

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from _____ to _____

Commission file number: 1-8923

WELLTOWER INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

34-1096634

(I.R.S. Employer Identification No.)

4500 Dorr Street, Toledo, Ohio

(Address of principal executive offices)

43615

(Zip Code)

(419) 247-2800

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 31, 2016, the registrant had 362,531,659 shares of common stock outstanding.

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Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
WELLTOWER INC. AND SUBSIDIARIES

(In thousands)

	September 30, 2016 (Unaudited)	December 31, 2015 (Note)
Assets:		
Real estate investments:		
Real property owned:		
Land and land improvements	\$ 2,603,590	\$ 2,563,445
Buildings and improvements	25,671,913	25,522,542
Acquired lease intangibles	1,423,032	1,350,585
Real property held for sale, net of accumulated depreciation	913,157	169,950
Construction in progress	529,471	258,968
Gross real property owned	31,141,163	29,865,490
Less accumulated depreciation and amortization	(4,243,038)	(3,796,297)
Net real property owned	26,898,125	26,069,193
Real estate loans receivable	630,020	819,492
Net real estate investments	27,528,145	26,888,685
Other assets:		
Investments in unconsolidated entities	479,382	542,281
Goodwill	68,321	68,321
Cash and cash equivalents	428,617	360,908
Restricted cash	83,137	61,782
Straight-line rent receivable	455,774	395,562
Receivables and other assets	812,963	706,306
Total other assets	2,328,194	2,135,160
Total assets	<u>\$ 29,856,339</u>	<u>\$ 29,023,845</u>
Liabilities and equity		
Liabilities:		
Borrowings under primary unsecured credit facility	\$ 1,350,000	\$ 835,000
Senior unsecured notes	8,688,585	8,548,055
Secured debt	3,317,933	3,509,142
Capital lease obligations	74,370	75,489
Accrued expenses and other liabilities	767,683	697,191
Total liabilities	14,198,571	13,664,877
Redeemable noncontrolling interests	393,530	183,083
Equity:		
Preferred stock	1,006,250	1,006,250
Common stock	362,703	354,811
Capital in excess of par value	16,983,562	16,478,300
Treasury stock	(52,194)	(44,372)
Cumulative net income	4,454,180	3,725,772
Cumulative dividends	(7,816,492)	(6,846,056)
Accumulated other comprehensive income (loss)	(151,184)	(88,243)
Other equity	3,020	4,098
Total Welltower Inc. stockholders' equity	14,789,845	14,590,560
Noncontrolling interests	474,393	585,325
Total equity	15,264,238	15,175,885
Total liabilities and equity	<u>\$ 29,856,339</u>	<u>\$ 29,023,845</u>

NOTE: The consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
WELLTOWER INC. AND SUBSIDIARIES

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Rental income	\$ 421,152	\$ 409,290	\$ 1,259,442	\$ 1,185,502
Resident fees and services	630,017	545,255	1,847,386	1,573,318
Interest income	25,080	22,380	74,275	59,950
Other income	2,884	2,072	21,735	11,572
Total revenues	1,079,133	978,997	3,202,838	2,830,342
Expenses:				
Interest expense	129,699	121,130	394,985	361,071
Property operating expenses	473,680	408,703	1,382,148	1,183,519
Depreciation and amortization	218,061	205,799	673,326	603,431
General and administrative	36,828	36,950	122,434	110,562
Transaction costs	19,842	9,333	33,207	70,379
Loss (gain) on derivatives, net	(2,516)	-	(2,516)	(58,427)
Loss (gain) on extinguishment of debt, net	-	584	9	34,872
Impairment of assets	9,705	-	24,019	2,220
Other expenses	-	-	3,161	10,583
Total expenses	885,299	782,499	2,630,773	2,318,210
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	193,834	196,498	572,065	512,132
Income tax (expense) benefit	305	3,344	2,543	(3,769)
Income (loss) from unconsolidated entities	(1,749)	(2,631)	(7,528)	(18,231)
Income (loss) from continuing operations	192,390	197,211	567,080	490,132
Gain (loss) on real estate dispositions, net	162,351	2,046	163,881	249,002
Net income	354,741	199,257	730,961	739,134
Less: Preferred stock dividends	16,352	16,352	49,055	49,055
Less: Net income (loss) attributable to noncontrolling interests ⁽¹⁾	3,479	862	2,553	4,666
Net income (loss) attributable to common stockholders	\$ 334,910	\$ 182,043	\$ 679,353	\$ 685,413
Average number of common shares outstanding:				
Basic	358,932	351,765	356,911	346,425
Diluted	361,237	353,107	358,752	347,547
Earnings per share:				
Basic:				
Income (loss) from continuing operations attributable to common stockholders, including real estate dispositions	\$ 0.93	\$ 0.52	\$ 1.90	\$ 1.98
Net income (loss) attributable to common stockholders*	\$ 0.93	\$ 0.52	\$ 1.90	\$ 1.98
Diluted:				
Income (loss) from continuing operations attributable to common stockholders, including real estate dispositions	\$ 0.93	\$ 0.52	\$ 1.89	\$ 1.97
Net income (loss) attributable to common stockholders*	\$ 0.93	\$ 0.52	\$ 1.89	\$ 1.97
Dividends declared and paid per common share	\$ 0.86	\$ 0.825	\$ 2.58	\$ 2.475

* Amounts may not sum due to rounding

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**WELLTOWER INC. AND SUBSIDIARIES**

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 354,741	\$ 199,257	\$ 730,961	\$ 739,134
Other comprehensive income (loss):				
Unrecognized gain (loss) on equity investments	5,908	(3,086)	(5,252)	(18,186)
Change in net unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) on cash flow hedges	401	462	1,371	(1,235)
Unrecognized actuarial gain (loss)	(2)	-	-	-
Foreign currency translation gain (loss)	516	(25,198)	(48,496)	(22,011)
Total other comprehensive income (loss)	6,823	(27,822)	(52,377)	(41,432)
Total comprehensive income (loss)	361,564	171,435	678,584	697,702
Less: Total comprehensive income (loss) attributable to noncontrolling interests ⁽¹⁾	1,846	(14,271)	13,117	(19,416)
Total comprehensive income (loss) attributable to common stockholders	\$ 359,718	\$ 185,706	\$ 665,467	\$ 717,118

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
WELLTOWER INC. AND SUBSIDIARIES

(In thousands)

Nine Months Ended September 30, 2016										
	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
Balances at beginning of period	\$ 1,006,250	\$ 354,811	\$ 16,478,300	\$ (44,372)	\$ 3,725,772	\$ (6,846,056)	\$ (88,243)	\$ 4,098	\$ 585,325	\$ 15,175,885
Comprehensive income:										
Net income (loss)					728,408				7,363	735,771
Other comprehensive income							(62,941)		10,564	(52,377)
Total comprehensive income										683,394
Net change in noncontrolling interests			(45,765)						(128,859)	(174,624)
Amounts related to stock incentive plans, net of forfeitures		689	38,888	(7,822)				(1,285)		30,470
Proceeds from issuance of common stock		7,203	512,139							519,342
Option compensation expense								207		207
Cash dividends paid:										
Common stock cash dividends						(921,381)				(921,381)
Preferred stock cash dividends						(49,055)				(49,055)
Balances at end of period	<u>\$ 1,006,250</u>	<u>\$ 362,703</u>	<u>\$ 16,983,562</u>	<u>\$ (52,194)</u>	<u>\$ 4,454,180</u>	<u>\$ (7,816,492)</u>	<u>\$ (151,184)</u>	<u>\$ 3,020</u>	<u>\$ 474,393</u>	<u>\$ 15,264,238</u>

Nine Months Ended September 30, 2015										
	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
Balances at beginning of period	\$ 1,006,250	\$ 328,835	\$ 14,740,712	\$ (35,241)	\$ 2,842,022	\$ (5,635,923)	\$ (77,009)	\$ 5,507	\$ 297,896	\$ 13,473,049
Comprehensive income:										
Net income (loss)					734,468				4,476	738,944
Other comprehensive income							(17,350)		(24,082)	(41,432)
Total comprehensive income										697,512
Net change in noncontrolling interests			(4,778)						213,792	209,014
Amounts related to stock incentive plans, net of forfeitures		125	21,855	(9,095)				(2,097)		10,788
Proceeds from issuance of common stock		22,733	1,618,349							1,641,082
Equity component of convertible debt		1,330	5,431							6,761
Option compensation expense								587		587
Cash dividends paid:										
Common stock cash dividends						(852,563)				(852,563)
Preferred stock cash dividends						(49,055)				(49,055)
Balances at end of period	<u>\$ 1,006,250</u>	<u>\$ 353,023</u>	<u>\$ 16,381,569</u>	<u>\$ (44,336)</u>	<u>\$ 3,576,490</u>	<u>\$ (6,537,541)</u>	<u>\$ (94,359)</u>	<u>\$ 3,997</u>	<u>\$ 492,082</u>	<u>\$ 15,137,175</u>

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
WELLTOWER INC. AND SUBSIDIARIES
(In thousands)

	Nine Months Ended	
	September 30,	
	2016	2015
Operating activities:		
Net income	\$ 730,961	\$ 739,134
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	673,326	603,431
Other amortization expenses	5,419	3,867
Impairment of assets	24,019	2,220
Stock-based compensation expense	20,618	25,655
Loss (gain) on derivatives, net	(2,516)	(58,427)
Loss (gain) on extinguishment of debt, net	9	34,872
Loss (income) from unconsolidated entities	7,528	18,231
Rental income in excess of cash received	(60,212)	(86,739)
Amortization related to above (below) market leases, net	362	2,863
Loss (gain) on sales of properties, net	(163,881)	(249,002)
Distributions by unconsolidated entities	473	435
Increase (decrease) in accrued expenses and other liabilities	71,797	42,759
Decrease (increase) in receivables and other assets	(35,557)	(42,975)
Net cash provided from (used in) operating activities	<u>1,272,346</u>	<u>1,036,324</u>
Investing activities:		
Cash disbursed for acquisitions	(1,448,126)	(2,489,345)
Cash disbursed for capital improvements to existing properties	(141,200)	(122,640)
Cash disbursed for construction in progress	(325,372)	(165,311)
Capitalized interest	(12,109)	(6,311)
Investment in real estate loans receivable	(105,496)	(445,985)
Other investments, net of payments	(88,398)	(129,311)
Principal collected on real estate loans receivable	225,092	71,111
Contributions to unconsolidated entities	(41,747)	(139,295)
Distributions by unconsolidated entities	72,564	139,557
Proceeds from (payments on) derivatives	56,842	103,615
Decrease (increase) in restricted cash	(21,218)	10,512
Proceeds from sales of real property	538,032	667,761
Net cash provided from (used in) investing activities	<u>(1,291,136)</u>	<u>(2,505,642)</u>
Financing activities:		
Net increase (decrease) under unsecured credit facilities	515,000	490,000
Proceeds from issuance of senior unsecured notes	693,560	743,407
Payments to extinguish senior unsecured notes	(400,000)	(534,546)
Net proceeds from the issuance of secured debt	193,541	222,612
Payments on secured debt	(471,898)	(469,455)
Net proceeds from the issuance of common stock	520,067	1,641,981
Decrease (increase) in deferred loan costs	(18,831)	(7,834)
Contributions by noncontrolling interests ⁽¹⁾	142,381	163,105
Distributions to noncontrolling interests ⁽¹⁾	(106,076)	(27,439)
Acquisitions of noncontrolling interests	-	(3,154)
Cash distributions to stockholders	(970,436)	(901,618)
Other financing activities	(1,119)	(27,114)
Net cash provided from (used in) financing activities	<u>96,189</u>	<u>1,289,945</u>
Effect of foreign currency translation on cash and cash equivalents	<u>(9,690)</u>	<u>(2,311)</u>
Increase (decrease) in cash and cash equivalents	67,709	(181,684)
Cash and cash equivalents at beginning of period	360,908	473,726
Cash and cash equivalents at end of period	<u>\$ 428,617</u>	<u>\$ 292,042</u>
Supplemental cash flow information:		
Interest paid	\$ 360,421	\$ 334,511
Income taxes paid	7,070	11,489

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

1. Business

Welltower Inc., an S&P 500 company headquartered in Toledo, Ohio, is driving the transformation of health care infrastructure. The company invests with leading seniors housing operators, post-acute providers and health systems to fund the real estate and infrastructure needed to scale innovative care delivery models and improve people's wellness and overall health care experience. Welltower™, a real estate investment trust ("REIT"), owns interests in 1,464 properties in major, high-growth markets in the United States, Canada and the United Kingdom, consisting of seniors housing and post-acute communities and outpatient medical properties. Founded in 1970, we were the first real estate investment trust to invest exclusively in health care facilities.

2. Accounting Policies and Related Matters

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. During the three months ended March 31, 2016, we determined that an immaterial portion of our noncontrolling interests related to a 2015 transaction was misclassified in permanent equity rather than temporary equity based on a redemption feature of the partnership agreement and we have corrected the \$114,714,000 misclassification by recording the change in the consolidated statement of equity for the nine months ended September 30, 2016. Operating results for the nine months ended September 30, 2016 are not necessarily an indication of the results that may be expected for the year ending December 31, 2016. For further information, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted beginning after December 15, 2016. We are currently evaluating the impact that the standard will have on our consolidated financial statements and have not yet determined the method by which we will adopt the standard.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis", which makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. We adopted ASU 2015-02 on January 1, 2016. This guidance did not have a significant impact on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments" to simplify the accounting for business combinations, specifically as it relates to measurement-period adjustments. Acquiring entities in a business combination must recognize measurement-period adjustments in the reporting period in which the adjustment amounts are determined. Also, ASU 2015-16 requires entities to present separately on the face of the income statement (or disclose in the notes to the financial statements) the portion of the amount recorded in the current period earnings, by line item, that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. We adopted ASU 2015-16 on January 1, 2016. This guidance did not have a significant impact on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which will require entities to measure their investments at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The practicability exception will be available for equity investments that do not have readily determinable fair values. ASU 2016-01 is effective for fiscal years and interim periods within those years, beginning after December 15, 2017. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize assets and liabilities on their balance sheet related to the rights and obligations created by most leases, while continuing to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information

WELLTOWER INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

regarding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting". This standard simplifies the accounting treatment for excess tax benefits and deficiencies, forfeitures, and cash flow considerations related to share-based compensation. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. We are currently evaluating the impact of the standard; however, we do not expect its adoption to have a significant impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments". This standard requires a new forward-looking "expected loss" model to be used for receivables, held-to-maturity debt, loans, and other instruments. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

3. Real Property Acquisitions and Development

The total purchase price for all properties acquired has been allocated to the tangible and identifiable intangible assets, liabilities and noncontrolling interests based upon their respective fair values in accordance with our accounting policies. The results of operations for these acquisitions have been included in our consolidated results of operations since the date of acquisition and are a component of the appropriate segments. Transaction costs primarily represent costs incurred with property acquisitions, including due diligence costs, fees for legal and valuation services and termination of pre-existing relationships computed based on the fair value of the assets acquired, lease termination fees and other acquisition-related costs. Certain of our subsidiaries' functional currencies are the local currencies of their respective countries. See Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for information regarding our foreign currency policies.

