.55 per share, for the year ended December 31, 2001, as compared to $58.4 million, or $2.25 per share, for the year ended December 31, 2000. This decrease in net income is primarily the consequence of the gain of $27.4 million on the sale of properties in 2000 and of the changes in revenues and expenses resulting from the tenant bankruptcies, settlements and sales of properties in 2000 as described above. FFO for the year ended December 31, 2001, was $44.5 million compared to $47.7 million for the same period in 2000. The decrease of $3.1 million is due primarily to the same factors impacting the decrease in net income. Cash distributions paid or payable for the years ended December 31, 2001 and 2000, were $29.6 million, or $.90 per share, and $46.7 million, or $1.80 per share, respectively.

Year Ended December 31, 2000, Compared to Year Ended December 31, 1999

Total revenues for the year ended December 31, 2000, were $75.5 million, compared to total revenues of $90.8 million for the year ended December 31, 1999. Rental income decreased by $20.5 million and interest and other income decreased by $4.4 million. These decreases are primarily the result of the tenant bankruptcies and the sale of properties during 2000. Included in total revenues for the year ended December 31, 2000, is Other Real Estate Income of $2.5 million, which represents the net operating income from nursing home operations that we assumed as of July 1, 2000. Also included in total revenues for the year ended December 31, 2000, is a gain on foreclosures and lease terminations of $7.1 million which represents the excess of the security deposits forfeited, properties received and acceleration of deferred revenues, over the professional fees incurred, third party liabilities incurred, fixed asset impairment write-downs and a reserve for funds to cure deferred maintenance, arising from the foreclosures and lease terminations settled in 2000.

Total expenses for the year ended December 31, 2000, were $44.5 million, compared to total expenses of $76.0 million for the year ended December 31, 1999. Interest expense was $3.4 million lower in 2000 compared to 1999 because actual interest expense incurred during 2000 was less than HRPT's interest expense allocated to us in 1999. This decline also reflects the fact that we used the net proceeds of property sales to pay down debt.

Depreciation expense decreased in 2000 by $2.1 million compared to 1999, primarily due to the sale of properties in 2000, a reduction in asset values as a result of impairment losses recorded in 1999, and the net effect of

the assets disposed of versus the assets acquired as a result of the settlements with our bankrupt former tenants.

Recurring general and administrative expense increased by $534,000 for 2000, compared to 1999, because actual expenses incurred during 2000 were greater than HRPT's general and administrative expenses allocated to us in 1999. During 2000, we incurred nonrecurring general and administrative costs totaling $3.5 million in connection with the establishment of operating systems for foreclosed and repossessed properties. Also included in the 1999 period is $30.0 million of losses resulting from the impairment of some of our properties and previously held mortgage investments.

In 1999 and 2000 several of our tenants filed for bankruptcy. Our 2000 revenues and net income were adversely impacted by the settlements with these former bankrupt tenants compared to the rental income and mortgage interest income we previously received from them. The following chart summarizes our total portfolio of properties and the impact upon our revenues from property sales, tenant bankruptcies and the settlement agreements with former bankrupt tenants for the years ended December 31, 2000 and 1999 (dollars in thousands):

	Year Ended December 31, 2000		Year En
Tenant	No. of Properties	Revenues1	No. Proper
Marriott International, Inc.	14	$30,141	14
Brookdale Living Communities, Inc. 2	--	9,366	4
Genesis Health Ventures, Inc.	1	1,459	1
Two private company tenants	2	684	2
Sun Healthcare Group, Inc. 3			
The Frontier Group, Inc. 3, 4	--	360	3
One subtenant	1	720	1
Mariner Post-Acute Network, Inc. 3	--	7,006	26
Two subtenants	4	1,735	--
Integrated Health Services, Inc. 3	1	1,200	39
Settlement agreement revenues	--	2,500	--
HEALTHSOUTH Corporation 5	5	9,267	--
Operating facilities (other real estate income) 6	58	2,520	--
Totals	86	$66,958	90

Net income was $58.4 million for the year ended December 31, 2000, compared to $14.8 million for the same period in 1999. The increase in net income for the 2000 period is due primarily to a gain of $27.4 million recognized from the sale of four independent living properties, a net gain of $7.1 million from the foreclosures and lease terminations that occurred in 2000 and $30 million of impairment losses recognized in 1999. FFO for the year ended December 31, 2000, was $47.6 million compared to $67.1 million for the same period in 1999. The FFO decrease of $19.5 million is due primarily to the consequences of the settlements with bankrupt former

tenants. Distributions paid or payable for the years ended December 31, 2000 and 1999, were $46.7 million, or $1.80 per share, and $15.6 million, or $0.60 per share, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Total assets at December 31, 2001, were $867.3 million, compared to $530.6 million at December 31, 2000. The increase is due primarily to our issuance of $27.4 million of trust preferred securities, 17.5 million of our common shares for net proceeds of $213.7 million and $245.0 million of senior unsecured notes. The net proceeds from these issuances were applied to borrowings outstanding under our revolving bank credit facility. The remaining cash, which totaled $352.0 million, was available for working capital, general business purposes and acquisitions, including our then pending acquisition of 31 properties for $600.0 million, which closed on January 11, 2002.

At December 31, 2001, we had a $270.0 million, interest only, secured, revolving bank credit facility. The interest rate is LIBOR plus a premium (3.87% per annum at December 31, 2001). This bank credit facility is available for acquisitions, working capital and for general business purposes. We have the ability to repay and redraw amounts under this bank credit facility until its maturity in September 2002. On December 31, 2001, zero was outstanding and $270.0 million was available for borrowing under this revolving bank credit facility. As of March 15, 2002, there was $35.0 million outstanding and $235.0 million available for borrowing.

In June and July 2001, SNH Capital Trust I, one of our wholly-owned finance subsidiaries, issued 1,095,750 shares of 10.125% trust preferred securities with a liquidation preference of $25 per share, for a total liquidation amount of $27.4 million. The trust preferred securities represent an undivided beneficial ownership interest in the assets of SNH Capital Trust I. Proceeds from the issuance of the trust preferred securities were used to acquire our 10.125% junior subordinated debentures due June 15, 2041. SNH Capital Trust I exists solely to issue the trust preferred securities and its own common securities and to acquire and hold our debentures, which are its only assets. We used the net proceeds from the sale of the debentures to repay some of our debt outstanding under our revolving bank credit facility.

In July 2001, we issued 3,445,000 common shares of beneficial interest, raising net proceeds of $42.2 million. These net proceeds received were used to repay some of our debt outstanding under our revolving bank credit facility.

In July 2001, we obtained mortgage financing of $9.1 million secured by two of our properties in Michigan. The mortgages require interest to be paid monthly at prime less a discount (2.75% at December 31, 2001). These mortgages mature in July 2003.

On August 9, 2001, we entered an agreement with Crestline Capital Corporation ("Crestline") to acquire all of the capital stock of a Crestline subsidiary which owned 31 senior living communities with 7,487 living units. The purchase price was $600.0 million and this acquisition closed on January 11, 2002. The funding for this acquisition was as follows: $24.1 million of assumed debt; a $25 million purchase note; approximately $350.0 million of available cash on December 31, 2001; and the balance by drawings under our revolving bank credit facility.

In October 2001, we issued a total of 14,047,000 common shares of beneficial interest, raising net proceeds of $171.5 million. The net proceeds were applied to reduce our outstanding obligations under our revolving bank credit facility to zero. The remaining cash was subsequently used to fund a portion of the Crestline transaction.

In December 2001, we issued $245.0 million of 8?% senior unsecured notes due 2012, raising net proceeds, after a discount and costs of issuance, of $238.9 million. These net proceeds were held as cash at December 31, 2001, and subsequently used to fund a portion of the Crestline transaction.

On December 31, 2001, we completed the Five Star Spin-Off. In connection with the Five Star Spin-Off, we provided initial capitalization of $50.0 million to Five Star, which consisted of the net working capital related to the operations of 56 facilities, title to two facilities and the balance in cash. In addition, we paid all of the costs relating to the Five Star Spin-Off, which totaled $3.7 million.

We have filed shelf registration statements with the SEC which enable us to raise capital on an expedited basis. On May 21, 2001, our shelf registration statement for the issuance of up to $500 million of equity and debt securities was declared effective by the SEC. During 2001, we utilized the full capacity of this shelf registration statement. On January 30, 2002, our shelf registration statement for the issuance of up to $2.0 billion of equity and debt securities was declared effective by the SEC. As of March 15, 2002, $1.8 billion was available to be used under this effective shelf registration statement.

In February 2002, we issued 15,000,000 common shares of beneficial interest, raising net proceeds of $195.2 million. These net proceeds were used to repay the $25 million purchase note provided at the closing of the Crestline transaction and the remainder was used to repay some of our debt outstanding under our revolving bank credit facility, which had been drawn in connection with the closing of the Crestline transaction.

At December 31, 2001, we had cash and cash equivalents of $352.0 million. For the years ended December 31, 2001, 2000 and 1999: cash provided by operating activities was $17.4 million, $31.0 million and $64.1 million, respectively; cash (used for) provided by investing activities was $(25.8) million, $94.3 million and $387,000, respectively; and cash provided by (used for) financing activities was $352.8 million, $(141.9) million and $(47.5) million, respectively. The working capital required for our operations, including our facilities' operations, was provided by our operations and by drawings under our revolving bank credit facility. At March 15, 2002, we had $5.8 million of cash and availability of drawings under our revolving bank credit facility of $235.0 million. We believe that our current cash, cash equivalents, and availability under our revolving bank credit facility will be sufficient to meet our short-term and long-term capital requirements for operations and to temporarily fund acquisitions. To the extent we make acquisitions we expect to repay borrowings with new long term debt or equity issuances. We believe long term debt or equity issuances will be available to us, but we can provide no assurance that they will be.

Debt Instruments and Covenants

Our principal debt obligations at December 31, 2001, were our revolving bank credit facility and our $245.0 million of publicly held unsecured debt. Our revolving bank credit facility is secured by 14 properties leased to Marriott. Our public debt is governed by an indenture. This indenture and our credit agreement contain a number of financial ratio covenants which generally restrict our ability to incur debts, including debts secured by mortgages on our properties in excess of calculated amounts, require us to maintain a minimum net worth, as defined, restrict our ability to make distributions under certain circumstances and require us to maintain other ratios, as defined. During the

period from our incurrence of these debts through December 31, 2001, we were in compliance with all of our covenants under our indenture and our credit agreement. In addition to our principal debt obligations, we have $9.1 million of mortgage notes and $27.4 million of trust preferred securities outstanding at December 31, 2001. Our mortgage notes are secured by two properties leased to Five Star and a certificate of deposit for the approximate value of the mortgage notes. Our trust preferred securities are governed by an indenture of trust which is generally less restrictive than the indenture governing our public debt and the terms of our credit facility.

None of our indentures, our revolving bank credit facility or our mortgage notes contain provisions for acceleration or otherwise which could be triggered by our senior debt or other ratings. Our public debt indentures contain cross default provisions to any other debts equal to or in excess of $10 million. Similarly, a default on

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - continued

any of our public indentures would constitute a default on our credit agreement. As of December 31, 2001, we have no commercial paper, private loans, derivatives, swaps, hedges, guarantees, joint ventures or partnerships. We have no "off balance sheet" arrangements.

On January 11, 2002, we acquired 31 properties for approximately $600.0 million. Part of the financing to close this transaction included our assumption of two capitalized leases, tax exempt bonds secured by one property and borrowings under our revolving bank credit facility.

Related Party Transactions

We have an agreement with REIT Management & Research LLC ("RMR"), for RMR to provide investment, management and administrative services to us. RMR is owned by Barry M. Portnoy and Gerard M. Martin, each a Managing Trustee and member of our Board of Trustees. Each of our executive officers are also officers of RMR. Our independent trustees, including all of our trustees other than Messrs. Portnoy and Martin, review our contract with RMR at least annually and make the determinations regarding negotiation, renewal or termination. Any termination of our contract with RMR would cause a default under our revolving bank credit facility, if not approved by a majority of lenders. Our current contract term with RMR expires on December 31, 2002. RMR is compensated at an annual rate equal to a percentage of our average real estate investments, as defined. The percentage applied to our investments at the time we were spun-off from HRPT is 0.5%. The annual compensation percentage for the first $250.0 million of investments made since our spin-off from HRPT is 0.7% and thereafter is 0.5%. RMR is also entitled to an incentive fee based upon increases in funds from operations per share, as defined. Incentive fees when due are paid in our shares at market value. To date, no incentive fees have been paid to RMR.

As a result of the nursing home bankruptcies and settlements, we assumed operating responsibilities for healthcare facilities effective July 1, 2000. Under IRC laws and regulations applicable to REITs, we were required to engage a contractor to manage these properties after a 90 day transition period. We entered into management agreements with FSQ, Inc. to provide these services beginning in 2000. FSQ, Inc. was owned by Messrs. Martin and Portnoy, our Managing Trustees. Under these management agreements, during the first 90 days FSQ, Inc. was paid its costs and expenses incurred in managing the facilities for us and thereafter it was paid a fee equal to five percent of patient revenues at the managed facilities. As a result of the Five Star Spin-Off, we no longer have a relationship with FSQ, Inc. In order for Five Star to acquire the

personnel, systems and assets necessary to operate facilities which it leases from us, FSQ, Inc. merged into a Five Star subsidiary and Five Star entered into a shared services agreement with RMR pursuant to which RMR agreed to provide services similar to the services previously provided by RMR to FSQ, Inc. The FSQ, Inc. merger into Five Star was concluded on January 2, 2002.

Critical Accounting Policies

Our most critical accounting policies concern our investments in real property. These policies affect our:

- allocation of purchase prices between various asset categories and the related impact on our recognition of depreciation expense;
- assessment of the carrying value of long-lived assets; and
- classification of our leases.

These policies involve significant judgments based upon our experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual values, the ability of our tenants and operators to perform their obligations to us, and the current and likely future operating and competitive environments in which our properties operate. In the future we may need to revise our assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense

related to properties we own, result in the classification of our leases as other than operating leases or decrease the carrying values of our assets.

During 2000, we assumed the operations of nursing homes from bankrupt tenants, pursuant to negotiated settlement agreements. Although these settlements as approved by the Bankruptcy Courts had financial effect as of July 1, 2000, the implementation of these settlements was subject to material conditions subsequent, including our obtaining health care regulatory licenses and Medicare and Medicaid provider contracts necessary to operate these nursing homes. Because the majority of the licenses and provider contracts had not been received prior to December 31, 2000, we reported the results of these nursing home operations using the equity method of accounting from July 1, 2000, through December 31, 2000. Working capital invested in these nursing home operations was included in Net Investment in Facilities' Operations in our Consolidated Balance Sheets at December 31, 2000 and net income from these nursing homes was reported as Other Real Estate Income in our Consolidated Statements of Income for the year ended December 31, 2000. During the first quarter of 2001, we obtained substantially all of the healthcare regulatory licenses and Medicare and Medicaid provider agreements necessary for these nursing home operations, and we consolidated the nursing home operations effective January 1, 2001. With respect to the consolidated facilities' operations, our most critical accounting policies in 2001 involved revenue recognition and our assessment of the net realizable value of the facilities' accounts receivable. These policies involved significant judgments based upon our experience, including judgments about changes in payment methodology, contract modifications and economic conditions that affect the collectibility of the facilities' accounts receivable. As a result of the Five Star Spin-Off, we no longer operate any facilities and we will not recognize any facilities' operations revenues beginning January 1, 2002. Also, the accounts receivable related to facilities' operations were transferred to Five Star as part of the initial capitalization of Five Star. As a result of this transfer, these receivables are not included on our consolidated balance sheet as of December 31, 2001.

Impact of Inflation

Inflation might have both positive and negative impacts upon us. Inflation might cause the value of our real estate investments to increase. In an inflationary environment, the percentage rents which we receive based upon a percentage of our tenants' revenues should increase. Offsetting these benefits, inflation might cause our costs of equity and debt capital and other operating costs to increase. An increase in our capital costs or in our operating costs will result in decreased earnings unless it is offset by increased revenues. In periods of rapid inflation, nursing home operating costs usually increase faster than revenues and this fact may have an adverse impact upon us if our tenants' operating income from our properties becomes insufficient to pay our rent. To mitigate the adverse impact of increased operating costs at our leased properties, we generally require our tenants to guarantee our rent. To mitigate the adverse impact of increased costs of debt capital in the event of material inflation, we previously have purchased interest rate cap agreements and we may enter into similar interest rate hedge arrangements in the future. The decision to enter into these agreements was and will be based on the amount of floating rate debt outstanding, our belief that material interest rate increases are likely to occur and upon requirements of our borrowing arrangements.

Seasonality

Nursing home operations have historically reflected modest seasonality. During calendar fourth quarter holiday periods nursing home patients are sometimes discharged to join in family celebrations and admission decisions are often deferred. The first quarter of each calendar year usually coincides with increased illness among nursing home residents which can result in increased costs or discharges to hospitals. As a result of these factors and others, nursing home operations sometimes produce greater earnings in the second and third quarters of each calendar year and lesser earnings in the fourth and first calendar quarters. We do not expect these seasonal differences to have any impact upon the ability of our tenants to pay our rent.

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Certain Considerations

THIS DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS REQUIRES US TO MAKE ESTIMATES AND ASSUMPTIONS AND CONTAINS STATEMENTS OF OUR BELIEFS, INTENT OR EXPECTATIONS CONCERNING PROJECTIONS, PLANS, FUTURE EVENTS AND PERFORMANCE. THE ESTIMATES, ASSUMPTIONS, STATEMENTS AND IMPLICATIONS, SUCH AS THOSE RELATING TO OUR ABILITY TO EXPAND OUR PORTFOLIO, THE PERFORMANCE OF OUR TENANTS AND PROPERTIES, OUR ABILITY TO PAY INTEREST AND PRINCIPAL AND MAKE DISTRIBUTIONS, OUR POLICIES AND PLANS REGARDING INVESTMENTS, FINANCINGS AND OTHER MATTERS, OUR TAX STATUS AS A REAL ESTATE INVESTMENT TRUST, OUR ABILITY TO APPROPRIATELY BALANCE THE USE OF DEBT AND EQUITY AND TO ACCESS CAPITAL MARKETS OR OTHER SOURCES OF FUNDS, DEPEND UPON VARIOUS FACTORS OVER WHICH WE HAVE OR MAY HAVE LIMITED OR NO CONTROL. THOSE FACTORS INCLUDE, WITHOUT LIMITATION, THE IMPACT OF CHANGES IN THE ECONOMY AND THE CAPITAL MARKETS (INCLUDING PREVAILING INTEREST RATES) ON US AND OUR TENANTS, COMPLIANCE WITH AND CHANGES TO REGULATIONS AND PAYMENT POLICIES WITHIN THE REAL ESTATE, SENIOR HOUSING AND HEALTHCARE INDUSTRIES, CHANGES IN FINANCING TERMS, COMPETITION WITHIN THE REAL ESTATE, SENIOR HOUSING AND HEALTHCARE INDUSTRIES, CHANGES TO FEDERAL, STATE, AND LOCAL LEGISLATION AND OTHER FACTORS. WE CANNOT PREDICT THE IMPACT OF THESE FACTORS, IF ANY. HOWEVER, THESE FACTORS COULD CAUSE OUR ACTUAL RESULTS FOR SUBSEQUENT PERIODS TO BE DIFFERENT FROM THOSE STATED, ESTIMATED, ASSUMED OR IMPLIED IN THIS DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS. WE BELIEVE THAT OUR ESTIMATES AND ASSUMPTIONS ARE REASONABLE AT THIS TIME. HOWEVER, YOU SHOULD NOT RELY UPON FORWARD LOOKING STATEMENTS EXCEPT

AS STATEMENTS OF OUR PRESENT INTENTIONS AND OF OUR PRESENT EXPECTATIONS WHICH MAY OR MAY NOT OCCUR.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market changes in interest rates. We manage our exposure to this market risk through our monitoring of available financing alternatives. Our strategy to manage exposure to changes in interest rates is unchanged from December 31, 2000. Other than as described below, we do not foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

At December 31, 2001, our outstanding debt included $245.0 million of 8 5/8% senior unsecured notes due 2012. The interest on these notes is payable semi-annually. No principal payments are due under these notes until maturity. Because these notes bear interest at fixed rates, changes in market interest rates during the term of this debt will not affect our operating results. If at maturity these notes are refinanced at interest rates which are 10% higher than the current coupon rate, our per annum interest cost would increase by approximately $2.1 million. Changes in the interest rate also affect the fair value of our debt obligations; increases in market interest rates decrease the fair value of our fixed rate debt, while decreases in market interest rates increase the fair value of our fixed rate debt. Based on the balances outstanding as of December 31, 2001, a hypothetical immediate one percentage point increase in interest rates would decrease the fair value of our fixed rated debt obligations by approximately $15.8 million. We are allowed to make prepayments on these senior notes at par plus a make whole provision. These prepayment rights may afford us the opportunity to mitigate the risk of refinancing at maturity at higher rates by refinancing prior to maturity.