Triple-net Activity

(In thousands)	Nine Months Ended	
	September 30, 2016 ⁽¹⁾	September 30, 2015
Land and land improvements	\$ 21,713	\$ 64,655
Buildings and improvements	220,274	727,946
Acquired lease intangibles	2,876	3,888
Restricted cash	-	6
Receivables and other assets	-	60
Total assets acquired	244,863	796,555
Accrued expenses and other liabilities	(2,145)	(2,447)
Total liabilities assumed	(2,145)	(2,447)
Noncontrolling interests	(3,162)	-
Non-cash acquisition related activity ⁽²⁾	(51,733)	(2,780)
Cash disbursed for acquisitions	187,823	791,328
Construction in progress additions	133,611	96,403
Less: Capitalized interest	(6,263)	(4,453)
Foreign currency translation	(3,179)	73
Cash disbursed for construction in progress	124,169	92,023
Capital improvements to existing properties	21,447	35,042
Total cash invested in real property, net of cash acquired	\$ 333,439	\$ 918,393

(1) Includes acquisitions with an aggregate purchase price of \$183,547,000 for which the allocation of the purchase price consideration is preliminary and subject to change.

(2) For the nine months ended September 30, 2016, \$45,044,000 relates to the acquisition of assets previously financed as real estate loans receivable and \$6,630,000 previously financed as equity investments.

WELLTOWER INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Seniors Housing Operating Activity

(In thousands)	Nine Months Ended	
	September 30, 2016 ⁽¹⁾	September 30, 2015
Land and land improvements	\$ 122,649	\$ 98,444
Building and improvements	1,108,195	1,229,017
Acquired lease intangibles	90,771	74,091
Restricted cash	137	5,567
Receivables and other assets	2,179	23,928
Total assets acquired ⁽²⁾	1,323,931	1,431,047
Secured debt	(49,381)	(234,597)
Accrued expenses and other liabilities	(12,328)	(19,016)
Total liabilities assumed	(61,709)	(253,613)
Noncontrolling interests	(1,089)	(86,842)
Non-cash acquisition related activity ⁽³⁾	(17,477)	-
Cash disbursed for acquisitions	1,243,656	1,090,592
Construction in progress additions	139,160	39,493
Less: Capitalized interest	(3,923)	(1,116)
Foreign currency translation	(5,953)	(1,345)
Cash disbursed for construction in progress	129,284	37,032
Capital improvements to existing properties	84,444	61,911
Total cash invested in real property, net of cash acquired	\$ 1,457,384	\$ 1,189,535

(1) Includes acquisitions with an aggregate purchase price of \$1,194,765,000 for which the allocation of the purchase price consideration is preliminary and subject to change.

(2) Excludes \$135,000 and \$3,390,000 of cash acquired during the nine months ended September 30, 2016 and 2015, respectively.

(3) Relates to the acquisition of assets previously financed as equity investments.

Outpatient Medical Activity

(In thousands)	Nine Months Ended	
	September 30, 2016	September 30, 2015
Land and land improvements	\$ 1,466	\$ 47,756
Buildings and improvements	27,272	723,574
Acquired lease intangibles	4,592	19,373
Total assets acquired ⁽¹⁾	33,330	790,703
Secured debt	-	(112,000)
Accrued expenses and other liabilities	(1,670)	(2,743)
Total liabilities assumed	(1,670)	(114,743)
Noncontrolling interests	-	(68,535)
Non-cash acquisition activity ⁽²⁾	(15,013)	-
Cash disbursed for acquisitions	16,647	607,425
Construction in progress additions	81,843	38,919
Less: Capitalized interest	(2,588)	(742)
Accruals ⁽³⁾	(7,336)	(1,921)
Cash disbursed for construction in progress	71,919	36,256
Capital improvements to existing properties	35,309	25,687
Total cash invested in real property	\$ 123,875	\$ 669,368

(1) Excludes \$0 and \$4,372,000 of cash acquired during the nine months ended September 30, 2016 and 2015, respectively.

(2) Relates to an acquisition of assets previously financed as a real estate loan. Refer to Note 6 for additional information.

(3) Represents non-cash consideration accruals for amounts to be paid in future periods relating to properties that converted in the periods noted above.

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Construction Activity

The following is a summary of the construction projects that were placed into service and began generating revenues during the periods presented (in thousands):

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Development projects:		
Triple-net	\$ 24,535	\$ 85,902
Seniors housing operating	-	19,869
Outpatient medical	44,113	16,592
Total development projects	68,648	122,363
Expansion projects	2,879	38,808
Total construction in progress conversions	<u>\$ 71,527</u>	<u>\$ 161,171</u>

4. Real Estate Intangibles

The following is a summary of our real estate intangibles, excluding those classified as held for sale, as of the dates indicated (dollars in thousands):

	September 30, 2016	December 31, 2015
Assets:		
In place lease intangibles	\$ 1,272,177	\$ 1,179,537
Above market tenant leases	62,544	67,529
Below market ground leases	62,257	80,224
Lease commissions	26,054	23,295
Gross historical cost	1,423,032	1,350,585
Accumulated amortization	(971,883)	(881,096)
Net book value	<u>\$ 451,149</u>	<u>\$ 469,489</u>
Weighted-average amortization period in years	14.0	13.4
Liabilities:		
Below market tenant leases	\$ 93,507	\$ 93,089
Above market ground leases	8,107	7,907
Gross historical cost	101,614	100,996
Accumulated amortization	(51,727)	(46,048)
Net book value	<u>\$ 49,887</u>	<u>\$ 54,948</u>
Weighted-average amortization period in years	15.4	14.5

The following is a summary of real estate intangible amortization for the periods presented (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Rental income related to above/below market tenant leases, net	\$ 278	\$ (1,684)	\$ 569	\$ (1,901)
Property operating expenses related to above/below market ground leases, net	(309)	(308)	(931)	(962)
Depreciation and amortization related to in place lease intangibles and lease commissions	(30,137)	(26,137)	(95,610)	(82,434)

The future estimated aggregate amortization of intangible assets and liabilities is as follows for the periods presented (in

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thousands):

	Assets	Liabilities
2016	\$ 45,156	\$ 1,810
2017	122,892	6,819
2018	70,566	6,234
2019	29,877	5,825
2020	22,830	5,344
Thereafter	159,828	23,855
Total	<u>\$ 451,149</u>	<u>\$ 49,887</u>

5. Dispositions, Assets Held for Sale and Discontinued Operations

We periodically sell properties for various reasons, including favorable market conditions or the exercise of tenant purchase options. Of our total sales proceeds, \$27,803,000 was deposited in an Internal Revenue Code Section 1031 exchange escrow account with a qualified intermediary. During the nine months ended September 30, 2016 and 2015, we recorded impairment charges on certain held-for-sale triple-net properties as the fair values less estimated costs to sell exceeded our carrying values. The following is a summary of our real property disposition activity for the periods presented (in thousands):

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Real estate dispositions:		
Triple-net	\$ 295,365	\$ 246,116
Outpatient medical	78,786	166,919 ⁽¹⁾
Land parcels	-	5,724
Total dispositions	<u>374,151</u>	<u>418,759</u>
Gain (loss) on real estate dispositions, net	163,881	249,002
Proceeds from real estate dispositions	<u>\$ 538,032</u>	<u>\$ 667,761</u>

(1) Primarily related to the disposition of an unconsolidated equity investment with Forest City Enterprises.

Dispositions and Assets Held for Sale

Pursuant to our adoption of ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", operating results attributable to properties sold subsequent to or classified as held for sale after January 1, 2014 and which do not meet the definition of discontinued operations are no longer reclassified on our Consolidated Statements of Comprehensive Income. The following represents the activity related to these properties for the periods presented (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues:				
Rental income	\$ 31,966	\$ 36,626	\$ 99,057	\$ 113,950
Expenses:				
Interest expense	4,939	7,282	16,697	23,594
Property operating expenses	1,476	1,695	4,411	4,944
Provision for depreciation	4,604	9,119	20,873	31,568
Total expenses	<u>11,019</u>	<u>18,096</u>	<u>41,981</u>	<u>60,106</u>
Income (loss) from real estate dispositions, net	<u>\$ 20,947</u>	<u>\$ 18,530</u>	<u>\$ 57,076</u>	<u>\$ 53,844</u>

6. Real Estate Loans Receivable

The following is a summary of our real estate loan activity for the periods presented (in thousands):

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	Nine Months Ended					
	September 30, 2016			September 30, 2015		
	Triple-net	Outpatient Medical	Totals	Triple-net	Outpatient Medical	Totals
Advances on real estate loans receivable:						
Investments in new loans	\$ 8,223	\$ -	\$ 8,223	\$ 392,278	\$ -	\$ 392,278
Draws on existing loans	94,622	2,651	97,273	51,422	2,285	53,707
Net cash advances on real estate loans	102,845	2,651	105,496	443,700	2,285	445,985
Receipts on real estate loans receivable:						
Loan payoffs	251,293	27,303	278,596	52,088	-	52,088
Principal payments on loans	6,553	-	6,553	19,023	-	19,023
Sub-total	257,846	27,303	285,149	71,111	-	71,111
Less: Non-cash activity	(45,044)	(15,013)	(60,057)	-	-	-
Net cash receipts on real estate loans	212,802	12,290	225,092	71,111	-	71,111
Net cash advances (receipts) on real estate loans	(109,957)	(9,639)	(119,596)	372,589	2,285	374,874
Change in balance due to foreign currency translation	(9,819)	-	(9,819)	(2,131)	-	(2,131)
Net change in real estate loans receivable	<u>\$ (164,820)</u>	<u>\$ (24,652)</u>	<u>\$ (189,472)</u>	<u>\$ 370,458</u>	<u>\$ 2,285</u>	<u>\$ 372,743</u>

We recorded no provision for loan losses during the nine months ended September 30, 2016. At September 30, 2016, we had no real estate loans with outstanding balances on non-accrual status and no allowances for loan losses were recorded.

7. Investments in Unconsolidated Entities

We participate in a number of joint ventures, which generally invest in seniors housing and health care real estate. The results of operations for these properties have been included in our consolidated results of operations from the date of acquisition by the joint ventures and are reflected in our Consolidated Statements of Comprehensive Income as income or loss from unconsolidated entities. The following is a summary of our investments in unconsolidated entities (dollars in thousands):

	Percentage Ownership ⁽¹⁾	September 30, 2016		December 31, 2015	
		\$		\$	
Triple-net	10% to 49%	\$ 24,499		\$ 36,351	
Seniors housing operating	10% to 50%	447,987		499,537	
Outpatient medical	43%	6,896		6,393	
Total		<u>\$ 479,382</u>		<u>\$ 542,281</u>	

(1) Excludes ownership of in-substance real estate.

At September 30, 2016, the aggregate unamortized basis difference of our joint venture investments of \$150,644,000 is primarily attributable to the difference between the amount for which we purchase our interest in the entity, including transaction costs, and the historical carrying value of the net assets of the entity. This difference will be amortized over the remaining useful life of the related properties and included in the reported amount of income from unconsolidated entities.

8. Credit Concentration

We use net operating income from continuing operations ("NOI") as our credit concentration metric. See Note 17 for additional information and reconciliation. The following table summarizes certain information about our credit concentration for the nine month period ended September 30, 2016, excluding our share of NOI in unconsolidated entities (dollars in thousands):

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Concentration by relationship: ⁽¹⁾	Number of Properties	Total NOI	Percent of NOI ⁽²⁾
Genesis Healthcare	185	\$ 293,406	16%
Sunrise Senior Living ⁽³⁾	151	234,313	13%
Brookdale Senior Living	148	126,824	7%
Revera ⁽³⁾	97	112,211	6%
Benchmark Senior Living	49	73,524	4%
Remaining portfolio	769	980,412	54%
Totals	1,399	\$ 1,820,690	100%

(1) Genesis Healthcare is in our triple-net segment. Sunrise Senior Living and Revera are in our seniors housing operating segment. Benchmark Senior Living and Brookdale Senior Living are in both our triple-net and seniors housing operating segments.

(2) NOI with our top five relationships comprised 46% of total NOI for the year ending December 31, 2015.

(3) Revera owns a controlling interest in Sunrise Senior Living.

9. Borrowings Under Credit Facilities and Related Items

At September 30, 2016, we had a primary unsecured credit facility with a consortium of 29 banks that includes a \$3,000,000,000 unsecured revolving credit facility, a \$500,000,000 unsecured term credit facility and a \$250,000,000 Canadian-denominated unsecured term credit facility. We have an option, through an accordion feature, to upsize the unsecured revolving credit facility and the \$500,000,000 unsecured term credit facility by up to an additional \$1,000,000,000, in the aggregate, and the \$250,000,000 Canadian-denominated unsecured term credit facility by up to an additional \$250,000,000. The primary unsecured credit facility also allows us to borrow up to \$1,000,000,000 in alternate currencies (none outstanding at September 30, 2016). Borrowings under the unsecured revolving credit facility are subject to interest payable at the applicable margin over LIBOR interest rate (1.43% at September 30, 2016). The applicable margin is based on certain of our debt ratings and was 0.90% at September 30, 2016. In addition, we pay a facility fee quarterly to each bank based on the bank's commitment amount. The facility fee depends on certain of our debt ratings and was 0.15% at September 30, 2016. The term credit facilities mature on May 13, 2021. The revolving credit facility is scheduled to mature on May 13, 2020 and can be extended for two successive terms of six months each at our option.

The following information relates to aggregate borrowings under the primary unsecured revolving credit facility for the periods presented (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance outstanding at quarter end ⁽¹⁾	\$ 1,350,000	\$ 490,000	\$ 1,350,000	\$ 490,000
Maximum amount outstanding at any month end	\$ 1,560,000	\$ 490,000	\$ 1,560,000	\$ 535,000
Average amount outstanding (total of daily principal balances divided by days in period)	\$ 1,050,217	\$ 298,370	\$ 782,427	\$ 402,619
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	1.44%	1.16%	1.35%	1.17%

(1) As of September 30, 2016, letters of credit in the aggregate amount of \$45,335,000 have been issued, which reduces the borrowing capacity on the unsecured revolving credit facility.