At December 31, 2001, we had $27.4 million of trust preferred securities outstanding, the dividends of which are dependent upon our making required payments on our 10.125% junior subordinated debentures due 2041. No principal repayments are due on the debentures until maturity. If the debentures were to be refinanced at interest rates which are 10% higher, our per annum interest cost would increase $277,000. Our trust preferred securities are listed on the New York Stock Exchange and their market value is principally determined by supply and demand factors. The market price, if any, of our debentures as of December 31, 2001, may be sensitive to changes in interest rates. Typically, if market rates of interest increase, the current market price of a fixed rate obligation will decrease. Conversely, if market rates of interest decrease, the current market price of a fixed rate obligation will typically increase. Based on the balance outstanding at December 31, 2001, and discounted cash flow analysis, a hypothetical immediate one percentage point increase in interest rates would decrease the fair value of our fixed rate debentures by approximately $2.4 million. Our debentures have provisions that allow us to make repayments earlier than the stated maturity date. These prepayment rights may afford us the opportunity to mitigate the risk of refinancing at maturity at higher rates by refinancing at lower rates prior to maturity. Our ability to prepay the debentures at par will also effect the change in the fair value of the debentures which would result from a change in interest rates. For example, discounted cash flow analysis of a one percentage point increase in interest rates calculated only to the par prepayment option date for our trust preferred securities would decrease the value of those securities by $1.1 million.

Our outstanding debt at December 31, 2001 also included $9.1 million of floating rate debt secured by two of our properties in Michigan. The mortgages are also secured by a $9.2 million certificate of deposit which earns interest at a floating rate. Because the interest rates on the mortgages and the

certificate of deposit are both based on prime less a spread, a change in the prime rate will not effect our operating results because the resulting change in interest expense will be offset by the change in interest income. Because interest on our mortgage debt is at a floating rate, changes in interest rates will not affect its value.

The foregoing statements present a so-called "shock" analysis, which assumes that the interest rate change of 10% is in effect for a whole year. If interest rates were to change gradually over one year, the impact would be gradual and the impact during the year in which the change occurred would be less.

Our revolving bank credit facility bears interest at floating rates and matures in September 2002. As of December 31, 2001, we had zero outstanding and $270 million available for drawing under our revolving bank credit facility. Our revolving bank credit facility is available for acquisitions, working capital and for general business purposes. Our exposure to fluctuations in interest rates may increase in the future if we incur debt to fund acquisitions or otherwise. A change in interest rates would not affect the value of this floating rate debt but would affect the interest which we must pay on this debt.

We borrow in U.S. dollars. Our floating rate borrowings under our revolving bank credit facility are subject to interest at LIBOR plus a premium. Our mortgages are subject to interest at prime less a discount. Accordingly, we are vulnerable to changes in U.S. dollar based short-term rates, specifically LIBOR and prime. During the past year, short-term U.S. dollar based interest rates have decreased. We are unable to predict the direction or amount of interest rate changes during the next year. However, we may incur additional debt at floating or fixed rates in the future, which would increase our exposure to market changes in interest rates.

Item 8. Financial Statements and Supplementary Data

The information required by this item is included in Item 14 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

The information in Part III (Items 10, 11, 12 and 13) is incorporated by reference to our definitive Proxy Statement, which will be filed not later than 120 days after the end of our fiscal year.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Index to Financial Statements and Financial Statement Schedules

The following consolidated financial statements and financial statement schedules of Senior Housing Properties Trust are included on the pages indicated:

	Page
Report of Ernst & Young LLP, Independent Auditors	F-1
Consolidated Balance Sheets as of December 31, 2001 and 2000	F-2
Consolidated Statements of Income for each of the three years in the period ended December 31, 2001	F-3
Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2001	F-4
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001	F-5
Notes to Consolidated Financial Statements	F-7
Schedule III - Real Estate and Accumulated Depreciation	S-1

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, and therefore have been omitted.

(b) Reports on Form 8-K

During the fourth quarter of 2001, we filed the following Current Reports on Form 8-K:

(i) Current Report on Form 8-K, dated September 21, 2001, relating to (1) the proposed spin-off of the Company's wholly owned subsidiary Five Star Quality Care, Inc. ("Five Star"); (2) the proposed acquisition of 31 senior living facilities from Crestline Capital Corporation (the "Crestline Transaction"); (3) supplementary income tax considerations and (4) pro forma financial information giving effect to these and certain other transactions described therein (Items 5 and 7).

(ii) Current Report on Form 8-K, dated October 3, 2001 relating to (1) the issuance and sale of 13 million common shares of beneficial interest; (2) the reorganization of REIT Management & Research, Inc.; (3) the election of a new Treasurer and Chief Financial Officer and (4) pro forma financial information giving effect to these and certain other transactions described therein (Items 5 and 7).

(iii) Amended Current Report on Form 8-K/A, dated October 3, 2001 (as amended, the "October Form 8-K").

(iv) Current Report on Form 8-K, dated November 5, 2001 supplementing the Company's October Form 8-K relating to (1) the capitalization of Five Star; (2) an amendment to the stock purchase agreement executed in connection with the Crestline Transaction and (3) pro forma financial information giving effect to these and certain other transactions described therein (Items 5 and 7).

(v) Current Report on Form 8-K, dated December 6, 2001 relating to the possible sale of $200 million of senior unsecured notes and pro forma financial information giving effect to this and certain other transactions described therein (Items 5 and 7).

(vi) Current Report on Form 8-K, dated December 13, 2001 relating to the issuance of $200 million in aggregate principal amount of 8-5/8% Senior Notes due 2012 and pro forma financial information giving effect to this and certain other transactions described therein (Items 5 and 7).

(vii) Current Report on Form 8-K, dated December 18, 2001 filing as an exhibit the Form of Supplemental Indenture No. 1 to Indenture by and between Senior Housing Properties Trust and State Street Bank and Trust Company. (Item 7)

(viii) Current Report on Form 8-K, dated December 20, 2001 relating to the sale of an additional $45 million aggregate principal amount of 8-5/8% Senior Notes due 2012 and pro forma financial information giving effect to this and certain other transactions described therein (Items 5 and 7).

(c) Exhibits

3.1 Amended and Restated Declaration of Trust, dated September 20, 1999. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.)

3.2 Articles Supplementary, dated May 11, 2000. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.)

3.3 Articles of Amendment to the Company's Declaration of Trust, dated February 13, 2002. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 13, 2002.)

3.4 Amended and Restated Bylaws, dated May 11, 2000. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.)

4.1 Form of common share certificate. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.)

4.2 Junior Subordinated Indenture between Senior Housing Properties Trust and State Street Bank and Trust Company as trustee dated June 21, 2001. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)

4.3 Supplemental Indenture No. 1 by and between Senior Housing Properties Trust and State Street Bank and Trust Company as Trustee dated June 21, 2001. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)

4.4 Amended and Restated Trust Agreement among SNH Capital Trust Holdings as sponsor, State Street Bank and Trust Company as property trustee and the regular trustees named therein relating to SNH Capital Trust I dated June 21, 2001. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)

4.5 Guarantee Agreement between Senior Housing Properties Trust and State Street Bank and Trust Company as trustee dated June 21, 2001. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)

4.6 Agreement as to Expenses and Liabilities between Senior Housing Properties Trust and SNH Capital Trust I dated June 21, 2001. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.)

4.7 Indenture, dated as of December 20, 2001, between Senior Housing Properties Trust and State Street Bank and Trust Company (Incorporated by reference to the Company's Registration Statement on Form S-3, File No. 333-76588.)

4.8 Supplemental Indenture No. 1 by and between Senior Housing Properties Trust and State Street Bank and Trust Company. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 13, 2002.)

4.9. Supplemental Indenture No. 2 by and between Senior Housing Properties Trust and State Street Bank and Trust Company. (Incorporated by reference to the Company's Current Report on Form 8-K dated February 13, 2002.)

8.1 Opinion of Sullivan & Worcester LLP as to certain tax matters. (Filed herewith.)

10.1 Advisory Agreement, dated as of October 12, 1999, between the Company and REIT Management & Research, Inc. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.)

10.2 1999 Incentive Share Award Plan. (+) (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.3 Revolving Loan Agreement, dated as of September 15, 1999, among the Company, Dresdner Bank AG, the Other Lenders Party Thereto, SPTMRT Properties Trust and SPTBROOK Properties Trust, together with Exhibits and Form of Mortgage, Form of Deed of Trust and Form of Pledge Agreement. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.4 Transaction Agreement, dated September 21, 1999, between HRPT Properties Trust and the Company. (Incorporated by reference to the Current Report on Form 8-K filed on October 26, 1999 by HRPT Properties Trust.)

10.5 Form of Master Management Agreement, dated as of October 1, 2000, between Five Star Quality Care, Inc., and SHOPCO-AZ, LLC, SHOPCO-CA, LLC, SHOPCO-COLORADO, LLC, SHOPCO-CT, LLC, SHOPCO-GA, LLC, SHOPCO-IA, LLC, SHOPCO-KS, LLC, SHOPCO-MI, LLC, SHOPCO-MO, LLC, SHOPCO-NE, LLC, SHOPCO-WY, LLC, SNH-NEBRASKA, INC., SNH-IOWA, INC., SNH-CALIFORNIA, INC. and SNH-MICHIGAN, INC. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.)

10.6 Purchase and Sale Agreement, dated July 26, 2000, between SPTBROOK Properties Trust, as Seller, and Brookdale Living Communities, Inc., as Purchaser. (Incorporated by reference to the Company's Current Report on Form 8-K filed on November 15, 2000.)

10.7 Representative Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.8 Representative Guaranty of Tenant Obligations, dated as of October

8, 1993, by Marriott International, Inc. in favor of HMC Retirement Properties, Inc. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.9 Representative First Amendment to Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.10 Representative Assignment and Assumption of Leases, Guarantees and Permits for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.11 Representative Second Amendment of Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.12 Representative First Amendment of Guaranty by Marriott International, Inc., dated as of May 16, 1994, in favor of HMC Retirement Properties, Inc. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.13 Assignment of Lease, dated as of June 16, 1994, by HMC Retirement Properties, Inc. in favor of Health and Rehabilitation Properties Trust. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.14 Third Amendment to Facilities Lease, dated as of June 30, 1994, between HMC Retirement Properties, Inc. and Marriott Senior Living Services, Inc. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.15 Third Amendment to Facilities Lease, dated as of June 30, 1994, between HMC Retirement Properties, Inc. and Marriott Senior Living Services, Inc. (Incorporated by reference to the Company's Registration Statement on Form S-11, File No. 333-69703.)

10.16 Third Amendment of Lease, dated August 4, 2000, between SPTMRT Properties Trust and Marriott Living Services, Inc. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.)

10.17 Representative Fourth Amendment of Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.)

10.18 Representative Fifth Amendment of Lease for properties leased to subsidiaries of Marriott International, Inc. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.)

10.19 Settlement Agreement, dated as of March 20, 2000, among the Company, SPTMNR Properties Trust, Five Star Quality Care, Inc., SHOPCO-AZ, LLC, SHOPCO-CA, LLC, SHOPCO-COLORADO, LLC, SHOPCO-WI, LLC, Mariner Post-Acute Network, Inc., GranCare, Inc., AMS

Properties, Inc. and GCI Health Care Centers, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.)

10.20 Order of the United States Bankruptcy Court for the District of Delaware, dated May 10, 2000, in re: Mariner Post-Acute Network, Inc., a Delaware Corporation, and affiliates, Debtors. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

10.21 Letter Agreement, dated as of June 30, 2000, amending Settlement Agreement dated as of March 20, 2000, among Senior Housing Properties Trust, SPTMNR Properties Trust, Five Star Quality Care, Inc., SHOPCO-AZ, LLC, SHOPCO-CA, LLC, SHOPCO-COLORADO, LLC, SHOPCO-WI, LLC, Mariner Post-Acute Network, Inc., Grancare, Inc., AMS Properties, Inc. and GCI Health Care Centers, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

10.22 Interim Management Agreement, dated as of July 1, 2000, among Mariner Post-Acute Network, Inc., AMS Properties, Inc., GCI Health Care Centers, Inc., SHOPCO-AZ, LLC, SHOPCO-CA, LLC, SHOPCO-COLORADO, LLC, SHOPCO-WI, LLC and Five Star Quality Care, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

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10.23 Amended and Restated Lease Agreement, dated as of January 1, 2000, between HRES1 Properties Trust and IHS Acquisition 135, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

10.24 Guaranty, dated as of January 1, 2000, made by Integrated Health Services, Inc. in favor of HRES1 Properties Trust. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

10.25 Settlement Agreement, dated as of April 11, 2000, among the Company, SPTIHS Properties Trust, HRES1 Properties Trust, HRES2 Properties Trust, SHOPCO-COLORADO, LLC, SHOPCO-CT, LLC, SHOPCO-GA, LLC, SHOPCO-IA, LLC, SHOPCO-KS, LLC, SHOPCO-MA, LLC, SHOPCO-MI, LLC, SHOPCO-MO, LLC, SHOPCO-NE, LLC, SHOPCO-WY, LLC, SNH-NEBRASKA, INC., SNH-IOWA, INC., SNH-MASSACHUSETTS, INC., SNH-MICHIGAN, INC., Five Star Quality Care, Inc., Advisors Healthcare Group, Inc., Integrated Health Services, Inc., Community Care of America, Inc., ECA Holdings, Inc., Community Care of Nebraska, Inc., W.S.T. Care, Inc., Quality Care of Lyons, Inc., CCA Acquisition I, Inc., MARIETTA/SCC, Inc., Glenwood/SCC, Inc., Dublin/SCC, Inc., College Park/SCC, Inc., IHS Acquisition No. 108, Inc., IHS Acquisition No. 112, Inc., IHS Acquisition No. 113, Inc., IHS Acquisition No. 135, Inc., IHS Acquisition No. 148, Inc., IHS Acquisition No. 152, Inc., IHS Acquisition No. 153, Inc., IHS Acquisition 154, Inc., IHS Acquisition No. 155, Inc., IHS Acquisition No. 175, Inc., Integrated Health Services at Grandview Care Center, Inc., ECA Properties, Inc., CCA of Midwest, Inc. and Quality Care of Columbus, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.)

10.26 Amendment to Settlement Agreement, dated as of June 29, 2000, among Integrated Health Services, Inc., Community Inc., Community

Care of America, Inc., ECA Holdings, Inc., Community Care of Nebraska, Inc., W.S.T. Care, Inc., Quality Care of Lyons, Inc., CCA Acquisition I, Inc., Marietta/SCC, Inc., Glenwood/SCC, Inc., Dublin/SCC, Inc., College Park/SCC, Inc., IHS Acquisition No. 108, Inc., IHS Acquisition No. 112, Inc., IHS Acquisition No. 113, Inc., IHS Acquisition No. 135, Inc., IHS Acquisition No. 148, Inc., IHS Acquisition No. 152, Inc., IHS Acquisition No. 153, Inc., IHS Acquisition No. 154, Inc., IHS Acquisition No. 155, Inc., IHS Acquisition No. 175, Inc., Integrated Health Services at Grandview Care Center, Inc., ECA Properties, Inc., CCA of Midwest, Inc., Quality Care of Columbus, Inc., Senior Housing Properties Trust, SPTIHS Properties Trust, HRES1 Properties Trust, HRES2 Properties Trust, SHOPCO-COLORADO, LLC, SHOPCO-CT, LLC, SHOPCO-GA, LLC, SHOPCO-IA, LLC, SHOPCO-KS, LLC, SHOPCO-MA, LLC, SHOPCO-MI, LLC, SHOPCO- 11 MO, LLC, SHOPCO-NE, LLC, SHOPCO-WY, LLC, SNH-Nebraska, Inc., SNH-Iowa, Inc., SNH-Massachusetts, Inc., SNH-Michigan, Inc., Advisors Healthcare Group, Inc. and Five Star Quality Care, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

10.27 Order of the United States Bankruptcy Court for the District of Delaware, dated July 7, 2000, in re: Integrated Health Services, Inc., et al., Debtors. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

10.28 Management and Servicing Agreement, dated as of July 10, 2000, among Integrated Health Services, Inc., ECA Holdings, Inc., ECA Properties, Inc., Community Care of Nebraska, Inc., W.S.T. Care, Inc., Quality Care of Lyons, Inc., Integrated Health Services at Grandview Care Center, Inc., Quality Care of Columbus, Inc., Marietta/SCC, Inc., Glenwood/SCC, Inc., Dublin/SCC, Inc., College Park/SCC, Inc., IHS Acquisition No. 112, Inc., IHS Acquisition No. 113, Inc., IHS Acquisition No. 175, Inc., Senior Housing Properties Trust, Five Star Quality Care, Inc., SHOPCO-COLORADO, LLC, SHOPCO-CT, LLC, SHOPCO-GA, LLC, SHOPCO-IA,

LLC, SHOPCO-KS, LLC, SHOPCO-MI, LLC, SHOPCO-MO, LLC, SHOPCO-NE, LLC, SHOPCO-WY, LLC and Advisors Healthcare Group, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.)

10.29 Stock Purchase Agreement, dated as of August 9, 2001, among Senior Housing Properties Trust, SNH/CSL Properties Trust, Crestline Capital Corporation and CSL Group, Inc., including forms of Promissory Note, Escrow Agreement and Tax Allocation Agreement. (Incorporated by reference to the Company's Current Report on Form 8-K filed October 1, 2001.)

10.30 Amendment to Stock Purchase Agreement among Senior Housing Properties Trust, SNH/CSL Properties Trust, Crestline Capital Corporation and CSL Group, Inc., dated November 5, 2001. (Incorporated by reference to the Company's Current Report on Form 8-K filed November 7, 2001.)

10.31 Transaction Agreement, dated December 7, 2001 by and among Senior Housing Properties Trust, certain subsidiaries of Senior Housing Properties Trust party thereto, Five Star Quality Care, Inc., certain subsidiaries of Five Star Quality Care, Inc. party

thereto, FSQ, Inc., Hospitality Properties Trust, HRPT Properties Trust and Reit Management & Research LLC. (Incorporated by reference to the Company's Current Report on Form 8-K filed December 17, 2001.)

10.32 Agreement of Merger, dated December 5, 2001 among Five Star Quality Care, Inc., FSQ Acquisition, Inc. and FSQ, Inc. (Incorporated by reference the Company's Current Report on Form 8-K filed December 17, 2001.)

10.33 Master Lease Agreement by and among certain affiliates of Senior Housing Properties Trust, as Landlords, and Five Star Quality Care Trust, as Tenant, dated December 31, 2001. (Incorporated by reference to the Company's Current Report on 8-K filed January 24, 2002.)

10.34 Guaranty Agreement made by Five Star Quality Care, Inc., as Guarantor, for the benefit of certain affiliates of Senior Housing Properties Trust dated December 31, 2001, relating to the Maser Lease Agreement by and among certain affiliates of Senior Housing Properties Trust, as Landlord, and Five Star Quality Care Trust, as Tenant, dated December 31, 2001. (Incorporated by reference to the Company's Current Report on 8-K filed January 24, 2002.)

10.35 Amended Master Lease Agreement by and among certain affiliates of Senior Housing Properties Trust, as Landlords, and FS Tenant Holding Company Trust, as Tenant, dated January 11, 2002. (Incorporated by reference to the Company's Current Report on 8-K filed January 24, 2002.)

10.36 Guaranty Agreement made by Five Star Quality Care, Inc., as Guarantor, for the benefit of certain affiliates of Senior Housing Properties Trust dated January 11, 2002, relating to the Amended Master Lease Agreement by and among certain affiliates of Senior Housing Properties Trust, as Landlord, and FS Tenant Holding Company Trust and FS Tenant Pool III Trust, as Tenant, dated January 11, 2002. (Incorporated by reference to the Company's Current Report on 8-K filed January 24, 2002.)

12.1 Ratio of Earnings to Fixed Charges. (Filed herewith.)

21.1 List of Subsidiaries. (Filed herewith.)

23.1 Consent of Sullivan & Worcester LLP. (Contained In Exhibit 8.1.)

23.2 Consent of Ernst and Young LLP. (Filed herewith.)

(+) Management contract or compensatory plan or arrangement.