10. Senior Unsecured Notes and Secured Debt

We may repurchase, redeem or refinance senior unsecured notes from time to time, taking advantage of favorable market conditions when available. We may purchase senior notes for cash through open market purchases, privately negotiated transactions, a tender offer or, in some cases, through the early redemption of such securities pursuant to their terms. The senior unsecured notes are redeemable at our option, at any time in whole or from time to time in part, at a redemption price equal to the sum of (1) the principal amount of the notes (or portion of such notes) being redeemed plus accrued and unpaid interest thereon up to the redemption date and (2) any "make-whole" amount due under the terms of the notes in connection with early redemptions. Redemptions and repurchases of debt, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. At September 30, 2016, the annual principal payments due on these debt obligations were as follows (in thousands):

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	Senior Unsecured Notes ^(1,2)	Secured Debt ^(1,3)	Totals
2016	\$ -	\$ 76,773	\$ 76,773
2017	450,000	556,774	1,006,774
2018	450,000	660,201	1,110,201
2019	605,000	425,991	1,030,991
2020 ⁽⁴⁾	678,746	176,860	855,606
Thereafter ^(5,6,7,8,9,10)	6,607,196	1,404,043	8,011,239
Totals	<u>\$ 8,790,942</u>	<u>\$ 3,300,642</u>	<u>\$ 12,091,584</u>

- (1) Amounts represent principal amounts due and do not include unamortized premiums/discounts, debt issuance costs, or other fair value adjustments as reflected on the balance sheet.
- (2) Annual interest rates range from 1.23% to 6.5%.
- (3) Annual interest rates range from 0.89% to 7.98%. Carrying value of the properties securing the debt totaled \$5,844,048,000 at September 30, 2016.
- (4) In November 2015, one of our wholly-owned subsidiaries issued and we guaranteed \$300,000,000 of Canadian-denominated 3.35% senior unsecured notes due 2020 (approximately \$228,746,000 based on the Canadian/U.S. Dollar exchange rate on September 30, 2016).
- (5) On May 13, 2016, we refinanced the funding on a \$250,000,000 Canadian-denominated unsecured term credit facility (approximately \$190,621,000 based on the Canadian/U.S. Dollar exchange rate on September 30, 2016). The loan matures on May 13, 2021 and bears interest at the Canadian Dealer Offered Rate plus 95 basis points (1.83% at September 30, 2016).
- (6) On May 13, 2016, we refinanced the funding on a \$500,000,000 unsecured term credit facility. The loan matures on May 13, 2021 and bears interest at LIBOR plus 95 basis points (1.48% at September 30, 2016).
- (7) On November 20, 2013, we completed the sale of £550,000,000 (approximately \$715,825,000 based on the Sterling/U.S. Dollar exchange rate in effect on September 30, 2016) of 4.8% senior unsecured notes due 2028.
- (8) On November 25, 2014, we completed the sale of £500,000,000 (approximately \$650,750,000 based on the Sterling/U.S. Dollar exchange rate in effect on September 30, 2016) of 4.5% senior unsecured notes due 2034.
- (9) In May 2015, we issued \$750,000,000 of 4.0% senior unsecured notes due 2025. In October 2015, we issued an additional \$500,000,000 of these notes under a re-opening of the offer.
- (10) In March 2016, we issued \$700,000,000 of 4.25% senior unsecured notes due 2026.

The following is a summary of our senior unsecured notes principal activity during the periods presented (dollars in thousands):

	Nine Months Ended			
	September 30, 2016		September 30, 2015	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 8,645,758	4.237%	\$ 7,817,154	4.385%
Debt issued	705,000	4.228%	750,000	4.000%
Debt extinguished	(400,000)	3.625%	(300,000)	6.200%
Debt redeemed	-	0.000%	(215,965)	3.000%
Foreign currency	(159,816)	4.443%	(76,649)	8.065%
Ending balance	<u>\$ 8,790,942</u>	<u>4.264%</u>	<u>\$ 7,974,540</u>	<u>4.210%</u>

The following is a summary of our secured debt principal activity for the periods presented (dollars in thousands):

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	Nine Months Ended			
	September 30, 2016		September 30, 2015	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 3,478,207	4.440%	\$ 2,941,765	4.940%
Debt issued	193,541	3.053%	222,612	2.760%
Debt assumed	47,156	4.132%	339,929	3.340%
Debt extinguished	(416,009)	4.986%	(420,672)	4.270%
Foreign currency	53,636	3.631%	(89,154)	3.880%
Principal payments	(55,889)	4.478%	(48,783)	4.850%
Ending balance	<u>\$ 3,300,642</u>	<u>4.272%</u>	<u>\$ 2,945,697</u>	<u>4.720%</u>

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of September 30, 2016, we were in compliance with all of the covenants under our debt agreements.

11. Derivative Instruments

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to manage the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. In addition, non-U.S. investments expose us to the potential losses associated with adverse changes in foreign currency to U.S. Dollar exchange rates. We may elect to manage this risk through the use of forward contracts and issuing debt in foreign currencies.

Interest Rate Swap Contracts and Foreign Currency Forward Contracts Designated as Cash Flow Hedges

For instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI"), and reclassified into earnings in the same period or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings. Approximately \$5,555,000 of gains, which are included in accumulated other comprehensive income ("AOCI"), are expected to be reclassified into earnings in the next 12 months.

Foreign Currency Hedges

For instruments that are designated and qualify as net investment hedges, the variability in the foreign currency to U.S. Dollar of the instrument is recorded as a cumulative translation adjustment component of OCI. During the nine months ended September 30, 2016 and 2015, we settled certain net investment hedges generating cash proceeds of \$56,842,000 and \$103,615,000, respectively. The balance of the cumulative translation adjustment will be reclassified to earnings when the hedged investment is sold or substantially liquidated.

The following presents the notional amount of derivatives and other financial instruments as of the dates indicated (in thousands):

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	September 30, 2016		December 31, 2015	
Derivatives designated as net investment hedges:				
Denominated in Canadian Dollars	\$	900,000	\$	1,175,000
Denominated in Pounds Sterling	£	550,000	£	550,000
Financial instruments designated as net investment hedges:				
Denominated in Canadian Dollars	\$	250,000	\$	250,000
Denominated in Pounds Sterling	£	1,050,000	£	1,050,000
Derivatives designated as cash flow hedges:				
Denominated in U.S. Dollars	\$	57,000	\$	57,000
Denominated in Canadian Dollars	\$	72,000	\$	72,000
Denominated in Pounds Sterling	£	63,000	£	60,000
Derivative instruments not designated:				
Denominated in Canadian Dollars	\$	37,000	\$	47,000
Denominated in Pounds Sterling	£	20,100	£	-

The following presents the impact of derivative instruments on the Consolidated Statements of Comprehensive Income for the periods presented (in thousands):

	Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Gain (loss) on forward exchange contracts recognized in income	Interest expense	\$ 3,420	\$ 2,347	\$ 4,789	\$ 6,285
Loss (gain) on option exercise ⁽¹⁾	Loss (gain) on derivatives, net	-	-	-	(58,427)
(Gain) on release of cumulative translation adjustment related to ineffectiveness on net investment hedge	Loss (gain) on derivatives, net	(2,516)	-	(2,516)	-
Gain (loss) on foreign exchange contracts and term loans designated as net investment hedge recognized in OCI	OCI	53,421	174,239	229,256	208,854

(1) In April 2011, we completed the acquisition of substantially all of the real estate assets of privately-owned Genesis Healthcare Corporation. In conjunction with this transaction, we received the option to acquire an ownership interest in Genesis Healthcare. In February 2015, Genesis Healthcare closed on a transaction to merge with Skilled Healthcare Group to become a publicly traded company which required us to record the value of the derivative asset due to the net settlement feature.

12. Commitments and Contingencies

At September 30, 2016, we had ten outstanding letter of credit obligations totaling \$88,188,000 and expiring between 2016 and 2018. At September 30, 2016, we had outstanding construction in progress of \$529,471,000 and were committed to providing additional funds of approximately \$515,980,000 to complete construction. Purchase obligations include contingent purchase obligations totaling \$18,566,000 which relate to unfunded capital improvement obligations and contingent obligations on acquisitions. Rents due from the tenant are increased to reflect the additional investment in the property.

We evaluate our leases for operating versus capital lease treatment in accordance with Accounting Standards Codification (“ASC”) Topic 840 “Leases.” A lease is classified as a capital lease if it provides for transfer of ownership of the leased asset at the end of the lease term, contains a bargain purchase option, has a lease term greater than 75% of the economic life of the leased asset, or if the net present value of the future minimum lease payments are in excess of 90% of the fair value of the leased asset. Certain leases contain bargain purchase options and have been classified as capital leases. At September 30, 2016, we had operating lease obligations of \$1,109,001,000 relating to certain ground leases and company office space and capital lease obligations of \$95,018,000 relating primarily to certain investment properties. Regarding ground leases, we have sublease agreements with certain of our operators that require the operators to reimburse us for our monthly operating lease obligations. At September 30, 2016, aggregate future minimum rentals to be received under these noncancelable subleases totaled \$74,069,000.

13. Stockholders' Equity

The following is a summary of our stockholders' equity capital accounts as of the dates indicated:

	September 30, 2016	December 31, 2015
Preferred Stock:		
Authorized shares	50,000,000	50,000,000
Issued shares	25,875,000	25,875,000
Outstanding shares	25,875,000	25,875,000
Common Stock, \$1.00 par value:		
Authorized shares	700,000,000	700,000,000
Issued shares	363,361,460	355,594,373
Outstanding shares	362,424,770	354,777,670

Common Stock. The following is a summary of our common stock issuances during the nine months ended September 30, 2016 and 2015 (dollars in thousands, except per share amounts):

	Shares Issued	Average Price	Gross Proceeds	Net Proceeds
February 2015 public issuance	19,550,000	\$ 75.50	\$ 1,476,025	\$ 1,423,935
2015 Dividend reinvestment plan issuances	2,935,950	70.28	206,334	206,334
2015 Option exercises	247,005	47.42	11,712	11,712
2015 Stock incentive plans, net of forfeitures	144,779		-	-
2015 Senior note conversions	1,330,474		-	-
2015 Totals	<u>24,208,208</u>		<u>\$ 1,694,071</u>	<u>\$ 1,641,981</u>
2016 Dividend reinvestment plan issuances	3,946,821	\$ 70.51	\$ 278,578	\$ 278,297
2016 Option exercises	137,579	50.57	6,958	6,958
2016 Equity shelf program issuances	3,119,801	75.27	237,131	234,812
2016 Stock incentive plans, net of forfeitures	442,899		-	-
2016 Totals	<u>7,647,100</u>		<u>\$ 522,667</u>	<u>\$ 520,067</u>

Dividends. The increase in dividends is primarily attributable to increases in our common shares outstanding as described above and an increase in common dividends per share. The following is a summary of our dividend payments (in thousands, except per share amounts):

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	Nine Months Ended			
	September 30, 2016		September 30, 2015	
	Per Share	Amount	Per Share	Amount
Common Stock	\$ 2.5800	\$ 921,381	\$ 2.4750	\$ 852,563
Series I Preferred Stock	2.4375	35,039	2.4375	35,039
Series J Preferred Stock	1.2189	14,016	1.2189	14,016
Totals		\$ 970,436		\$ 901,618

Accumulated Other Comprehensive Income. The following is a summary of accumulated other comprehensive income (loss) for the periods presented (in thousands):

	Unrecognized gains (losses) related to:				
	Foreign Currency Translation	Available for Sale Securities	Actuarial Losses	Cash Flow Hedges	Total
	Balance at December 31, 2015	\$ (85,484)	\$ -	\$ (1,343)	\$ (1,416)
Other comprehensive income before reclassification adjustments	(59,060)	(5,252)	-	11	(64,301)
Reclassification amount to net income	-	-	-	1,360 ⁽¹⁾	1,360
Net current-period other comprehensive income	(59,060)	(5,252)	-	1,371	(62,941)
Balance at September 30, 2016	\$ (144,544)	\$ (5,252)	\$ (1,343)	\$ (45)	\$ (151,184)
Balance at December 31, 2014	\$ (74,770)	\$ -	\$ (1,589)	\$ (650)	\$ (77,009)
Other comprehensive income before reclassification adjustments	2,071	(18,186)	-	(2,625)	(18,740)
Reclassification amount to net income	-	-	-	1,390 ⁽¹⁾	1,390
Net current-period other comprehensive income	2,071	(18,186)	-	(1,235)	(17,350)
Balance at September 30, 2015	\$ (72,699)	\$ (18,186)	\$ (1,589)	\$ (1,885)	\$ (94,359)

(1) Please see Note 11 for additional information.

14. Stock Incentive Plans

Our 2016 Long-Term Incentive Plan ("2016 Plan") authorizes up to 10,000,000 shares of common stock to be issued at the discretion of the Compensation Committee of the Board of Directors. Our non-employee directors, officers and key employees are eligible to participate in the 2016 Plan. The 2016 Plan allows for the issuance of, among other things, stock options, stock appreciation rights, restricted stock, deferred stock units and dividend equivalent rights. Vesting periods for options, deferred stock units and restricted shares generally range from three to five years. Options expire ten years from the date of grant. Stock-based compensation expense totaled \$5,401,000 and \$20,618,000 for the three and nine months ended September 30, 2016, respectively, and \$5,477,000 and \$25,655,000 for the same periods in 2015.

15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Numerator for basic and diluted earnings per share - net income (loss) attributable to common stockholders	\$ 334,910	\$ 182,043	\$ 679,353	\$ 685,413
Denominator for basic earnings per share - weighted average shares	358,932	351,765	356,911	346,425
Effect of dilutive securities:				
Employee stock options	128	114	119	155
Non-vested restricted shares	526	607	414	498
Redeemable shares	1,651	621	1,308	207
Convertible senior unsecured notes	-	-	-	262
Dilutive potential common shares	2,305	1,342	1,841	1,122
Denominator for diluted earnings per share - adjusted weighted average shares	361,237	353,107	358,752	347,547
Basic earnings per share	\$ 0.93	\$ 0.52	\$ 1.90	\$ 1.98
Diluted earnings per share	\$ 0.93	\$ 0.52	\$ 1.89	\$ 1.97

The Series I Cumulative Convertible Perpetual Preferred Stock was not included in the calculations as the effect of conversions into common stock was anti-dilutive.

16. Disclosure about Fair Value of Financial Instruments

U.S. GAAP provides authoritative guidance for measuring and disclosing fair value measurements of assets and liabilities. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Please see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Mortgage Loans and Other Real Estate Loans Receivable — The fair value of mortgage loans and other real estate loans receivable is generally estimated by using Level 2 and Level 3 inputs such as discounting the estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Cash and Cash Equivalents — The carrying amount approximates fair value.

Available-for-sale Equity Investments — Available-for-sale equity investments are recorded at their fair value based on Level 1 publicly available trading prices.

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Borrowings Under Primary Unsecured Credit Facility — The carrying amount of the primary unsecured credit facility approximates fair value because the borrowings are interest rate adjustable.

Senior Unsecured Notes — The fair value of the fixed rate senior unsecured notes was estimated based on Level 1 publicly available trading prices. The carrying amount of variable rate senior unsecured notes approximates fair value because they are interest rate adjustable.

Secured Debt — The fair value of fixed rate secured debt is estimated using Level 2 inputs by discounting the estimated future cash flows using the current rates at which similar loans would be made with similar credit ratings and for the same remaining maturities. The carrying amount of variable rate secured debt approximates fair value because the borrowings are interest rate adjustable.

Foreign Currency Forward Contracts — Foreign currency forward contracts are recorded in other assets or other liabilities on the balance sheet at fair market value. Fair market value is determined using Level 2 inputs by estimating the future value of the currency pair based on existing exchange rates, comprised of current spot and traded forward points, and calculating a present value of the net amount using a discount factor based on observable traded interest rates.

Redeemable OP Unitholder Interests — The fair value of our redeemable unitholder interests are recorded on the balance sheet at fair value using Level 2 inputs. The fair value is measured using the closing price of our common stock, as units may be redeemed at the election of the holder for cash or, at our option, one share of our common stock per unit, subject to adjustment in certain circumstances.

The carrying amounts and estimated fair values of our financial instruments are as follows (in thousands):

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Mortgage loans receivable	\$ 498,993	\$ 525,400	\$ 635,492	\$ 663,501
Other real estate loans receivable	131,027	132,999	184,000	185,693
Available-for-sale equity investments	17,527	17,527	22,779	22,779
Cash and cash equivalents	428,617	428,617	360,908	360,908
Foreign currency forward contracts	130,454	130,454	129,520	129,520
Financial liabilities:				
Borrowings under unsecured credit facilities	\$ 1,350,000	\$ 1,350,000	\$ 835,000	\$ 835,000
Senior unsecured notes	8,688,585	9,823,661	8,548,055	9,020,529
Secured debt	3,317,933	3,509,792	3,509,142	3,678,564
Foreign currency forward contracts	615	615	-	-
Redeemable OP unitholder interests	\$ 123,446	\$ 123,446	\$ 112,029	\$ 112,029

Items Measured at Fair Value on a Recurring Basis

The market approach is utilized to measure fair value for our financial assets and liabilities reported at fair value on a recurring basis. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The following summarizes items measured at fair value on a recurring basis (in thousands):

	Fair Value Measurements as of September 30, 2016			
	Total	Level 1	Level 2	Level 3
Available-for-sale equity investments ⁽¹⁾	\$ 17,527	\$ 17,527	\$ -	\$ -
Foreign currency forward contracts, net ⁽²⁾	129,839	-	129,839	-
Redeemable OP unitholder interests	123,446	-	123,446	-
Totals	<u>\$ 270,812</u>	<u>\$ 17,527</u>	<u>\$ 253,285</u>	<u>\$ -</u>

(1) Unrealized gains or losses on equity investments are recorded in accumulated other comprehensive income (loss) at each measurement date. During the year ended December 31, 2015, we recognized an other than temporary impairment charge of \$35,648,000 on the Genesis Healthcare stock investment. Also, see Note 11 for details related to the gain on the derivative asset originally recognized.

(2) Please see Note 11 for additional information.

Items Measured at Fair Value on a Nonrecurring Basis

In addition to items that are measured at fair value on a recurring basis, we also have assets and liabilities in our balance sheet that are measured at fair value on a nonrecurring basis. As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the tables above. Assets, liabilities and noncontrolling interests that are measured at fair value on a nonrecurring basis include those acquired/assumed in business combinations (see Note 3) and asset impairments (if applicable, see Note 5 for impairments of real property and Note 6 for impairments of loans receivable). We have determined that the fair value measurements included in each of these assets and liabilities rely primarily on company-specific inputs and our assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available. As such, we have determined that each of these fair value measurements generally resides within Level 3 of the fair value hierarchy. We estimate the fair value of real estate and related intangibles using the income approach and unobservable data such as net operating income and estimated capitalization and discount rates. We also consider local and national industry market data including comparable sales, and commonly engage an external real estate appraiser to assist us in our estimation of fair value. We estimate the fair value of assets held for sale based on current sales price expectations or, in the absence of such price expectations, Level 3 inputs described above. We estimate the fair value of secured debt assumed in business combinations using current interest rates at which similar borrowings could be obtained on the transaction date.

17. Segment Reporting

We invest in seniors housing and health care real estate. We evaluate our business and make resource allocations on our three operating segments: triple-net, seniors housing operating and outpatient medical. During the three months ended March 31, 2016, we reclassified four properties previously classified in the triple-net segment to the outpatient medical segment. Accordingly, the segment information provided in this Note has been reclassified to conform to the current presentation for all periods presented.

Our triple-net properties include long-term/post-acute care facilities, assisted living facilities, independent living/continuing care retirement communities, care homes (United Kingdom), independent support living facilities (Canada), care homes with nursing (United Kingdom) and combinations thereof. Under the triple-net segment, we invest in seniors housing and health care real estate through acquisition and financing of primarily single tenant properties. Properties acquired are primarily leased under triple-net leases and we are not involved in the management of the property. Our seniors housing operating properties include the seniors housing communities referenced above that are owned and/or operated through RIDEA structures (see Notes 3 and 18).

Our outpatient medical properties include outpatient medical buildings and, during past years, life science buildings which are aggregated into our outpatient medical reportable segment. Our outpatient medical buildings are typically leased to multiple tenants and generally require a certain level of property management. During the three months ended June 30, 2015, we disposed of our life science investments.

We evaluate performance based upon NOI by segment. We define NOI as total revenues, including tenant reimbursements, less property level operating expenses. We believe NOI provides investors relevant and useful information because it measures the operating performance of our properties at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties.

Non-segment revenue consists mainly of interest income on non-real estate investments and other income. Non-segment assets consist of corporate assets including cash, deferred loan expenses and corporate offices and equipment among others. Non-property specific revenues and expenses are not allocated to individual segments in determining NOI.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015). The results of operations for all acquisitions described in Note 3 are included in our consolidated results of operations from the acquisition dates and are components of the appropriate segments. There are no intersegment sales or transfers.

Summary information for the reportable segments is as follows for the periods presented (in thousands):

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Three Months Ended September 30, 2016:

	Triple-net	Seniors Housing Operating	Outpatient Medical	Non-segment / Corporate	Total
Rental income	\$ 286,226	\$ -	\$ 134,926	\$ -	\$ 421,152
Resident fees and services	-	630,017	-	-	630,017
Interest income	23,017	1,054	1,009	-	25,080
Other income	1,621	716	358	189	2,884
Total revenues	<u>310,864</u>	<u>631,787</u>	<u>136,293</u>	<u>189</u>	<u>1,079,133</u>
Property operating expenses	-	432,292	41,388	-	473,680
Net operating income from continuing operations	<u>310,864</u>	<u>199,495</u>	<u>94,905</u>	<u>189</u>	<u>605,453</u>
Interest expense	985	39,927	3,986	84,801	129,699
Loss (gain) on derivatives, net	-	-	-	(2,516)	(2,516)
Depreciation and amortization	74,296	97,210	46,555	-	218,061
General and administrative	-	-	-	36,828	36,828
Transaction costs	1,613	18,083	146	-	19,842
Impairment of assets	5,070	-	4,635	-	9,705
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	<u>228,900</u>	<u>44,275</u>	<u>39,583</u>	<u>(118,924)</u>	<u>193,834</u>
Income tax expense	(896)	515	417	269	305
(Loss) income from unconsolidated entities	<u>1,998</u>	<u>(3,891)</u>	<u>144</u>	<u>-</u>	<u>(1,749)</u>
Income (loss) from continuing operations	<u>230,002</u>	<u>40,899</u>	<u>40,144</u>	<u>(118,655)</u>	<u>192,390</u>
Gain (loss) on real estate dispositions, net	<u>163,579</u>	<u>-</u>	<u>(1,228)</u>	<u>-</u>	<u>162,351</u>
Net income (loss)	<u>\$ 393,581</u>	<u>\$ 40,899</u>	<u>\$ 38,916</u>	<u>\$ (118,655)</u>	<u>\$ 354,741</u>
Total assets	\$ 11,988,519	\$ 12,580,092	\$ 4,899,012	\$ 388,716	\$ 29,856,339

Three Months Ended September 30, 2015:

	Triple-net	Seniors Housing Operating	Outpatient Medical	Non-segment / Corporate	Total
Rental income	\$ 277,614	\$ -	\$ 131,676	\$ -	\$ 409,290
Resident fees and services	-	545,255	-	-	545,255
Interest income	19,454	1,054	1,872	-	22,380
Other income	969	772	309	22	2,072
Total revenues	<u>298,037</u>	<u>547,081</u>	<u>133,857</u>	<u>22</u>	<u>978,997</u>
Property operating expenses	-	368,050	40,653	-	408,703
Net operating income from continuing operations	<u>298,037</u>	<u>179,031</u>	<u>93,204</u>	<u>22</u>	<u>570,294</u>
Interest expense	11,347	30,990	6,811	71,982	121,130
Depreciation and amortization	72,589	87,306	45,904	-	205,799
General and administrative	-	-	-	36,950	36,950
Transaction costs	1,865	7,630	(162)	-	9,333
Loss (gain) on extinguishment of debt, net	(139)	-	-	723	584
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	<u>212,375</u>	<u>53,105</u>	<u>40,651</u>	<u>(109,633)</u>	<u>196,498</u>
Income tax expense	87	3,237	154	(134)	3,344
(Loss) income from unconsolidated entities	<u>2,851</u>	<u>(5,629)</u>	<u>147</u>	<u>-</u>	<u>(2,631)</u>
Income (loss) from continuing operations	<u>215,313</u>	<u>50,713</u>	<u>40,952</u>	<u>(109,767)</u>	<u>197,211</u>
Gain (loss) on real estate dispositions, net	<u>2,155</u>	<u>-</u>	<u>(109)</u>	<u>-</u>	<u>2,046</u>
Net income (loss)	<u>\$ 217,468</u>	<u>\$ 50,713</u>	<u>\$ 40,843</u>	<u>\$ (109,767)</u>	<u>\$ 199,257</u>

Nine Months Ended September 30, 2016:

	Triple-net	Seniors Housing Operating	Outpatient Medical	Non-segment / Corporate	Total
Rental income	\$ 857,184	\$ -	\$ 402,258	\$ -	\$ 1,259,442
Resident fees and services	-	1,847,386	-	-	1,847,386
Interest income	67,842	3,126	3,307	-	74,275
Other income	4,317	11,889	4,824	705	21,735
Total revenues	<u>929,343</u>	<u>1,862,401</u>	<u>410,389</u>	<u>705</u>	<u>3,202,838</u>
Property operating expenses	-	1,259,182	122,966	-	1,382,148
Net operating income from continuing operations	<u>929,343</u>	<u>603,219</u>	<u>287,423</u>	<u>705</u>	<u>1,820,690</u>
Interest expense	8,608	123,445	15,132	247,800	394,985
Loss (gain) on derivatives, net	-	-	-	(2,516)	(2,516)
Depreciation and amortization	229,906	301,354	142,066	-	673,326
General and administrative	-	-	-	122,434	122,434
Transaction costs	5,760	25,259	2,188	-	33,207
Loss (gain) on extinguishment of debt, net	97	(88)	-	-	9
Impairment of assets	19,384	-	4,635	-	24,019
Other expenses	-	-	-	3,161	3,161
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	<u>665,588</u>	<u>153,249</u>	<u>123,402</u>	<u>(370,174)</u>	<u>572,065</u>
Income tax expense	<u>(1,425)</u>	<u>5,304</u>	<u>(59)</u>	<u>(1,277)</u>	<u>2,543</u>

(Loss) income from unconsolidated entities	8,097	(15,713)	88	-	(7,528)
Income (loss) from continuing operations	672,260	142,840	123,431	(371,451)	567,080
Gain (loss) on real estate dispositions, net	165,109	-	(1,228)	-	163,881
Net income (loss)	<u>\$ 837,369</u>	<u>\$ 142,840</u>	<u>\$ 122,203</u>	<u>\$ (371,451)</u>	<u>\$ 730,961</u>

Nine Months Ended September 30, 2015:

	Triple-net	Seniors Housing Operating	Outpatient Medical	Non-segment / Corporate	Total
Rental income	\$ 812,179	\$ -	\$ 373,323	\$ -	\$ 1,185,502
Resident fees and services	-	1,573,318	-	-	1,573,318
Interest income	52,343	3,126	4,481	-	59,950
Other income	5,823	5,001	665	83	11,572
Total revenues	870,345	1,581,445	378,469	83	2,830,342
Property operating expenses	-	1,067,127	116,392	-	1,183,519
Net operating income from continuing operations	870,345	514,318	262,077	83	1,646,823
Interest expense	21,083	104,283	21,192	214,513	361,071
Loss (gain) on derivatives, net	(58,427)	-	-	-	(58,427)
Depreciation and amortization	212,537	252,785	138,109	-	603,431
General and administrative	-	-	-	110,562	110,562
Transaction costs	45,615	23,610	1,154	-	70,379
Loss (gain) on extinguishment of debt, net	10,096	-	-	24,776	34,872
Impairment of assets	2,220	-	-	-	2,220
Other expenses	-	-	-	10,583	10,583
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	637,221	133,640	101,622	(360,351)	512,132
Income tax expense	(2,617)	(745)	460	(867)	(3,769)
(Loss) income from unconsolidated entities	5,697	(26,785)	2,857	-	(18,231)
Income (loss) from continuing operations	640,301	106,110	104,939	(361,218)	490,132
Gain (loss) on real estate dispositions, net	56,251	-	192,751	-	249,002
Net income (loss)	\$ 696,552	\$ 106,110	\$ 297,690	\$ (361,218)	\$ 739,134

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Our portfolio of properties and other investments are located in the United States, the United Kingdom and Canada. Revenues and assets are attributed to the country in which the property is physically located. The following is a summary of geographic information for our operations for the periods presented (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenues:								
United States	\$ 874,050	81.0%	\$ 793,429	81.0%	\$ 2,581,533	80.7%	\$ 2,309,596	81.6%
United Kingdom	95,068	8.8%	106,372	10.9%	295,203	9.1%	301,718	10.7%
Canada	110,015	10.2%	79,196	8.1%	326,102	10.2%	219,028	7.7%
Total	<u>\$ 1,079,133</u>	<u>100.0%</u>	<u>\$ 978,997</u>	<u>100.0%</u>	<u>\$ 3,202,838</u>	<u>100.0%</u>	<u>\$ 2,830,342</u>	<u>100.0%</u>

	As of			
	September 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Assets:				
United States	\$ 24,600,436	82.4%	\$ 25,995,793	89.6%
United Kingdom	2,715,817	9.1%	1,741,973	6.0%
Canada	2,540,086	8.5%	1,286,079	4.4%
Total	<u>\$ 29,856,339</u>	<u>100.0%</u>	<u>\$ 29,023,845</u>	<u>100.0%</u>

18. Income Taxes and Distributions

We elected to be taxed as a REIT commencing with our first taxable year. To qualify as a REIT for federal income tax purposes, at least 90% of taxable income (excluding 100% of net capital gains) must be distributed to stockholders. REITs that do not distribute a certain amount of current year taxable income in the current year are also subject to a 4% federal excise tax. The main differences between undistributed net income for federal income tax purposes and financial statement purposes are the recognition of straight-line rent for reporting purposes, basis differences in acquisitions, recording of impairments, differing useful lives and depreciation and amortization methods for real property and the provision for loan losses for reporting purposes versus bad debt expense for tax purposes.