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REPORT OF INDEPENDENT AUDITORS

To the Trustees and Shareholders of Senior Housing Properties Trust

We have audited the accompanying consolidated balance sheets of Senior Housing Properties Trust and subsidiaries, as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the

Company's management.
Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Senior Housing Properties Trust and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 22, 2002

SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	December 31, 2001	December 31, 2000
ASSETS		
Real estate properties, at cost:		
Land	$ 59,308	$ 60,060
Buildings and improvements	533,891	533,335
	593,199	593,395
Less accumulated depreciation	124,252	106,681
	468,947	486,714
Cash and cash equivalents	352,026	515
Restricted cash	17,701	801
Investments	8,841	7,563
Deferred financing fees, net	6,578	--
Net investment in facilities' operations	--	29,046
Due from affiliates	3,275	--
Other assets	9,935	5,934
	$ 867,303	$ 530,573

	=========	=========
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank credit facility	$ --	$ 97,000
Senior notes, net of discount	243,607	--
Mortgages payable	9,100	--
Prepaid rent	7,114	56
Security deposits	1,520	235
Distribution payable	--	7,775
Other liabilities	3,677	3,184
Due to affiliate	267	13
Trust preferred securities	27,394	--
Commitments and contingencies		
Shareholders' equity:		
Common shares of beneficial interest, $0.01 par value: 50,000,000 shares authorized, 43,421,700 shares and 25,916,100 shares issued and outstanding at December 31, 2001 and 2000, respectively	434	259
Additional paid-in capital	658,348	444,638
Cumulative net income	55,691	38,673
Cumulative distributions	(141,936)	(62,323)
Unrealized gain on investments	2,087	1,063
Total shareholders' equity	574,624	422,310
	$ 867,303	$ 530,573

See accompanying notes

SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	2001	2000	1999
Revenues:			
Rental income	$ 47,430	$ 64,377	$ 84,881
Facilities' operations	229,235	--	--
Other real estate income	--	2,520	--
Interest and other income	2,347	1,520	5,909
Gain on foreclosures and lease terminations	--	7,105	--
Total revenues	279,012	75,522	90,790
Expenses:			

Interest	5,879	15,366	18,768
Depreciation	19,431	20,140	22,247
Facilities' operations	223,201	--	--
General and administrative			
- Recurring	4,129	5,475	4,941
- Related to foreclosures and lease terminations	4,167	3,519	--
Five Star spin-off costs	3,732	--	--
Loan loss reserve	--	--	14,500
Impairment of assets	--	--	15,500
Total	260,539	44,500	75,956
Income before distributions on trust preferred securities and gain on sale of properties	18,473	31,022	14,834
Distributions on trust preferred securities	1,455	--	--
Income before gain on sale of properties	17,018	31,022	14,834
Gain on sale of properties	--	27,415	--
Net income	$ 17,018	$ 58,437	$ 14,834
Weighted average shares outstanding (Note 2)	30,859	25,958	26,000
Basic and diluted earnings per share:			
Income before gain on sale of properties	$ 0.55	$ 1.20	$ 0.57
Net income	$ 0.55	$ 2.25	$ 0.57

See accompanying notes

SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)

	Number of Shares	Common Shares	Additional Paid-in Capital	Cumulative Net Income (Loss)	Cumulative Distribution	Owner Int of Prop T
Balance at December 31, 1998	26,374,760	$ 264	$ --	$ --	$ --	$ 64
Net income (January 1 to October 11)	--	--	--	--	--	3
Owner distribution, net	--	--	--	--	--	(3
Cancellation of shares	(374,760)	(4)	--	--	--	
Distribution of shares to HRPT shareholders	--	--	444,488	--	--	(64
Net loss (October 12						

to December 31)	--	--	--	(19,764)	--	
Distributions	--	--	--	--	(15,601)	
Stock grants	1,500	--	23	--	--	
Balance at December 31, 1999	26,001,500	260	444,511	(19,764)	(15,601)	
Comprehensive Income:						
Net income	--	--	--	58,437	--	
Unrealized gain on investments	--	--	--	--	--	
Total comprehensive income	--	--	--	58,437	--	
Distributions	--	--	--	--	(46,722)	
Cancellation of shares	(100,000)	(1)	1	--	--	
Stock grants	14,600	--	126	--	--	
Balance at December 31, 2000	25,916,100	259	444,638	38,673	(62,323)	
Comprehensive Income:						
Net income	--	--	--	17,018	--	
Unrealized gain on investments	--	--	--	--	--	
Total comprehensive income	--	--	--	17,018	--	
Distributions	--	--	--	--	(29,613)	
Distribution of Five Star Quality Care, Inc. shares	--	--	--	--	(50,000)	
Issuance of shares	17,492,000	175	213,534	--	--	
Stock grants	13,600	--	176	--	--	
Balance at December 31, 2001	43,421,700	$ 434	$ 658,348	$ 55,691	$ (141,936)	$

See accompanying notes

SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	Yea
	2001
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 17,018
Adjustments to reconcile net income to cash provided by operating activities:	
Other real estate income	--
Depreciation	19,431

Impairment of assets and loan loss reserve	--
Gain on sale of properties	--
Gain on foreclosures and lease terminations	--
Changes in assets and liabilities:	
Restricted cash	(16,900)
Other assets	3,763
Prepaid rent	7,058
Other liabilities	(13,219)
Due to affiliate	254
Cash provided by operating activities	17,404
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of real estate, net	--
Real estate and personal property acquisitions	(2,176)
Security deposits	1,285
Cash contribution to Five Star in connection with spin-off	(24,943)
Repayments of real estate mortgages receivable	--
Investment in facilities' operations	--
Cash (used for) provided by investing activities	(25,834)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of common shares, net	213,710
Proceeds from issuance of trust preferred securities	27,394
Distributions to shareholders	(37,388)
Proceeds from borrowings on revolving bank credit facility	43,000
Repayments of borrowings on revolving bank credit facility	(140,000)
Proceeds from issuance of senior notes, net of discount	243,607
Proceeds from issuance of mortgages payable	9,100
Deferred financing fees	(6,659)
Repayment of formation debt due to HRPT Properties Trust	--
Owner's net distribution	--
Cash provided by (used for) financing activities	352,763
Increase (decrease) in cash and cash equivalents	344,333
Cash and cash equivalents at beginning of period	515
Cash and cash equivalents at facilities' operations at beginning of period	7,178
Cash and cash equivalents at end of period	$ 352,026

See accompanying notes

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SENIOR HOUSING PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

Year Ended December 31,

	2001	2000	19
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 6,248	$ 15,344	$
NON-CASH INVESTING ACTIVITIES:			
Net working capital contributed to Five Star in connection with spin-off	22,153	--	
Real estate and related property received	--	(27,869)	
Real estate and related property conveyed, net	2,904	10,759	
Real estate mortgage receivable conveyed, net	--	4,277	
Real estate mortgages receivable foreclosed	--	17,779	
Shares of HRPT Properties Trust received	--	6,500	
NON-CASH FINANCING ACTIVITIES:			
Formation debt due to HRPT Properties Trust	--	--	20
Issuance of common shares	176	126	

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Senior Housing Properties Trust (the "Company"), a Maryland real estate investment trust ("REIT") was organized on December 16, 1998, as a 100% owned subsidiary of HRPT Properties Trust ("HRPT"). On October 12, 1999, HRPT distributed 50.7% of its ownership in the Company to HRPT shareholders (the "1999 Spin-Off"). These consolidated financial statements are presented as if the Company was a separate legal entity from HRPT prior to the 1999 Spin-Off, although no such entity existed until October 12, 1999. During 2001, the Company leased 28 properties to third party operators and 56 properties were operated for the Company's own account. On December 31, 2001, the Company distributed substantially all of its ownership of Five Star Quality Care, Inc. ("Five Star"), one of its wholly-owned subsidiaries which conducted the operations of the 56 facilities operated for the Company's own account, to the Company's shareholders (the "Five Star Spin-Off"). At the time of the Five Star Spin-Off, the Company entered into a lease with Five Star for 55 facilities and Five Star assumed the Company's lease for one facility, as more fully described in Note 7. At December 31, 2001, the Company owned 83 properties in 23 states.

Note 2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION. Subsequent to the 1999 Spin-Off, the consolidated financial statements include the accounts of the Company and all of its subsidiaries. All intercompany transactions have been eliminated.

Prior to the 1999 Spin-Off, the Company was owned by HRPT and transactions are presented on HRPT's historical basis. Substantially all of the rental income and mortgage interest income received by HRPT from the Company's tenants and mortgagors was deposited in and commingled with HRPT's general funds. Funds for capital investments and other cash required by the Company were provided by

HRPT. Interest expense, general and administrative costs and other HRPT costs were allocated to the Company based on the percentage of HRPT's average historical costs of real estate investments assigned to the Company in the 1999 Spin-Off. In the opinion of management, the methods for allocating these costs and expenses for periods prior to the 1999 Spin-Off are reasonable. It is not practicable to estimate additional costs that would have been incurred by the Company as a separate entity.

During 2000, the Company assumed the operations of nursing homes from bankrupt tenants, Integrated Health Services, Inc. ("IHS") and Mariner Post-Acute Network, Inc. ("Mariner"), pursuant to negotiated settlement agreements. Although these settlements, as approved by the Bankruptcy Courts, had financial effect as of July 1, 2000, the implementation of these settlements was subject to material conditions subsequent, including the Company's obtaining healthcare regulatory licenses and Medicare and Medicaid provider contracts necessary to operate these nursing homes. Because the majority of the licenses and provider contracts had not been received prior to December 31, 2000, the Company reported the results of these nursing home operations using the equity method of accounting from July 1, 2000, through December 31, 2000. Working capital invested in these nursing home operations was included in Net Investment in Facilities' Operations in the Company's Consolidated Balance Sheets at December 31, 2000 and net income from these nursing homes was reported as Other Real Estate Income in the Company's Consolidated Statements of Income for the year ended December 31, 2000. During the first quarter of 2001, the Company obtained substantially all of the healthcare regulatory licenses and Medicare and Medicaid provider agreements necessary for these nursing home operations. Accordingly, the Company consolidated the nursing home operations effective January 1, 2001.

REAL ESTATE PROPERTIES. Depreciation on real estate properties is expensed on a straight-line basis over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property. During 1999 the estimated useful lives of certain real estate properties were changed. As a result, net income and net income per share for the period ended December 31, 1999, was reduced by $3.8 million, or $0.15 per share. Impairment losses on properties are recognized when indicators of impairment are present and

the estimated, undiscounted cash flows to be generated by the properties are less than the carrying amount of such properties.

CASH AND CASH EQUIVALENTS. Cash and cash equivalents, consisting of overnight repurchase agreements and short-term investments with original maturities of three months or less at the date of purchase, are carried at cost plus accrued interest, which approximates market.

INVESTMENTS. The Company owns 1,000,000 common shares of HRPT which are classified as available for sale and carried at fair value, with unrealized gains and losses reported as a separate component of shareholders' equity. At December 31, 2001, the Company's investment in HRPT had a fair value of $8.6 million and unrealized holding gains of $2.1 million. At February 22, 2002, this investment had a fair value of $8.7 million and unrealized holding gains of $2.2 million. The Company also owns 35,000 common shares of Five Star which it retained or received in connection with the Five Star Spin-Off. At December 31, 2001, the Company's investment in Five Star had a fair value of $254,000 and unrealized holding gains of zero. At February 22, 2002, this investment had a

fair value of $294,000 and unrealized holding gains of $40,000.

DEFERRED FINANCE COSTS. Issuance costs related to borrowings are capitalized and amortized over the terms of the respective loans. The unamortized balance of deferred finance costs and accumulated amortization were $6.6 million and $81,000 at December 31, 2001, respectively. There were no deferred finance costs prior to 2001.