Under the provisions of the REIT Investment Diversification and Empowerment Act of 2007 (“RIDEA”), for taxable years beginning after July 30, 2008, a REIT may lease “qualified health care properties” on an arm’s-length basis to a taxable REIT subsidiary (“TRS”) if the property is operated on behalf of such TRS by a person who qualifies as an “eligible independent contractor.” Generally, the rent received from the TRS will meet the related party rent exception and will be treated as “rents from real property.” A “qualified health care property” includes real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients. We have entered into various joint ventures that were structured under RIDEA. Resident level rents and related operating expenses for these facilities are reported in the unaudited consolidated financial statements and are subject to federal and state income taxes as the operations of such facilities are included in TRS entities. Certain net operating loss carryforwards could be utilized to offset taxable income in future years.

Income taxes reflected in the financial statements primarily represents U.S. federal and state and local income taxes as well as non-U.S. income based or withholding taxes on certain investments located in jurisdictions outside the U.S. The provision for income taxes for the three and nine months ended September 30, 2016 and 2015, was primarily due to operating income or losses, offset by certain discrete items at our TRS entities. In 2014, we established certain wholly-owned direct and indirect subsidiaries in Luxembourg and Jersey and transferred interests in certain foreign investments into this holding company structure. The structure includes a property holding company that is tax resident in the United Kingdom. No material adverse current tax consequences in Luxembourg, Jersey or the United Kingdom resulted from the creation of this holding company structure and all of the subsidiary entities in the structure are treated as disregarded entities of the company for U.S. federal income tax purposes. The company reflects current and deferred tax liabilities for any such withholding taxes incurred as a result of this holding company structure in its consolidated financial statements. Generally, given current statutes of limitations, we are subject to audit by the Internal Revenue Service (“IRS”) for the year ended December 31, 2012 and subsequent years and by state taxing authorities for the year ended December 31, 2011 and subsequent years. The company and its subsidiaries are also subject to audit by the Canada Revenue Agency and provincial authorities generally for periods subsequent to our initial investments in Canada in May 2012, by HM Revenue &

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Customs for periods subsequent to our initial investments in the United Kingdom in August 2012 and by Luxembourg taxing authorities generally for periods subsequent to our establishment of certain Luxembourg-based subsidiaries during 2014.

19. Variable Interest Entities

We have entered into joint ventures to own certain seniors housing and outpatient medical assets which are deemed to be variable interest entities (“VIE”). We have concluded that we are the primary beneficiary of these VIE’s based on a combination of operational control of the joint venture and the rights to receive residual returns or the obligation to absorb losses arising from the joint ventures. Except for capital contributions associated with the initial joint venture formations, the joint ventures have been and are expected to be funded from the ongoing operations of the underlying properties. Accordingly, such joint ventures have been consolidated, and the table below summarizes the balance sheets of consolidated VIE’s in the aggregate (in thousands):

	September 30, 2016	December 31, 2015
Assets		
Net real property owned	\$ 997,442	\$ 453,889
Cash and cash equivalents	11,124	8,759
Receivables and other assets	13,436	8,082
Total assets ⁽¹⁾	<u>\$ 1,022,002</u>	<u>\$ 470,730</u>
Liabilities and equity		
Secured debt	\$ 450,944	\$ 147,021
Accrued expenses and other liabilities	15,460	7,732
Redeemable noncontrolling interests	77,034	70,090
Total equity	478,564	245,887
Total liabilities and equity	<u>\$ 1,022,002</u>	<u>\$ 470,730</u>

(1) Note that assets of the consolidated variable interest entities can only be used to settle obligations relating to such variable interest entities. Liabilities of the consolidated variable interest entities represent claims against the specific assets of the variable interest entities.

20. Subsequent Events

On November 1, 2016, we completed a disposition of properties leased to Genesis Healthcare generating approximately \$1.1 billion in proceeds. These assets did not meet held for sale classification at September 30, 2016 due to the execution risk associated with the transaction.

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

The following discussion and analysis is based primarily on the unaudited consolidated financial statements of Welltower Inc. for the periods presented and should be read together with the notes thereto contained in this Quarterly Report on Form 10-Q. Other important factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2015, including factors identified under the headings "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." References herein to "we," "us," "our," or the "company" refer to Welltower Inc. and its subsidiaries unless specifically noted otherwise.

Executive Summary

Company Overview

Welltower Inc. (NYSE:HCN), an S&P 500 company headquartered in Toledo, Ohio, is driving the transformation of health care infrastructure. The company invests with leading seniors housing operators, post-acute providers and health systems to fund the real estate and infrastructure needed to scale innovative care delivery models and improve people's wellness and overall health care experience. Welltower™, a real estate investment trust ("REIT"), owns properties in major, high-growth markets in the United States, Canada and the United Kingdom, consisting of seniors housing and post-acute communities and outpatient medical properties. Our capital programs, when combined with comprehensive planning, development and property management services, make us a single-source solution for acquiring, planning, developing, managing, repositioning and monetizing real estate assets.

The following table summarizes our consolidated portfolio for the three months ended September 30, 2016 (dollars in thousands):

Type of Property	NOI ⁽¹⁾	Percentage of NOI	Number of Properties
Triple-net	\$ 310,864	51.3%	735
Seniors housing operating	199,495	33.0%	405
Outpatient medical	94,905	15.7%	259
Totals	<u>\$ 605,264</u>	<u>100.0%</u>	<u>1,399</u>

(1) Excludes our share of investments in unconsolidated entities. Entities in which we have a joint venture with a minority partner are shown at 100% of the joint venture amount.

Business Strategy

Our primary objectives are to protect stockholder capital and enhance stockholder value. We seek to pay consistent cash dividends to stockholders and create opportunities to increase dividend payments to stockholders as a result of annual increases in net operating income and portfolio growth. To meet these objectives, we invest across the full spectrum of seniors housing and health care real estate and diversify our investment portfolio by property type, relationship and geographic location.

Substantially all of our revenues are derived from operating lease rentals, resident fees and services, and interest earned on outstanding loans receivable. These items represent our primary sources of liquidity to fund distributions and depend upon the continued ability of our obligors to make contractual rent and interest payments to us and the profitability of our operating properties. To the extent that our customers/partners experience operating difficulties and become unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. To mitigate this risk, we monitor our investments through a variety of methods determined by the type of property. Our proactive and comprehensive asset management process for seniors housing properties generally includes review of monthly financial statements and other operating data for each property, review of obligor/partner creditworthiness, property inspections, and review of covenant compliance relating to licensure, real estate taxes, letters of credit and other collateral. Our internal property management division actively manages and monitors the outpatient medical portfolio with a comprehensive process including tenant relations, lease expirations, the mix of health service providers, hospital/health system relationships, property performance, capital improvement needs, and market conditions among other things. In monitoring our portfolio, our personnel use a proprietary database to collect and analyze property-specific data. Additionally, we conduct extensive research to ascertain industry trends. We evaluate the operating environment in each property's market to determine the likely trend in operating performance of the facility. When we identify unacceptable trends, we seek to mitigate, eliminate or transfer the risk. Through these efforts, we are generally able to intervene at an early stage to address any negative trends, and in so doing, support both the collectability of revenue and the value of our investment.

In addition to our asset management and research efforts, we also structure our investments to help mitigate payment risk. Operating leases and loans are normally credit enhanced by guaranties and/or letters of credit. In addition, operating leases are typically structured as master leases and loans are generally cross-defaulted and cross-collateralized with other real estate loans, operating leases or agreements between us and the obligor and its affiliates.

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For the nine months ended September 30, 2016, rental income and resident fees and services represented 39% and 58%, respectively, of total revenues. Substantially all of our operating leases are designed with escalating rent structures. Leases with fixed annual rental escalators are generally recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period. Our yield on loans receivable depends upon a number of factors, including the stated interest rate, the average principal amount outstanding during the term of the loan and any interest rate adjustments.

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under our primary unsecured credit facility, public issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures, construction advances and transaction costs), loan advances, property operating expenses and general and administrative expenses. Depending upon the availability and cost of external capital, we believe our liquidity is sufficient to fund these uses of cash.

We also continuously evaluate opportunities to finance future investments. New investments are generally funded from temporary borrowings under our primary unsecured credit facility, internally generated cash and the proceeds from investment dispositions. Our investments generate cash from net operating income and principal payments on loans receivable. Permanent financing for future investments, which replaces funds drawn under our primary unsecured credit facility, has historically been provided through a combination of the issuance of public debt and equity securities and the incurrence or assumption of secured debt.

Depending upon market conditions, we believe that new investments will be available in the future with spreads over our cost of capital that will generate appropriate returns to our stockholders. It is also possible that investment dispositions may occur in the future. To the extent that investment dispositions exceed new investments, our revenues and cash flows from operations could be adversely affected. We expect to reinvest the proceeds from any investment dispositions in new investments. To the extent that new investment requirements exceed our available cash on-hand, we expect to borrow under our primary unsecured credit facility. At September 30, 2016, we had \$428,617,000 of cash and cash equivalents, \$83,137,000 of restricted cash and \$1,604,665,000 of available borrowing capacity under our primary unsecured credit facility.

Capital Market Outlook

We believe the capital markets remain supportive of our investment strategy. For the 21 months ended September 30, 2016, we raised \$4,492,991,000 in aggregate gross proceeds through the issuance of common stock and unsecured debt. The capital raised, in combination with available cash and borrowing capacity under our primary unsecured credit facility, supported pro rata gross new investments of \$4,819,684,000 during 2015 and \$2,129,447,000 during the nine months ended September 30, 2016. We expect attractive investment opportunities to remain available in the future as we continue to leverage the benefits of our relationship investment strategy.

Key Transactions in 2016

Capital. In March 2016, we issued \$700,000,000 of 4.25% senior unsecured notes due 2026, generating approximately \$688,560,000 of net proceeds. In May 2016, we closed on a new primary unsecured credit facility that includes a \$3,000,000,000 unsecured revolving credit facility, a \$500,000,000 unsecured term credit facility and a \$250,000,000 Canadian-denominated unsecured term credit facility plus an option to upsize the unsecured revolving credit facility and the \$500,000,000 unsecured term credit facility by up to an additional \$1,000,000,000, in the aggregate, and the \$250,000,000 Canadian-denominated unsecured term credit facility by up to an additional \$250,000,000. The facility also allows us to borrow up to \$1,000,000,000 in alternate currencies. Based on our current credit ratings, the unsecured revolving credit facility is priced at 0.90% over LIBOR with a 0.15% annual facility fee and the unsecured term credit facilities are priced at 0.95% over LIBOR for the U.S. tranche and CDOR for the Canadian tranche. The unsecured term credit facilities mature on May 13, 2021 and the unsecured revolving credit facility matures on May 13, 2020. The unsecured revolving credit facility can be extended for two successive terms of six months each at our option. During the nine months ended September 30, 2016, we raised \$513,109,000 through our dividend reinvestment program and our Equity Shelf Program (as defined below).

Investments. The following summarizes our acquisitions and joint venture investments completed during the nine months ended September 30, 2016 (dollars in thousands):

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	Properties	Investment Amount ⁽¹⁾	Capitalization Rates ⁽²⁾	Book Amount ⁽³⁾
Triple-net	9	\$ 230,416	7.3%	\$ 244,863
Seniors housing operating	22	1,274,654	6.2%	1,323,931
Outpatient medical	2	32,650	6.3%	33,330
Totals	33	\$ 1,537,720	6.3%	\$ 1,602,124

(1) Represents stated pro rata purchase price including cash and any assumed debt but excludes fair value adjustments pursuant to U.S. GAAP.

(2) Represents annualized contractual or projected income to be received in cash divided by investment amounts.

(3) Represents amounts recorded on our books including fair value adjustments pursuant to U.S. GAAP. See Notes 3 and 7 to our unaudited consolidated financial statements for additional information.

Dispositions. The following summarizes property dispositions made during the nine months ended September 30, 2016 (dollars in thousands):

	Properties	Proceeds ⁽¹⁾	Capitalization Rates ⁽²⁾	Book Amount ⁽³⁾
Triple-net	43	\$ 482,113	8.0%	\$ 295,365
Outpatient medical	7	80,300	7.9%	78,786
Totals	50	\$ 562,413	8.0%	\$ 374,151

(1) Represents pro rata proceeds received upon disposition including any seller financing.

(2) Represents annualized contractual income that was being received in cash at date of disposition divided by disposition proceeds.

(3) Represents carrying value of assets at time of disposition. See Note 5 to our unaudited consolidated financial statements for additional information.

Dividends. Our Board of Directors increased the annual cash dividend to \$3.44 per common share (\$0.86 per share quarterly), as compared to \$3.30 per common share for 2015, beginning in February 2016. The dividend declared for the quarter ended September 30, 2016 represents the 182nd consecutive quarterly dividend payment.