INTEREST RATE CAP AGREEMENTS. The Company had an interest rate cap agreement to limit its exposure to the risk of rising interest rates. This arrangement had a notional amount of $200.0 million and expired in December 2001. At the time of its expiration and as of December 31, 2000, the interest rate cap agreement had a carrying value and a fair market value of zero.

REVENUE RECOGNITION. Rental income from operating leases is recognized on a straight-line basis over the life of lease agreements. Interest income is recognized as earned over the terms of real estate mortgages. Percentage rent and supplemental mortgage interest income are recognized as earned in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). The Company adopted SAB 101 beginning January 1, 2000, without restatement of prior periods. SAB 101 had no impact on the Company's annual results of operations. The adoption of SAB 101 required the Company to defer percentage rental income from the first, second and third quarters to the fourth quarter within the year. For the years ended December 31, 2001, 2000 and 1999, percentage rent and supplemental mortgage interest income aggregated $3.2 million, $3.0 million, and $4.0 million, respectively.

Revenues from facilities' operations were derived primarily from providing healthcare services to residents. Approximately 76% of 2001 revenues were derived from payments under federal and state medical assistance programs. The Company accrued for revenues when services were provided at standard charges adjusted to amounts estimated to be received under governmental programs and other third-party contractual arrangements. Revenues were reported at their estimated net realizable amounts and are subject to audit and retroactive adjustment. However, as a result of the Five Star Spin-Off, the Company no longer operates any facilities and will not recognize any facilities' operations revenues beginning January 1, 2002. Any impact on facilities' operations revenues due to audit or retroactive adjustment will be recognized by Five Star and not by the Company.

EARNINGS PER COMMON SHARE. Earnings per common share is computed using the weighted average number of shares outstanding during the period. The Company has no common share equivalents, instruments convertible into common shares or other dilutive instruments.

Because the Company's operations were included in the consolidated financial statements of HRPT prior to the 1999 Spin-Off, there were no shareholder equity accounts for the Company prior to October 12, 1999. Common shares outstanding of 26,000,000 at October 12, 1999, have been included in the earnings per share calculation as if the shares were outstanding for all periods prior to October 12, 1999.

USE OF ESTIMATES. Preparation of these financial statements in conformity with accounting principles generally accepted in the Unites States requires management to make estimates and assumptions that may affect the amounts

reported in these financial statements and related notes. The actual results could differ from these estimates.

INCOME TAXES. Prior to the 1999 Spin-Off, the Company's operations were included in HRPT's income tax returns. The Company and HRPT qualify as real estate investment trusts under the Internal Revenue Code of 1986, as amended ("IRC"). Accordingly, they are not expected to be subject to federal income taxes provided they distribute their taxable income and continue to meet the other requirements for qualifying as a real estate investment trust. However, they are subject to some state and local taxes on their income and property.

NEW ACCOUNTING PRONOUCEMENTS. In 1998 and 2000, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") and SFAS No. 138 "Accounting for Certain Derivative Instruments and Hedging Activities" ("FAS 138"), which were effective for fiscal years beginning after June 15, 2000. Effective January 1, 2001, the Company adopted the provisions of FAS 133, as amended by FAS 138. The adoption of FAS 133, as amended, did not have a material impact on the Company's financial position or results of operations.

In 2001 the FASB issued SFAS No. 141 "Business Combinations" ("FAS 141") which requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method, SFAS No. 142 "Goodwill and Other Intangible Assets" ("FAS 142") which provides new guidance in accounting for goodwill and intangible assets and SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). The adoption of FAS 141 had no effect on the Company's financial position or results of operations. The Company is required to adopt FAS 142 and FAS 144 on January 1, 2002, and does not expect that the adoption of FAS 142 and FAS 144 will have a material effect on the Company's financial position or results of operations.

RECLASSIFICATIONS. Reclassifications have been made to the prior years' financial statements to conform to the current year's presentation.

Note 3. Real Estate Properties

The Company's properties that are leased to third parties are generally leased on a triple net basis, pursuant to noncancellable, fixed term, operating leases expiring between 2002 and 2018. Generally, the leases to a single tenant or group of affiliated tenants are cross-defaulted and cross-guaranteed, and provide for all or none tenant renewal options at existing or market rent rates. These triple net leases generally require the lessee to pay all property operating costs. The cost, after impairment write downs, and the carrying value of the properties leased were $593.2 million and $468.9 million at December 31, 2001, respectively which includes the properties involved in the Five Star Spin-Off. The future minimum lease payments to be received during the current terms of the Company's leases as of December 31, 2001, are $51.8 million in 2002, $51.9 million in 2003, $51.5 million in 2004, $51.6 million in 2005, $39.1 million in 2006 and $260.7 million thereafter. This does not include the impact of the transactions which were completed after December 31, 2001, as discussed in Note 16.

During 2000, the Company sold four independent living properties and three nursing homes and recognized a gain of $27.4 million. Net proceeds from these sales were used to reduce amounts outstanding under the

Company's revolving bank credit facility. Also in 2000, the Company acquired a 90 bed assisted living facility from HRPT for $2.3 million.

Note 4. Gain on Foreclosures and Lease Terminations

In connection with the foreclosures and lease terminations discussed in Note 2, the Company retained a forfeited $15.0 million security deposit, 1,000,000 common shares of HRPT valued at $6.5 million, 100,000 common shares of the Company, nine properties valued at $10.1 million and the personal property at all of the foreclosed properties and repossessed leased properties. In addition, recognition of rental income previously deferred related to these properties totaling $19.0 million was accelerated. These income items were offset by the value of properties deeded to the former tenant, the forgiveness of mortgage debt due from a bankrupt borrower, legal and professional costs, licensing costs, and impairment write-downs of $9.7 million related to certain of the properties and a reserve for repairs and deferred maintenance at these properties of $10.0 million. The net result of assets received and accelerated deferred income over the assets traded and debts forgiven, various costs, the impairment write-downs and the repairs and maintenance reserve was recorded in the fourth quarter of 2000 as a $7.1 million gain on foreclosures and lease terminations.

Note 5. Net Investment in Facilities' Operations

As discussed in Note 2, the Company assumed operating responsibility for 17 Mariner facilities and 40 IHS facilities effective July 1, 2000, pending final regulatory approvals which are required in the healthcare industry. The Company entered into management arrangements with FSQ, Inc., formerly known as Five Star Quality Care, Inc. ("FSQ"), pursuant to which FSQ managed the properties for the Company following relicensing. Mariner and IHS agreed with the Company and FSQ to perform transition services with respect to the nursing facilities formerly operated by them until appropriate licenses were received by the Company and FSQ. At December 31, 2000, all approvals had not been received. Since such approvals were not received, the Company reported the net income from these facilities as Other Real Estate Income in the Consolidated Statements of Income for the year ended December 31, 2000. The capital invested in these operations by the Company was included in Net Investment in Facilities' Operations in the Consolidated Balance Sheet at December 31, 2000. The Company consolidated the results of facilities' operations beginning on January 1, 2001.

Summary financial data for these facilities' operations was as follows (dollars in thousands):

	December 31, 2000		July Decemb
Current assets	$55,938	Revenues	$
Property and equipment, net	2,399	Expenses	
	$58,337	Other real estate income	$
Current liabilities	$29,291		
Net investment in facilities' operations	29,046		
	$58,337		

Note 6. Shareholders' Equity

On July 3 and July 11, 2001, the Company issued a total of 3,445,000 common shares of beneficial interest, in an underwritten public offering for gross proceeds of approximately $44.8 million. The proceeds received, net of underwriting commissions and costs of issuance of $2.6 million, were applied to reduce the Company's outstanding obligations under its revolving bank credit facility.

On October 9 and October 12, 2001, the Company issued a total of 14,047,000 common shares of beneficial interest, in an underwritten public offering for gross proceeds of approximately $181.2 million. The proceeds received, net of underwriting commissions and costs of issuance of $9.7 million, were applied to reduce the Company's outstanding obligations under its revolving bank credit facility to zero. The excess remaining cash was available for working capital, general business purposes and for acquisitions.

The Company has reserved 1,300,000 shares of the Company's common shares under the terms of the 1999 Incentive Share Award Plan (the "Award Plan"). During the year ended December 31, 2001, 12,100 common shares were awarded to officers of the Company and certain employees of the Company's investment manager pursuant to this plan. In addition, the Company's Independent Trustees are each awarded 500 common shares annually as part of their annual fees. The shares awarded to the Trustees vest immediately. The shares awarded to the Company's officers and certain employees of its investment manager vest over a three-year period. At December 31, 2001, 1,270,300 of the Company's common shares remain reserved for issuance under the Award Plan.

Cash distributions paid or payable by the Company for the years ended December 31, 2001, 2000 and 1999, were $0.90 per share, $1.80 per share and $0.60 per share, respectively. In connection with the Five Star Spin-Off, the Company distributed one share of Five Star for every ten shares of the Company to the Company's shareholders on December 31, 2001, which was valued at $.726 per common share of the Company for income tax purposes.

Note 7. Spin-off Transaction

As discussed in Note 1, the Company completed the Five Star Spin-Off by distributing 4,342,170 common shares of Five Star to its shareholders on December 31, 2001. Concurrent with the Five Star Spin-Off, the Company entered into a lease agreement with Five Star for 55 healthcare facilities expiring in 2018 and Five Star assumed the Company's leasehold for one additional facility. The minimum rent for these facilities is $7.0 million per year. In addition, percentage rent will be due starting in 2004, in amounts equal to three percent of net patient revenues at each facility in excess of net patient revenues at such facility in 2003. The Company also entered into a transaction agreement to govern the initial capitalization of Five Star and other events related to the Five Star Spin-Off. Pursuant to the transaction agreement, the Company provided initial capitalization of $50.0 million of equity to Five Star which consisted of cash and working capital related to the operations of the 56 facilities and two facilities with a net book value of $2.2 million. Simultaneous with the Five Star Spin-Off, Five Star became a public company listed on the American Stock Exchange. The Company incurred $3.7 million of expenses relating to the Five Star Spin-Off, which included costs of distributing Five Star shares to

shareholders, legal and accounting fees, Securities and Exchange Commission filing fees and Five Star's American Stock Exchange listing fees.

Note 8. Transactions with Affiliates

The Company has an agreement with REIT Management & Research LLC ("RMR") for RMR to provide investment, management and administrative services to the Company. RMR is owned by Gerard M. Martin and Barry M. Portnoy, each a Managing Trustee and member of the Company's Board of Trustees. RMR is compensated annually based on a formula amount of gross invested real estate assets. RMR is also entitled to an annual incentive fee, which is based on a formula and paid in restricted shares of the Company. Investment advisory fees paid to RMR for the years ended December 31, 2001, 2000 and 1999, were $3.2 million, $3.7 million and $3.9 million, respectively. To date, the Company has not paid and RMR is not due any incentive fees.