Key Performance Indicators, Trends and Uncertainties

We utilize several key performance indicators to evaluate the various aspects of our business. These indicators are discussed below and relate to operating performance, concentration risk and credit strength. Management uses these key performance indicators to facilitate internal and external comparisons to our historical operating results, in making operating decisions and for budget planning purposes.

Operating Performance. We believe that net income attributable to common stockholders ("NICS") is the most appropriate earnings measure. Other useful supplemental measures of our operating performance include funds from operations attributable to common stockholders ("FFO"), net operating income from continuing operations ("NOI") and same store NOI ("SSNOI"); however, these supplemental measures are not defined by U.S. generally accepted accounting principles ("U.S. GAAP"). Please refer to the section entitled "Non-GAAP Financial Measures" for further discussion and reconciliations of FFO, NOI and SSNOI. These earnings measures and their relative per share amounts are widely used by investors and analysts in the valuation, comparison and investment recommendations of companies. The following table reflects the recent historical trends of our operating performance measures for the periods presented (in thousands, except per share amounts):

	Three Months Ended						
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
Net income (loss) attributable to common stockholders	\$ 190,799	\$ 312,573	\$ 182,043	\$ 132,931	\$ 148,969	\$ 195,474	\$ 334,910
Funds from operations attributable to common stockholders	344,250	340,588	392,295	332,509	391,264	416,974	401,870
Net operating income from continuing operations	517,716	558,815	570,294	590,746	597,414	617,825	605,453
Same store net operating income	427,764	441,492	440,517	436,884	440,614	453,362	441,677
Per share data (fully diluted):							
Net income (loss) attributable to common stockholders	\$ 0.56	\$ 0.89	\$ 0.52	\$ 0.37	\$ 0.42	\$ 0.54	\$ 0.93
Funds from operations attributable to common stockholders	1.02	0.97	1.11	0.94	1.10	1.16	1.11

Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. The leverage ratios indicate how much of our balance sheet capitalization is related to long-term debt, net of cash and IRC section 1031 deposits. The coverage ratios indicate our ability to service interest and fixed charges (interest, secured debt principal amortization and preferred dividends). We expect to maintain capitalization ratios and coverage ratios sufficient to maintain a capital structure consistent with our current profile. The coverage ratios are based on earnings before interest, taxes, depreciation and amortization (“EBITDA”) which is discussed in further detail, and reconciled to net income, below in “Non-GAAP Financial Measures.” Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, investment recommendations and rating of companies. The following table reflects the recent historical trends for our credit strength measures for the periods presented:

	Three Months Ended						
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
Net debt to book capitalization ratio	42%	43%	42%	45%	45%	45%	45%
Net debt to undepreciated book capitalization ratio	37%	38%	37%	40%	40%	39%	40%
Net debt to market capitalization ratio	27%	31%	30%	33%	32%	30%	31%
Interest coverage ratio	4.21x	5.32x	4.39x	3.88x	3.85x	4.21x	5.24x
Fixed charge coverage ratio	3.34x	4.19x	3.45x	3.06x	3.06x	3.34x	4.17x

Concentration Risk. We evaluate our concentration risk in terms of NOI by property mix, relationship mix and geographic mix. Concentration risk is a valuable measure in understanding what portion of our NOI could be at risk if certain sectors were to experience downturns. Property mix measures the portion of our NOI that relates to our various property types. Relationship mix measures the portion of our NOI that relates to our top five relationships. Geographic mix measures the portion of our NOI that relates to our top five states (or international equivalents). The following table reflects our recent historical trends of concentration risk by NOI for the periods indicated below:

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	Three Months Ended						
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
Property mix:⁽¹⁾							
Triple-net	55%	54%	54%	52%	52%	50%	51%
Seniors housing operating	30%	32%	31%	32%	32%	34%	33%
Outpatient medical	15%	14%	15%	16%	16%	16%	16%
Relationship mix:⁽¹⁾							
Genesis Healthcare	17%	17%	17%	16%	17%	16%	16%
Sunrise Senior Living ⁽²⁾	14%	14%	14%	13%	13%	14%	12%
Brookdale Senior Living	8%	7%	7%	7%	7%	7%	7%
Revera ⁽²⁾	4%	5%	5%	6%	6%	6%	6%
Benchmark Senior Living	4%	5%	5%	4%	4%	4%	4%
Remaining relationships	53%	52%	52%	54%	53%	53%	55%
Geographic mix:⁽¹⁾							
California	10%	9%	10%	9%	10%	10%	10%
New Jersey	8%	8%	8%	8%	8%	8%	8%
United Kingdom	8%	10%	10%	9%	9%	8%	7%
Canada	5%	6%	6%	7%	7%	7%	7%
Pennsylvania	6%	6%	7%	7%	7%	7%	7%
Remaining geographic areas	63%	61%	59%	60%	59%	60%	61%

(1) Excludes our share of investments in unconsolidated entities. Entities in which the company has a joint venture with a minority partner are shown at 100% of the joint venture amount.

(2) Revera owns a controlling interest in Sunrise Senior Living.

Lease Expirations. The following table sets forth information regarding lease expirations for certain portions of our portfolio as of September 30, 2016 (dollars in thousands):

	Expiration Year										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Thereafter
Triple-net:											
Properties	-	30	56	1	14	12	7	4	5	61	458
Base rent ⁽¹⁾	\$ 0	\$ 12,936	\$ 42,329	\$ 1,267	\$ 17,300	\$ 24,873	\$ 7,272	\$ 4,175	\$ 10,938	\$ 72,833	\$ 853,202
% of base rent	0.0%	1.2%	4.0%	0.1%	1.7%	2.4%	0.7%	0.4%	1.0%	7.0%	81.5%
Units/beds	-	1,165	3,655	123	1,225	2,289	690	317	762	4,538	50,554
% of Units/beds	0.0%	1.8%	5.6%	0.2%	1.9%	3.5%	1.1%	0.5%	1.2%	6.9%	77.4%
Outpatient medical:											
Square feet	218,745	1,069,927	943,335	1,167,571	1,259,403	1,413,300	2,213,269	1,161,666	1,451,074	612,093	4,292,345
Base rent ⁽¹⁾	\$ 6,789	\$ 27,136	\$ 24,681	\$ 30,328	\$ 32,599	\$ 37,764	\$ 46,782	\$ 28,693	\$ 39,069	\$ 17,604	\$ 103,826
% of base rent	1.7%	6.9%	6.2%	7.7%	8.2%	9.6%	11.8%	7.3%	9.9%	4.5%	26.4%
Leases	104	283	264	290	252	245	197	171	104	76	227
% of Leases	4.7%	12.8%	11.9%	13.1%	11.4%	11.1%	8.9%	7.7%	4.7%	3.4%	10.3%

(1) The most recent monthly base rent including straight line for leases with fixed escalators or annual cash rents for leases with contingent escalators. Base rent does not include tenant recoveries or amortization of above and below market lease intangibles.

We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. Factors that may cause actual results to differ from expected results are described in more detail in "Cautionary Statement Regarding Forward-Looking Statements" and other sections of this Quarterly Report on Form 10-Q. Management regularly monitors economic and other factors to develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2015, under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of these risk factors.

Corporate Governance

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Maintaining investor confidence and trust is important in today's business environment. Our Board of Directors and management are strongly committed to policies and procedures that reflect the highest level of ethical business practices. Our corporate governance guidelines provide the framework for our business operations and emphasize our commitment to increase stockholder value while meeting all applicable legal requirements. These guidelines meet the listing standards adopted by the New York Stock Exchange and are available on the Internet at www.welltower.com/investors/governance. The information on our website is not incorporated by reference in this Quarterly Report on Form 10-Q, and our web address is included as an inactive textual reference only.

Liquidity and Capital Resources

Sources and Uses of Cash

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under our primary unsecured credit facility, public issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures, construction advances and transaction costs), loan advances, property operating expenses, and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows and are discussed in further detail below. The following is a summary of our sources and uses of cash flows (dollars in thousands):

	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Cash and cash equivalents at beginning of period	\$ 360,908	\$ 473,726	\$ (112,818)	-24%
Cash provided from (used in) operating activities	1,272,346	1,036,324	236,022	23%
Cash provided from (used in) investing activities	(1,291,136)	(2,505,642)	1,214,506	-48%
Cash provided from (used in) financing activities	96,189	1,289,945	(1,193,756)	-93%
Effect of foreign currency translation	(9,690)	(2,311)	(7,379)	319%
Cash and cash equivalents at end of period	<u>\$ 428,617</u>	<u>\$ 292,042</u>	<u>\$ 136,575</u>	<u>47%</u>

Operating Activities. The change in net cash provided from operating activities is primarily attributable to increases in NOI, which is primarily due to acquisitions. Please see "Results of Operations" for further discussion. For the nine months ended September 30, 2016 and 2015, cash flow provided from operations exceeded cash distributions to stockholders.

Investing Activities. The changes in net cash used in investing activities are primarily attributable to net changes in real property investments, real estate loans receivable and investments in unconsolidated entities, which are summarized above in "Key Transactions in 2016" and Notes 3 and 6 of our unaudited consolidated financial statements. The following is a summary of cash used in non-acquisition capital improvement activities (dollars in thousands):

	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
New development	\$ 325,372	\$ 165,311	\$ 160,061	97%
Recurring capital expenditures, tenant improvements and lease commissions	48,055	13,650	34,405	252%
Renovations, redevelopments and other capital improvements	93,145	108,990	(15,845)	-15%
Total	<u>\$ 466,572</u>	<u>\$ 287,951</u>	<u>\$ 178,621</u>	<u>62%</u>

The change in new development is primarily due to the number and size of construction projects on-going during the relevant periods. Renovations, redevelopments and other capital improvements include expenditures to maximize property value, increase net operating income, maintain a market-competitive position and/or achieve property stabilization. Generally, these expenditures have increased as a result of acquisitions, primarily in our seniors housing operating segment.

Financing Activities. The changes in net cash provided from financing activities are primarily attributable to changes related to our long-term debt arrangements, the issuance/conversion of common and preferred stock and dividend payments. Please refer to Notes 9, 10 and 13 of our unaudited consolidated financial statements for additional information.

Off-Balance Sheet Arrangements

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At September 30, 2016, we had investments in unconsolidated entities with our ownership generally ranging from 10% to 50%. Please see Note 7 to our unaudited consolidated financial statements for additional information. We use financial derivative instruments to hedge interest rate and foreign currency exchange rate exposure. Please see Note 11 to our unaudited consolidated financial statements for additional information. At September 30, 2016, we had ten outstanding letter of credit obligations. Please see Note 12 to our unaudited consolidated financial statements for additional information.

Contractual Obligations

The following table summarizes our payment requirements under contractual obligations as of September 30, 2016 (in thousands):

Contractual Obligations	Total	Payments Due by Period			
		2016	2017-2018	2019-2020	Thereafter
Unsecured revolving credit facility ⁽¹⁾	\$ 1,350,000	\$ -	\$ -	\$ -	\$ 1,350,000
Senior unsecured notes and term credit facilities: (2)					
U.S. Dollar senior unsecured notes	6,500,000	-	900,000	1,050,000	4,550,000
Pounds Sterling senior unsecured notes ⁽³⁾	1,366,575	-	-	-	1,366,575
Canadian Dollar senior unsecured notes ⁽³⁾	228,746	-	-	228,746	-
U.S. Dollar term credit facility	505,000	-	-	5,000	500,000
Canadian Dollar term credit facility ⁽³⁾	190,621	-	-	-	190,621
Secured debt: ^(2,3)					
Consolidated	3,300,642	76,773	1,216,975	602,851	1,404,043
Unconsolidated	528,689	11,396	45,275	28,234	443,784
Contractual interest obligations: ⁽⁴⁾					
Unsecured revolving credit facility	101,290	4,823	38,587	38,587	19,293
Senior unsecured notes and term loans ⁽³⁾	3,573,642	138,537	726,263	642,106	2,066,736
Consolidated secured debt ⁽³⁾	593,684	35,886	221,205	134,392	202,201
Unconsolidated secured debt ⁽³⁾	144,640	4,662	36,694	33,922	69,362
Capital lease obligations ⁽⁵⁾	95,018	1,183	9,409	8,506	75,920
Operating lease obligations ⁽⁵⁾	1,109,001	4,222	34,098	34,163	1,036,518
Purchase obligations ⁽⁵⁾	534,546	61,695	471,538	830	483
Other long-term liabilities ⁽⁶⁾	4,548	369	2,950	1,229	-
Total contractual obligations	\$ 20,126,642	\$ 339,546	\$ 3,702,994	\$ 2,808,566	\$ 13,275,536

(1) Relates to unsecured revolving credit facility with an aggregate commitment of \$3,000,000,000. See Note 9 to our unaudited consolidated financial statements for additional information.

(2) Amounts represent principal amounts due and do not reflect unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.

(3) Based on foreign currency exchange rates in effect as of balance sheet date.

(4) Based on variable interest rates in effect as of balance sheet date.

(5) See Note 12 to our unaudited consolidated financial statements for additional information.

(6) Primarily relates to payments to be made under our Supplemental Executive Retirement Plan.

Capital Structure

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of September 30, 2016, we were in compliance with all of the covenants under our debt agreements. None of our debt agreements contain provisions for acceleration which could be triggered by our debt ratings. However, under our primary unsecured credit facility, the ratings on our senior unsecured notes are used to determine the fees and interest charged. We plan to manage the company to maintain compliance with our debt covenants and with a capital structure consistent with our current profile. Any downgrades in terms of ratings or outlook by any or all of the rating agencies could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition.

On May 1, 2015, we filed with the Securities and Exchange Commission (the "SEC") (1) an open-ended automatic or "universal" shelf registration statement covering an indeterminate amount of future offerings of debt securities, common stock, preferred stock, depository shares, warrants and units and (2) a registration statement in connection with our enhanced dividend reinvestment plan under which we may issue up to 15,000,000 shares of common stock. As of October 31, 2016, 7,861,039 shares of common stock

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remained available for issuance under this registration statement. We have entered into separate Equity Distribution Agreements with each of UBS Securities LLC, KeyBanc Capital Markets Inc. and Credit Agricole Securities (USA) Inc. relating to the offer and sale from time to time of up to \$630,015,000 aggregate amount of our common stock ("Equity Shelf Program"). As of October 31, 2016, we had \$171,757,000 of remaining capacity under the Equity Shelf Program. Depending upon market conditions, we anticipate issuing securities under our registration statements to invest in additional properties and to repay borrowings under our primary unsecured credit facility.