As a result of the nursing home bankruptcies and settlements discussed in Notes 2 and 5, subject to the receipt of necessary healthcare licenses, the Company assumed operating responsibilities for healthcare facilities effective

July 1, 2000. Nursing care and other services were provided at these properties to approximately 5,000 residents. Under IRC laws and regulations applicable to REITs, the Company was required to engage a contractor to manage these properties after a 90 day transition period. The Company entered into management agreements with FSQ to provide these services beginning in 2000. FSQ was owned by Messrs. Martin and Portnoy, the Company's Managing Trustees, until January 2, 2002. Under these management agreements, during the first 90 days FSQ was paid its costs and expenses incurred in managing the facilities for the Company and thereafter it was paid a fee equal to five percent of patient revenues at the managed facilities. During 2001 and 2000, the fees paid to FSQ by the Company totaled $11.5 million and $5.1 million, respectively. This amount includes fees with respect to all services provided by FSQ to the Company including those described in this paragraph and in the next paragraph.

As part of the bankruptcy settlement agreement between the Company and IHS described in Note 2, in partial satisfaction of its financial obligations to the Company, IHS conveyed nine nursing homes free of debt to the Company. Under IRC laws and regulations applicable to REITs during 2000, the Company was unable to operate nursing homes that were not previously owned and leased or mortgaged by the Company. Accordingly, new corporations were created to take title to and operate these nine nursing homes, and Messrs. Martin and Portnoy each purchased 0.5% of the beneficial ownership and 50% of the voting control while the Company retained 99% of the beneficial ownership and no voting control (the "99-1 Corporations"). Effective January 1, 2001, applicable laws were changed to permit REITs to have voting control of taxable REIT subsidiaries ("TRSs"). Effective January 1, 2001, Messrs. Martin and Portnoy sold their beneficial ownership and voting control of the 99-1 Corporations to the Company for their historical investment. The nursing homes owned by these 99-1 Corporations and TRSs were managed by FSQ.

In connection with the Five Star Spin-Off the Company entered into a transaction agreement with Five Star, FSQ and RMR. The transaction agreement provided for, among other things, (i) the capitalization of Five Star by the Company with $50.0 million of equity consisting of cash and working capital, (ii) the spin-off of Five Star, (iii) the lease of 55 senior living facilities to Five

Star, which became effective December 31, 2001, (iv) the lease to Five Star of 31 senior living facilities to be acquired from Crestline Capital Corporation ("Crestline"), which became effective when this acquisition closed on January 11, 2002 (see Note 16), and (v) a right of first refusal granted by Five Star to the Company, before it acquires or finances any real estate investments of the type in which the Company invests. In order to acquire the personnel, systems and assets necessary for Five Star to operate facilities which it leases from the Company, the transaction agreement also provided for the merger of FSQ into a Five Star subsidiary and for Five Star's entering into a shared services agreement with RMR pursuant to which RMR agreed to provide services similar to the services previously provided by RMR to FSQ. That FSQ merger into Five Star was concluded on January 2, 2002, and as consideration in the merger, Five Star issued 125,000 shares of its common stock to each of Messrs. Martin and Portnoy, having a total value (based on the average high and low trading price of Five Star's common stock on the American Stock Exchange on January 2, 2002) of $1.9 million ($7.50 per share). In connection with this merger, the Company's Board of Trustees received an opinion from an internationally recognized investment banking firm to the effect that the consideration provided for in the merger agreement was fair, from a financial point of view, to Five Star.

Pursuant to the Five Star Spin-Off transaction agreement, the Company agreed to contribute $50.0 million of equity consisting of cash and working capital to Five Star on December 31, 2001. Amounts were estimated on December 31, 2001 and the transaction agreement provided that a true up of amounts contributed would be completed subsequent to the year end. The amount owed to the Company by Five Star is approximately $3.3 million as of December 31, 2001 and is included in Due from Affiliates in the Consolidated Balance Sheet at December 31, 2001.

Note 9. Indebtedness

The Company has a $270.0 million, interest only, revolving bank credit facility. The revolving bank credit facility is secured by 14 properties with a net book value of $270.5 million at December 31, 2001, and matures in September 2002. The revolving bank credit facility bears interest at LIBOR plus a premium. The interest rate at December 31, 2001, was 3.87%. The bank credit facility is available for acquisitions, working capital and for general business purposes.

On July 12, 2001, the Company obtained mortgage financing secured by two of its properties in Michigan, for a total of $9.1 million. The mortgages require interest (2.75% at December 31, 2001) to be paid monthly at prime less a discount. These mortgages mature in July 2003. The two properties were operated for the Company's own account during 2001, and subsequent to the Five Star Spin-Off were leased to Five Star.

In December 2001, the Company sold $245.0 million of senior unsecured notes at a discount. The notes carry interest at a fixed rate of 8.625% per annum and are due in 2012. Net proceeds from the sale of the notes, after the discount and costs of issuance, were $238.9 million. Interest on the notes is payable semi-annually in arrears. No principal payments are due until maturity. The unamortized balance of the discount at December 31, 2001 was $1.4 million.

Note 10. Trust Preferred Securities

In June and July 2001, SNH Capital Trust I (the "Issuer"), a wholly-owned finance subsidiary of the Company, issued 1,095,750 shares of 10.125% trust

preferred securities (the "Trust Preferred Securities"), with a liquidation preference of $25 per share, for a total liquidation amount of $27.4 million. The Trust Preferred Securities represent an undivided beneficial ownership interest in the assets of the Issuer. Proceeds from the issuance of the Trust Preferred Securities were used to acquire 10.125% junior subordinated debentures (the "Debentures") due June 15, 2041 issued by the Company. The Issuer exists solely to issue the Trust Preferred Securities and its own common securities and acquire and hold the Debentures, which are its sole assets. The net proceeds from the sale of the Debentures were applied to reduce the Company's outstanding obligations under its revolving bank credit facility. The underwriting commissions and other costs are being amortized over the 40 year life of the Trust Preferred Securities and the Debentures. The Company can redeem the Debentures for their liquidation value before their maturity in whole or in part on or after June 15, 2006. The Issuer will redeem all of the outstanding Trust Preferred Securities when the Debentures are redeemed or repaid at maturity. The Company has guaranteed the payments of distributions, redemption amounts and liquidation payments due on the Trust Preferred Securities to the extent the Issuer has funds available for the payments (the "Guarantee"). The obligations of the Company under the Guarantee are subordinate to its obligations to its other creditors, to the same extent as the Debentures. The Company's obligations relating to the Trust Preferred Securities include obligations to make payments on the Debentures and obligations under the related junior subordinated indenture (as supplemented by the supplemental indenture) of the Company, the Guarantee and the amended and restated trust agreement of the Issuer. Taken together, these obligations represent a full and unconditional guarantee of amounts of the Trust Preferred Securities.

Note 11. Segment Information

During 2001, the Company operated in two segments: leasing and facilities' operations. Revenues of the leasing segment were derived from rental agreements for properties that are leased to third party operators. Revenues of the facility operations segment were derived from services provided to patients at the healthcare facilities operated for the Company's account. Performance is measured based on the return on investments for the leased properties and on contribution margin of the facilities' operations. The following table is a summary of these reportable segments as of the year ended December 31, 2001. Because the Company operated in only the leasing segment before January 1, 2001, a comparative table is not presented (dollars in thousands):

	Year Ended December 31, 2001			
	Leasing	Facilities' Operations	Unallocated	Total
Revenues	$ 47,430	$ 229,235	$ 2,347	$ 279,012
Expenses:				
Interest	--	--	5,879	5,879
Depreciation	13,129	6,302	--	19,431
Facilities' operations	--	223,201	--	223,201
General and administrative				
- Recurring	4,129	--	--	4,129

- Related to foreclosures and lease terminations	--	--	4,167	4,167
Five Star spin-off costs	--	--	3,732	3,732
Total	17,258	229,503	13,778	260,539
Income before distributions on trust preferred securities	30,172	(268)	(11,431)	18,473
Distributions on trust preferred securities	--	--	1,455	1,455
Net income (loss)	$ 30,172	$ (268)	$ (12,886)	$ 17,018
Real estate properties, at cost	$ 448,561	$ 144,638	--	$ 593,199

As a result of the Five Star Spin-Off, after January 1, 2002, the Company operates in a single segment: leasing.

Note 12. Fair Value of Financial Instruments and Commitments

The financial statements presented include rents receivable, senior notes, mortgages payable, other liabilities, security deposits and Trust Preferred Securities. The fair values of the financial instruments were not materially different from their carrying values at December 31, 2001 and 2000. The fair values of the senior notes, mortgage debt and Trust Preferred Securities are based on estimates using discounted cash flow analysis and currently prevailing market rates.

Note 13. Concentration of Credit Risk

The assets included in these financial statements are primarily income producing senior housing real estate located throughout the United States. The following is a summary of the significant lessees as of and for the years ended December 31, 2001 and 2000 (dollars in thousands):

	December 31, 2001		Year Ending December 31, 2001	
	Investment(1)	% of Total	Revenue	% of Tota
Marriott International, Inc.	$325,472	73%	$ 30,894	65%
HEALTHSOUTH Corporation	73,422	16%	10,271	22%
All others	49,667	11%	6,265	13%
	$448,561	100%	$ 47,430	100%

	December 31, 2000	Year Ending December 31, 2000

	Investment(1)	% of Total	Revenue(2)	% of
Marriott International, Inc.	$325,472	73%	$ 30,141	47
Brookdale Living Communities, Inc.	--	--	9,366	14
HEALTHSOUTH Corporation	73,422	16	9,267	14
Mariner Post-Acute Network, Inc.	--	--	7,006	11
All others	49,667	11	8,658	14
	$448,561	100%	$ 64,438	100

Note 14. Selected Quarterly Financial Data (unaudited)

The following is a summary of the unaudited quarterly results of operations of the Company for 2001 and 2000 (dollars in thousands, except per share amounts):

	2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues(1)	$68,722	$67,242	$68,916	$74,132
Net income	2,836	2,750	5,522	5,910
Per share data:				
Net income	0.11	0.11	0.19	0.14

(1) 2001 revenues include patient revenues from facilities' operations.

SENIOR HOUSING PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	2000		
	First Quarter	Second Quarter	Q
Revenues	$18,597	$18,632	$
Income before gain on sale of properties	7,560	7,268	
Gain on sale of properties	--	--	
Net income	7,560	7,268	
Per share data:			
Income before gain on sale of properties	0.29	0.28	
Net income	0.29	0.28	

Note 15. Commitments

On August 9, 2001, the Company entered an agreement to acquire 31 senior living communities with 7,487 units from Crestline for approximately $600.0 million.

These communities were acquired on January 11, 2002, as described below.

Note 16. Subsequent Events

On January 2, 2002, a tenant, HEALTHSOUTH Corporation ("HEALTHSOUTH"), settled a non-monetary default with the Company by exchanging properties. The Company delivered to HEALTHSOUTH title to five nursing homes which HEALTHSOUTH leased from the Company, one of which was closed by HEALTHSOUTH which created the non-monetary default. In exchange, HEALTHSOUTH delivered to the Company title to two rehabilitation hospitals which HEALTHSOUTH leases from the Company. As part of this settlement, HEALTHSOUTH's lease was extended to December 2011, from January 2006, and the annual rent was reduced from $10.3 million to $8.7 million.

On January 11, 2002, the Company acquired 31 senior living communities for $600 million from Crestline using cash on hand from the offerings of equity and senior unsecured notes described in Notes 6 and 9, borrowings on the Company's revolving bank credit facility and assumption of certain liabilities. These communities are managed by a subsidiary of Marriott International, Inc. and are leased to Five Star. The initial lease to Five Star is to December 2017 and the minimum rent is $63 million per year plus a varying percentage of gross revenues each year which is paid as additional rent to the Company and escrowed for future capital expenditures at the leased facilities. In addition, percentage rent will be due, starting in 2003, in amounts equal to five percent (5%) of net patient revenues at each facility in excess of net patient revenues at such facility in 2002.

On February 15, 2002, the Company issued 15,000,000 common shares of beneficial interest, in an underwritten public offering for gross proceeds of $205.8 million. The proceeds received, net of underwriting commissions and costs of issuance of approximately $10.3 million, were applied to reduce the Company's outstanding borrowings under its revolving bank credit facility.

SENIOR HOUSING PROPERTIES TRUST
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2001
(Dollars in Thousands)

		Initial Cost to Company				Gross Amount Carried at Close of Period 12/31/01		
Location	State	Land	Buildings and Equipment	Costs Capitalized Subsequent to Acquisition	Impairment	Land	Buildings and Equipment	(1) Total
Yuma	AZ	$103	$604	$28	$--	$103	$632	$73
Phoenix	AZ	655	2,525	43	--	655	2,568	3,22
Yuma	AZ	223	2,100	63	--	223	2,163	2,38
Scottsdale (4)	AZ	979	8,807	91	--	941	8,936	9,87
Sun City (4)	AZ	1,174	10,569	173	--	1,189	10,727	11,91
Arleta	CA	230	2,070	168	--	230	2,238	2,46
Fresno	CA	738	2,577	188	--	738	2,765	3,50
Van Nuys	CA	716	378	258	--	718	634	1,35
Thousand Oaks	CA	622	2,522	354	--	622	2,876	3,49

Location	State	Land	Buildings and Equipment	Costs Capitalized Subsequent to Acquisition	Impairment	Land	Buildings and Equipment	(1) Total
Lancaster	CA	601	1,859	1,071	--	601	2,930	3,53
Stockton	CA	382	2,750	47	--	382	2,797	3,17
Laguna Hills (4)	CA	3,132	28,184	475	--	3,172	28,619	31,79
Littleton	CO	185	5,043	471	--	185	5,514	5,69
Lakewood	CO	232	3,766	818	--	232	4,584	4,81
Grand Junction	CO	204	3,875	388	--	204	4,263	4,46
Grand Junction	CO	6	2,583	1,390	--	136	3,843	3,97
Colorado Springs	CO	245	5,236	195	(3,031)	245	2,400	2,64
Delta	CO	167	3,570	143	--	167	3,713	3,88
Canon City	CO	292	6,228	172	(3,512)	292	2,888	3,18
Waterbury	CT	1,003	9,023	988	(5,694)	1,003	4,317	5,32
New Haven	CT	1,681	14,953	1,303	(12,154)	1,681	4,102	5,78
Deerfield Beach (4)	FL	1,664	14,972	299	--	1,690	15,245	16,93
Palm Harbor (4)	FL	3,327	29,945	591	--	3,379	30,484	33,86
Boca Raton (4)	FL	4,404	39,633	799	--	4,474	40,362	44,83
Port St. Lucie (4)	FL	1,223	11,009	219	--	1,242	11,209	12,45
Fort Myers (4)	FL	2,349	21,137	419	--	2,385	21,520	23,90
Marietta	GA	300	2,702	87	--	300	2,789	3,08
Dublin	GA	442	3,982	186	--	442	4,168	4,61
Glenwood	GA	174	1,564	50	--	174	1,614	1,78
College Park	GA	300	2,702	75	--	300	2,777	3,07
Mediapolis	IA	94	1,776	336	--	94	2,112	2,20
Winterset	IA	111	2,099	583	--	111	2,682	2,79

SENIOR HOUSING PROPERTIES TRUST
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2001
(Dollars in Thousands)

		Initial Cost to Company				Gross Amount Carried at Close of Period 12/31/01		
Location	State	Land	Buildings and Equipment	Costs Capitalized Subsequent to Acquisition	Impairment	Land	Buildings and Equipment	(1) Total
Clarinda	IA	77	1,453	469	--	77	1,922	1,99
Pacific Junction	IA	32	306	37	--	32	343	37
Council Bluffs	IA	225	893	283	--	225	1,176	1,40
Des Moines	IA	123	627	49	--	123	676	79
Glenwood	IA	322	2,098	44	--	322	2,142	2,46
Arlington Heights (4)	IL	3,621	32,587	534	--	3,665	33,077	36,74
Ellinwood	KS	130	1,137	110	--	130	1,247	1,37
Middleboro	MA	1,771	15,752	--	--	1,771	15,752	17,52
Worcester	MA	1,829	15,071	1,869	--	1,829	16,940	18,76
Boston	MA	2,164	20,836	1,978	--	2,164	22,814	24,97
Hyannis	MA	829	7,463	--	--	829	7,463	8,29
North Andover	MA	410	3,450	--	--	410	3,450	3,86
Farmington (5)	MI	474	3,682	34	--	474	3,716	4,19
Howell (5)	MI	703	4,227	46	--	703	4,273	4,97
Silver Spring (4)	MD	3,229	29,065	786	--	3,301	29,779	33,08
St. Joseph	MO	111	1,027	195	--	111	1,222	1,33
Tarkio	MO	102	1,938	492	--	102	2,430	2,53

Grand Island	NE	119	1,446	470	--	119	1,916	2,03
Ainsworth	NE	25	420	25	--	25	445	47
Ashland	NE	28	1,823	55	--	28	1,878	1,90
Blue Hill	NE	56	1,063	39	--	56	1,102	1,15
Central City	NE	21	919	56	--	21	975	99
Edgar	NE	1	138	40	--	1	178	17
Exeter	NE	4	626	47	--	4	673	67
Gretna	NE	267	673	51	--	267	724	99
Lyons	NE	13	797	50	--	13	847	86
Milford	NE	24	880	40	--	24	920	94
Columbus	NE	89	561	39	--	89	600	68
Sutherland	NE	19	1,251	36	--	19	1,287	1,30
Utica	NE	21	569	55	--	21	624	64
Waverly	NE	529	686	49	--	529	735	1,26
Burlington	NJ	1,300	11,700	7	--	1,300	11,707	13,00

SENIOR HOUSING PROPERTIES TRUST
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2001
(Dollars in Thousands)

		Initial Cost to Company				Gross Amount Carried at Close of Period 12/31/01		
Location	State	Land	Buildings and Equipment	Costs Capitalized Subsequent to Acquisition	Impairment	Land	Buildings and Equipment	(1) Total
Grove City	OH	332	3,081	32	--	332	3,113	3,44
Canonsburg	PA	1,499	13,493	606	--	1,518	14,080	15,59
Huron	SD	45	968	1	--	45	969	1,01
Sioux Falls	SD	253	3,062	4	--	253	3,066	3,31
Huron	SD	144	3,108	4	--	144	3,112	3,25
Bellaire (4)	TX	1,223	11,010	177	--	1,238	11,172	12,41
Virginia Beach (4)	VA	881	7,926	141	--	893	8,055	8,94
Charlottesville (4)	VA	2,936	26,422	471	--	2,976	26,853	29,82
Arlington (4)	VA	1,859	16,734	296	--	1,885	17,004	18,88
Seattle	WA	256	4,869	67	--	256	4,936	5,19
Brookfield	WI	834	3,849	8,092	(6,552)	834	5,389	6,22
Clintonville	WI	49	1,625	157	--	30	1,801	1,83
Clintonville	WI	14	1,695	80	--	14	1,775	1,78
Madison	WI	144	1,633	145	--	144	1,778	1,92
Waukesha	WI	68	3,452	2,294	--	68	5,746	5,81
Milwaukee	WI	277	3,883	61	--	277	3,944	4,22
Pewaukee	WI	984	2,432	78	--	984	2,510	3,49
Worland	WY	132	2,503	675	--	132	3,178	3,31
Laramie	WY	191	3,632	274	--	191	3,906	4,09
Grand Totals		$58,747	$531,284	$34,111	($30,943)	$59,308	$533,891	$593,19

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SENIOR HOUSING PROPERTIES TRUST
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2001
(Dollars in Thousands)

Reconciliation of the carrying amount of real estate and equipment and accumulated depreciation during the period:

	Real Estate and Equipment	Accumulated Depreciation
Balance at December 31, 1998	$ 732,393	$ 94,616
Additions	--	22,247
Impairment	(23,654)	(8,154)
Balance at December 31, 1999	708,739	108,709
Additions	30,169	20,140
Disposals	(130,968)	(17,273)
Impairment	(14,545)	(4,895)
Balance at December 31, 2000	593,395	106,681
Balance at December 31, 2000 included in net investment in facilities' operations	2,609	210
Additions	2,169	19,431
Disposals	(4,974)	(2,070)
Balance at December 31, 2001	$ 593,199	$ 124,252

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SENIOR HOUSING PROPERTIES TRUST

By: /s/ David J. Hegarty
David J. Hegarty
President and Chief Operating Officer
Dated: March 28, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, or by their attorney-in-fact, in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David J. Hegarty	President and	March 28, 2002

David J. Hegarty	Chief Operating Officer	
/s/ John R. Hoadley John R. Hoadley	Treasurer and Chief Financial Officer	March 28, 2002
/s/ Frank J. Bailey Frank J. Bailey	Trustee	March 28, 2002
/s/ Arthur G. Koumantzelis Arthur G. Koumantzelis	Trustee	March 28, 2002
/s/ John L. Harrington John L. Harrington	Trustee	March 28, 2002
/s/ Gerard M. Martin Gerard M. Martin	Trustee	March 28, 2002
/s/ Barry M. Portnoy Barry M. Portnoy	Trustee	March 28, 2002