Results of Operations

Summary

Our primary sources of revenue include rent and resident fees and services. Our primary expenses include interest expense, depreciation and amortization, property operating expenses, transaction costs and general and administrative expenses. We evaluate our business and make resource allocations on our three business segments: triple-net, seniors housing operating and outpatient medical. The primary performance measures for our properties are NOI and SSNOI, which are discussed below. Please see Note 17 to our unaudited consolidated financial statements for additional information. The following is a summary of our results of operations (dollars in thousands, except per share amounts):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	Amount	%	September 30, 2016	September 30, 2015	Amount	%
Net income (loss) attributable to common stockholders	\$ 334,910	\$ 182,043	\$ 152,867	84%	\$ 679,353	\$ 685,413	\$ (6,060)	-1%
Funds from operations attributable to common stockholders	401,870	392,295	9,575	2%	1,210,108	1,077,132	132,976	12%
EBITDA	702,196	522,842	179,354	34%	1,796,729	1,707,405	89,324	5%
Net operating income from continuing operations (NOI)	605,453	570,294	35,159	6%	1,820,690	1,646,823	173,867	11%
Same store NOI	441,677	440,517	1,160	0%	1,335,651	1,309,770	25,881	2%
Per share data (fully diluted):								
Net income (loss) attributable to common stockholders	\$ 0.93	\$ 0.52	\$ 0.41	79%	\$ 1.89	\$ 1.97	\$ (0.08)	-4%
Funds from operations attributable to common stockholders	\$ 1.11	\$ 1.11	\$ -	0%	\$ 3.37	\$ 3.10	\$ 0.27	9%
Interest coverage ratio	5.24x	4.39x	0.85x	19%	4.43x	4.64x	-0.21x	-5%
Fixed charge coverage ratio	4.17x	3.45x	0.72x	21%	3.52x	3.67x	-0.15x	-4%

Triple-net

The following is a summary of our NOI for the triple-net segment (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
SSNOI ⁽¹⁾	\$ 210,622	\$ 206,645	\$ 3,977	2%	\$ 628,896	\$ 613,984	\$ 14,912	2%
Non-cash NOI attributable to same store properties ⁽¹⁾	20,874	24,676	(3,802)	-15%	65,505	73,964	(8,459)	-11%
NOI attributable to non same store properties ⁽²⁾	79,368	66,716	12,652	19%	234,942	182,397	52,545	29%
NOI	\$ 310,864	\$ 298,037	\$ 12,827	4%	\$ 929,343	\$ 870,345	\$ 58,998	7%

(1) Change is due to increases in cash NOI and decreases in non-cash NOI (described below) related to 569 same store properties.

(2) Change is primarily due to the acquisition of 80 properties and the conversion of 21 construction projects into revenue-generating properties subsequent to January 1, 2015.

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During the nine months ended September 30, 2016, we reclassified four properties previously classified in the triple-net segment to the outpatient medical segment. Accordingly, the information has been reclassified to conform to the current presentation for all periods presented. The following is a summary of our results of operations for the triple-net segment (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
Revenues:								
Rental income	\$ 286,226	\$ 277,614	\$ 8,612	3%	\$ 857,184	\$ 812,179	\$ 45,005	6%
Interest income	23,017	19,454	3,563	18%	67,842	52,343	15,499	30%
Other income	1,621	969	652	67%	4,317	5,823	(1,506)	-26%
Total revenues	<u>310,864</u>	<u>298,037</u>	<u>12,827</u>	<u>4%</u>	<u>929,343</u>	<u>870,345</u>	<u>58,998</u>	<u>7%</u>
Net operating income from continuing operations (NOI)	310,864	298,037	12,827	4%	929,343	870,345	58,998	7%
Other expenses:								
Interest expense	985	11,347	(10,362)	-91%	8,608	21,083	(12,475)	-59%
Loss (gain) on derivatives, net	-	-	-	n/a	-	(58,427)	58,427	-100%
Depreciation and amortization	74,296	72,589	1,707	2%	229,906	212,537	17,369	8%
Transaction costs	1,613	1,865	(252)	-14%	5,760	45,615	(39,855)	-87%
Loss (gain) on extinguishment of debt, net	-	(139)	139	-100%	97	10,096	(9,999)	-99%
Impairment of assets	5,070	-	5,070	n/a	19,384	2,220	17,164	773%
Total other expenses	<u>81,964</u>	<u>85,662</u>	<u>(3,698)</u>	<u>-4%</u>	<u>263,755</u>	<u>233,124</u>	<u>30,631</u>	<u>13%</u>
Income from continuing operations before income taxes and income (loss) from unconsolidated entities	228,900	212,375	16,525	8%	665,588	637,221	28,367	4%
Income tax benefit (expense)	(896)	87	(983)	n/a	(1,425)	(2,617)	1,192	-46%
Income (loss) from unconsolidated entities	1,998	2,851	(853)	-30%	8,097	5,697	2,400	42%
Income from continuing operations	<u>230,002</u>	<u>215,313</u>	<u>14,689</u>	<u>7%</u>	<u>672,260</u>	<u>640,301</u>	<u>31,959</u>	<u>5%</u>
Gain (loss) on real estate dispositions, net ⁽¹⁾	163,579	2,155	161,424	7,491%	165,109	56,251	108,858	194%
Net income	<u>393,581</u>	<u>217,468</u>	<u>176,113</u>	<u>81%</u>	<u>837,369</u>	<u>696,552</u>	<u>140,817</u>	<u>20%</u>
Less: Net income (loss) attributable to noncontrolling interests	926	526	400	76%	1,357	1,528	(171)	-11%
Net income attributable to common stockholders	<u>\$ 392,655</u>	<u>\$ 216,942</u>	<u>\$ 175,713</u>	<u>81%</u>	<u>\$ 836,012</u>	<u>\$ 695,024</u>	<u>\$ 140,988</u>	<u>20%</u>

(1) See Note 5 to our unaudited consolidated financial statements.

The increase in rental income is primarily attributable to the acquisitions of new properties and the conversion of newly constructed triple-net properties from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the tenant's properties. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. If gross operating revenues at our facilities and/or the Consumer Price Index do not increase, a portion of our revenues may not continue to increase. Sales of real property would offset revenue increases and, to the extent that they exceed new acquisitions, could result in decreased revenues. Our leases could renew above or below current rent rates, resulting in an increase or decrease in rental income. For the three months ended September 30, 2016, we had no lease renewals but we had 36 leases with rental rate increasers ranging from 0.01% to 0.43% in our triple-net portfolio. The change in interest income is due to a higher loan volume in the current year, which includes two first mortgage loans to Genesis Healthcare. The decrease in other income is due to the receipt of an early prepayment fee in 2015 related to a real estate loan receivable.

During the nine months ended September 30, 2016, we completed one triple-net construction project totaling \$24,535,000 or \$310,569 per bed/unit and one expansion project totaling \$2,879,000. The following is a summary of triple-net construction projects pending as of September 30, 2016 (dollars in thousands):

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Location	Units/Beds	Commitment	Balance	Est. Completion
Edmond, OK	142	\$ 27,300	\$ 21,169	4Q16
Carrollton, TX	104	21,800	17,823	4Q16
Lititz, PA	80	15,200	9,869	4Q16
Raleigh, NC	225	93,000	73,561	1Q17
Tulsa, OK	145	28,500	15,264	1Q17
Lancaster, PA	80	15,875	9,456	1Q17
Livingston, NJ	120	51,440	31,008	2Q17
Piscataway, NJ	124	40,800	30,769	2Q17
Bracknell, England	64	14,380	8,994	2Q17
Alexandria, VA	116	60,156	16,966	1Q18
	<u>1,200</u>	<u>\$ 368,451</u>	<u>\$ 234,879</u>	

Interest expense for the nine months ended September 30, 2016 and 2015 represents secured debt interest expense and gains and losses on forward exchange contracts. The change in interest expense is due to the net effect and timing of assumptions, segment transitions, fluctuations in foreign currency rates, extinguishments and principal amortizations. The following is a summary of our triple-net secured debt principal activity (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate
Beginning balance	\$ 460,269	5.509%	\$ 545,207	5.556%	\$ 554,014	5.488%	\$ 670,769	5.337%
Debt extinguished	(14,565)	5.865%	(20,338)	6.306%	(107,577)	5.028%	(132,545)	4.695%
Foreign currency	(503)	5.428%	(6,155)	5.316%	4,550	5.303%	(13,011)	5.316%
Principal payments	(2,514)	5.608%	(3,046)	5.566%	(8,300)	5.635%	(9,545)	5.669%
Ending balance	<u>\$ 442,687</u>	<u>5.515%</u>	<u>\$ 515,668</u>	<u>5.526%</u>	<u>\$ 442,687</u>	<u>5.515%</u>	<u>\$ 515,668</u>	<u>5.526%</u>
Monthly averages	\$ 455,044	5.511%	\$ 520,244	5.541%	\$ 498,934	5.496%	\$ 549,861	5.528%

In April 2011, we completed the acquisition of substantially all of the real estate assets of privately-owned Genesis Healthcare Corporation. In conjunction with this transaction, we received the option to acquire an ownership interest in Genesis Healthcare. In February 2015, Genesis Healthcare closed on a transaction to merge with Skilled Healthcare Group to become a publicly traded company which required us to record the value of the derivative asset due to the net settlement feature. This event resulted in \$58,427,000 gain in the first quarter of 2015.

Depreciation and amortization increased primarily as a result of new property acquisitions and the conversions of newly constructed triple-net properties. To the extent that we acquire or dispose of additional properties in the future, our provision for depreciation and amortization will change accordingly.

Transaction costs are costs incurred with property acquisitions including due diligence costs, fees for legal and valuation services, the termination of pre-existing relationships, lease termination expenses and other similar costs. The 2015 transaction costs include a charge related to the termination of pre-existing relationships, the termination of a lease obligation and overall higher transaction volume. The fluctuation in losses/gains on debt extinguishment is primarily attributable to the volume of extinguishments and the terms of the related secured debt.

Changes in the gain on sales of properties are related to property sales which totaled 43 and 23 for the nine months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, we recorded impairment charges on certain held-for-sale triple-net properties as the fair values less estimated costs to sell exceeded our carrying values.

Seniors Housing Operating

The following is a summary of our NOI for the seniors housing operating segment (dollars in thousands):

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	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,	September 30,	\$	%	September 30,	September 30,	\$	%
	2016	2015			2016	2015		
SSNOI ⁽¹⁾	\$ 155,578	\$ 160,227	\$ (4,649)	-3%	\$ 481,636	\$ 474,921	\$ 6,715	1%
Non-cash NOI attributable to same store properties	(1,269)	(250)	(1,019)	408%	(1,759)	(754)	(1,005)	133%
NOI attributable to non same store properties ⁽²⁾	45,186	19,054	26,132	137%	123,342	40,151	83,191	207%
NOI	\$ 199,495	\$ 179,031	\$ 20,464	11%	\$ 603,219	\$ 514,318	\$ 88,901	17%

(1) Relates to 298 same store properties.

(2) Change is primarily due to the acquisition of 104 properties subsequent to January 1, 2015 and one development property.

The following is a summary of our seniors housing operating results of operations (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,	September 30,	\$	%	September 30,	September 30,	\$	%
	2016	2015			2016	2015		
Revenues:								
Resident fees and services	\$ 630,017	\$ 545,255	\$ 84,762	16%	\$ 1,847,386	\$ 1,573,318	\$ 274,068	17%
Interest income	1,054	1,054	-	0%	3,126	3,126	-	0%
Other income	716	772	(56)	-7%	11,889	5,001	6,888	138%
Total revenues	631,787	547,081	84,706	15%	1,862,401	1,581,445	280,956	18%
Property operating expenses	432,292	368,050	64,242	17%	1,259,182	1,067,127	192,055	18%
Net operating income from continuing operations (NOI)	199,495	179,031	20,464	11%	603,219	514,318	88,901	17%
Other expenses:								
Interest expense	39,927	30,990	8,937	29%	123,445	104,283	19,162	18%
Depreciation and amortization	97,210	87,306	9,904	11%	301,354	252,785	48,569	19%
Transaction costs	18,083	7,630	10,453	137%	25,259	23,610	1,649	7%
Loss (gain) on extinguishment of debt, net	-	-	-	n/a	(88)	-	(88)	n/a
Total other expenses	155,220	125,926	29,294	23%	449,970	380,678	69,292	18%
Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated entities	44,275	53,105	(8,830)	-17%	153,249	133,640	19,609	15%
Income tax benefit (expense)	515	3,237	(2,722)	-84%	5,304	(745)	6,049	-812%
Income (loss) from unconsolidated entities	(3,891)	(5,629)	1,738	-31%	(15,713)	(26,785)	11,072	-41%
Net income (loss)	40,899	50,713	(9,814)	-19%	142,840	106,110	36,730	35%
Less: Net income (loss) attributable to noncontrolling interests	1,556	(679)	2,235	n/a	1,739	2,114	(375)	-18%
Net income (loss) attributable to common stockholders	\$ 39,343	\$ 51,392	\$ (12,049)	-23%	\$ 141,101	\$ 103,996	\$ 37,105	36%

Fluctuations in revenues and property operating expenses are primarily a result of acquisitions and the movement of U.S. and foreign currency exchange rates. The fluctuations in depreciation and amortization are due to acquisitions and variations in amortization of short-lived intangible assets. To the extent that we acquire or dispose of additional properties in the future, these amounts will change accordingly.

During the nine month period ended September 30, 2016, we did not complete any construction projects. The following is a summary of our seniors housing operating construction projects, excluding expansions, pending as of September 30, 2016 (dollars in thousands):

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Location	Units	Commitment	Balance	Est. Completion
Camberley, UK	102	\$ 24,599	\$ 22,776	4Q16
Bushey, UK	95	51,547	16,173	2Q18
Chertsey, UK	94	40,257	15,585	3Q18
	291	\$ 116,403	54,534	
New York, NY	Project in planning stage		122,571	
Total			\$ 177,105	

Interest expense represents secured debt interest expense as well as interest expense related to all foreign senior unsecured debt. The increase in interest expense is attributed primarily to the \$300,000,000 Canadian-denominated senior unsecured notes issued in November 2015. Please refer to Note 10 to our unaudited consolidated financial statements for additional information. The following is a summary of our seniors housing operating property secured debt principal activity (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 2,393,628	3.923%	\$ 1,827,123	4.353%	\$ 2,290,552	3.958%	\$ 1,654,531	4.422%
Debt issued	31,549	3.036%	85,811	2.623%	193,541	3.053%	222,612	2.759%
Debt assumed	47,156	4.132%	22,032	4.995%	47,156	4.132%	227,929	4.075%
Debt extinguished	(29,724)	3.655%	(79,981)	3.478%	(121,337)	3.609%	(199,946)	3.507%
Foreign currency	(7,980)	3.394%	(44,360)	3.588%	49,086	3.476%	(76,146)	3.639%
Principal payments	(12,326)	3.860%	(9,375)	4.217%	(36,695)	3.908%	(27,730)	4.209%
Ending balance	\$ 2,422,303	3.926%	\$ 1,801,250	4.335%	\$ 2,422,303	3.926%	\$ 1,801,250	4.335%
Monthly averages	\$ 2,413,116	3.910%	\$ 1,792,576	4.346%	\$ 2,371,211	3.940%	\$ 1,754,706	4.376%

Transaction costs fluctuate based on the volume of acquisitions in a year. For the current year, transaction costs are higher because of increased acquisition volume. The majority of our seniors housing operating properties are formed through partnership interests. Net income attributable to noncontrolling interests represents our partners' share of net income (loss) related to joint ventures. The fluctuations in income (loss) from unconsolidated entities is primarily due to depreciation and amortization of short-lived intangible assets and the timing of additional investments in unconsolidated entities.

Outpatient Medical

The following is a summary of our NOI for the outpatient medical segment (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
	SSNOI ⁽¹⁾	\$ 75,477	\$ 73,645	\$ 1,832	2%	\$ 225,119	\$ 220,865	\$ 4,254
Non-cash NOI attributable to same store properties ⁽¹⁾	1,462	2,116	(654)	-31%	4,439	6,418	(1,979)	-31%
NOI attributable to non same store properties ⁽²⁾	17,966	17,443	523	3%	57,865	34,794	23,071	66%
NOI	\$ 94,905	\$ 93,204	\$ 1,701	2%	\$ 287,423	\$ 262,077	\$ 25,346	10%

(1) Relates to 219 same store properties.

(2) Change is primarily due to acquisitions of 17 properties and conversions of construction projects into three revenue-generating properties subsequent to January 1, 2015.

During the nine months ended September 30, 2016, we reclassified four properties previously classified in the triple-net segment to the outpatient medical segment. Accordingly, the information has been reclassified to conform to the current presentation for all periods presented. The following is a summary of our results of operations for the outpatient medical segment (dollars in thousands):

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	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,	September 30,	\$	%	September 30,	September 30,	\$	%
	2016	2015			2016	2015		
Revenues:								
Rental income	\$ 134,926	\$ 131,676	\$ 3,250	2%	\$ 402,258	\$ 373,323	\$ 28,935	8%
Interest income	1,009	1,872	(863)	-46%	3,307	4,481	(1,174)	-26%
Other income	358	309	49	16%	4,824	665	4,159	625%
Total revenues	136,293	133,857	2,436	2%	410,389	378,469	31,920	8%
Property operating expenses	41,388	40,653	735	2%	122,966	116,392	6,574	6%
Net operating income from continuing operations (NOI)	94,905	93,204	1,701	2%	287,423	262,077	25,346	10%
Other expenses:								
Interest expense	3,986	6,811	(2,825)	-41%	15,132	21,192	(6,060)	-29%
Depreciation and amortization	46,555	45,904	651	1%	142,066	138,109	3,957	3%
Transaction costs	146	(162)	308	n/a	2,188	1,154	1,034	90%
Impairment of assets	4,635	-	4,635	n/a	4,635	-	4,635	n/a
Total other expenses	55,322	52,553	2,769	5%	164,021	160,455	3,566	2%
Income from continuing operations before income taxes and income from unconsolidated entities	39,583	40,651	(1,068)	-3%	123,402	101,622	21,780	21%
Income tax (expense) benefit	417	154	263	171%	(59)	460	(519)	n/a
Income from unconsolidated entities	144	147	(3)	-2%	88	2,857	(2,769)	-97%
Income from continuing operations	40,144	40,952	(808)	-2%	123,431	104,939	18,492	18%
Gain (loss) on real estate dispositions, net ⁽¹⁾	(1,228)	(109)	(1,119)	1027%	(1,228)	192,751	(193,979)	n/a
Net income (loss)	38,916	40,843	(1,927)	-5%	122,203	297,690	(175,487)	-59%
Less: Net income (loss) attributable to noncontrolling interests	997	1,015	(18)	-2%	(529)	1,024	(1,553)	n/a
Net income (loss) attributable to common stockholders	\$ 37,919	\$ 39,828	\$ (1,909)	-5%	\$ 122,732	\$ 296,666	\$ (173,934)	-59%

(1) See Note 5 to our unaudited consolidated financial statements.

The increase in rental income is primarily attributable to the acquisitions of new properties and the conversion of newly constructed outpatient medical properties from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. If the Consumer Price Index does not increase, a portion of our revenues may not continue to increase. Sales of real property would offset revenue increases and, to the extent that they exceed new acquisitions, could result in decreased revenues. Our leases could renew above or below current rent rates, resulting in an increase or decrease in rental income. For the three months ended September 30, 2016, our consolidated outpatient medical portfolio signed 73,024 square feet of new leases and 271,496 square feet of renewals. The weighted-average term of these leases was eight years, with a rate of \$37.78 per square foot and tenant improvement and lease commission costs of \$16.24 per square foot. Substantially all of these leases during the referenced quarter contain an annual fixed or contingent escalation rent structure ranging from the change in CPI to 4%.

During the nine months ended September 30, 2016, we completed three outpatient medical construction projects representing \$44,113,000 or \$281 per square foot. The following is a summary of the outpatient medical construction projects, excluding expansions, pending as of September 30, 2016 (dollars in thousands):

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Location	Square Feet	Commitment	Balance	Est. Completion
Stamford, CT	92,345	41,735	34,311	4Q16
Marietta, GA	103,156	24,893	10,033	4Q16
Wausau, WI	43,883	14,100	13,512	1Q17
Castle Rock, CO	56,822	13,148	4,223	1Q17
Timmonium, MD	46,000	20,996	9,836	2Q17
Howell, MI	56,211	15,509	4,815	2Q17
Brooklyn, NY	140,955	103,624	30,159	3Q17
Total	539,372	\$ 234,005	\$ 106,889	

Total interest expense represents secured debt interest expense. The change in secured debt interest expense is primarily due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our outpatient medical secured debt principal activity (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 563,232	5.129%	\$ 654,990	5.193%	\$ 627,689	5.177%	\$ 609,268	5.838%
Debt assumed	-	0.000%	-	0.000%	-	0.000%	112,000	1.837%
Debt extinguished	(128,406)	5.847%	(29,370)	5.381%	(185,914)	5.892%	(88,182)	5.355%
Principal payments	(3,014)	5.373%	(3,065)	6.023%	(9,963)	5.471%	(10,531)	5.724%
Ending balance	\$ 431,812	4.929%	\$ 622,555	5.181%	\$ 431,812	4.929%	\$ 622,555	5.181%
Monthly averages	\$ 521,636	5.077%	\$ 640,971	5.188%	\$ 571,466	5.152%	\$ 608,489	5.523%

The increase in property operating expenses is primarily attributable to acquisitions and construction conversions of new outpatient medical facilities for which we incur certain property operating expenses. Transaction costs represent costs incurred with property acquisitions including due diligence costs, fees for legal and valuation services, termination of pre-existing relationships, lease termination expenses and other similar costs. Income from unconsolidated entities represents our share of net income or losses related to the periods for which we held a joint venture investment with Forest City Enterprises and certain unconsolidated property investments. Changes in gains/losses on sales of properties are related to volume of property sales and the sales prices. A portion of our outpatient medical properties were formed through partnerships. Net income attributable to noncontrolling interests represents our partners' share of net income or loss relating to those partnerships where we are the controlling partner.

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Non-Segment/Corporate

The following is a summary of our results of operations for the non-segment/corporate activities (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
Revenues:								
Other income	\$ 189	\$ 22	\$ 167	759%	\$ 705	\$ 83	\$ 622	749%
Expenses:								
Interest expense	84,801	71,982	12,819	18%	247,800	214,513	33,287	16%
Loss (gain) on derivatives, net	(2,516)	-	(2,516)	n/a	(2,516)	-	(2,516)	n/a
General and administrative	36,828	36,950	(122)	0%	122,434	110,562	11,872	11%
Loss on extinguishment of debt, net	-	723	(723)	-100%	-	24,776	(24,776)	-100%
Other expenses	-	-	-	n/a	3,161	10,583	(7,422)	-70%
Total expenses	119,113	109,655	9,458	9%	370,879	360,434	10,445	3%
Loss from continuing operations before income taxes	(118,924)	(109,633)	(9,291)	8%	(370,174)	(360,351)	(9,823)	3%
Income tax (expense) benefit	269	(134)	403	n/a	(1,277)	(867)	(410)	47%
Loss from continuing operations	(118,655)	(109,767)	(8,888)	8%	(371,451)	(361,218)	(10,233)	3%
Less: Preferred stock dividends	16,352	16,352	-	0%	49,055	49,055	-	0%
Net loss attributable to common stockholders	\$ (135,007)	\$ (126,119)	\$ (8,888)	7%	\$ (420,506)	\$ (410,273)	\$ (10,233)	2%

The following is a summary of our non-segment/corporate interest expense (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
Senior unsecured notes	\$ 76,167	\$ 66,679	\$ 9,488	14%	\$ 225,837	\$ 196,752	\$ 29,085	15%
Secured debt	69	94	(25)	-27%	245	281	(36)	-13%
Primary unsecured credit facility	5,137	2,042	3,095	152%	12,142	7,806	4,336	56%
Swap loss (savings)	-	(11)	11	-100%	-	(23)	23	-100%
Loan expense	3,428	3,178	250	8%	9,576	9,697	(121)	-1%
Totals	\$ 84,801	\$ 71,982	\$ 12,819	18%	\$ 247,800	\$ 214,513	\$ 33,287	16%

The change in interest expense on senior unsecured notes is due to the net effect of issuances and extinguishments, excluding our foreign senior unsecured debt, which is in our seniors housing operating segment. Please refer to Note 10 to our unaudited consolidated financial statements for additional information. Loan expense represents the amortization of deferred loan costs incurred in connection with the issuance and amendments of debt. Loan expense changes are due to amortization of charges for costs incurred in connection with senior unsecured note issuances. The change in interest expense on the primary unsecured credit facility is due primarily to the net effect and timing of draws, paydowns and variable interest rate changes. Please refer to Note 9 of our unaudited consolidated financial statements for additional information regarding our primary unsecured credit facility.

General and administrative expenses as a percentage of consolidated revenues for the three months ended September 30, 2016 and 2015 were 3.41% and 3.77%, respectively. The increase in general and administrative expenses for the nine months ended September 30, 2016 is primarily related to professional service fees for tax and legal consulting and costs associated with our initiatives to attract and retain appropriate personnel to achieve our business objectives. Other expenses in both years included costs associated with the retirement of executive officers. Other expenses for the nine months ended September 30, 2015 also included costs associated with the termination of our investment in a strategic medical office partnership.

Other

Non-GAAP Financial Measures

We believe that net income, as defined by U.S. GAAP, is the most appropriate earnings measurement. However, we consider FFO, NOI, SSNOI, EBITDA and Adjusted EBITDA to be useful supplemental measures of our operating performance. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient. In response, the National Association of Real Estate Investment Trusts ("NAREIT") created funds from operations attributable to common stockholders ("FFO") as a supplemental measure of operating performance for REITs that excludes historical cost depreciation from net income. FFO, as defined by NAREIT, means net income attributable to common stockholders, computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate and impairment of depreciable assets, plus depreciation and amortization, and after adjustments for unconsolidated entities and noncontrolling interests.

Net operating income from continuing operations ("NOI") is used to evaluate the operating performance of our properties. We define NOI as total revenues, including tenant reimbursements, less property operating expenses. Property operating expenses represent costs associated with managing, maintaining and servicing tenants for our seniors housing operating and medical facility properties. These expenses include, but are not limited to, property-related payroll and benefits, property management fees, marketing, housekeeping, food service, maintenance, utilities, property taxes and insurance. General and administrative expenses represent costs unrelated to property operations or transaction costs. These expenses include, but are not limited to, payroll and benefits, professional services, office expenses and depreciation of corporate fixed assets. Same store NOI ("SSNOI") is used to evaluate the cash-based operating performance of our properties under a consistent population which eliminates changes in the composition of our portfolio. As used herein, same store is generally defined as those revenue-generating properties in the portfolio for the reporting period subsequent to January 1, 2015. Land parcels, loans and sub-leases as well as any properties acquired, developed/redeveloped, transitioned, sold or classified as held for sale during that period are excluded from the same store amounts. We believe NOI and SSNOI provide investors relevant and useful information because they measure the operating performance of our properties at the property level on an unleveraged basis. We use NOI and SSNOI to make decisions about resource allocations and to assess the property level performance of our properties.

EBITDA stands for earnings before interest, taxes, depreciation and amortization. We believe that EBITDA, along with net income and cash flow provided from operating activities, is an important supplemental measure because it provides additional information to assess and evaluate the performance of our operations. We primarily utilize EBITDA to measure our interest coverage ratio, which represents EBITDA divided by total interest, and our fixed charge coverage ratio, which represents EBITDA divided by fixed charges. Fixed charges include total interest, secured debt principal amortization and preferred dividends.

A covenant in our primary unsecured credit facility contains a financial ratio based on a definition of EBITDA that is specific to that agreement. Failure to satisfy these covenants could result in an event of default that could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. Due to the materiality of these debt agreements and the financial covenants, we have disclosed Adjusted EBITDA, which represents EBITDA as defined above and adjusted for items per our covenant. We use Adjusted EBITDA to measure our adjusted fixed charge coverage ratio, which represents Adjusted EBITDA divided by fixed charges on a trailing twelve months basis. Fixed charges include total interest (excluding capitalized interest and non-cash interest expenses), secured debt principal amortization and preferred dividends. Our covenant requires an adjusted fixed charge coverage ratio of at least 1.50 times.

Other than Adjusted EBITDA, our supplemental reporting measures and similarly entitled financial measures are widely used by investors, equity and debt analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. Management uses these financial measures to facilitate internal and external comparisons to our historical operating results and in making operating decisions. Additionally, these measures are utilized by the Board of Directors to evaluate management. Adjusted EBITDA is used to demonstrate our compliance with a comparable financial covenant in our primary unsecured credit facility and is not being presented for use by investors for any other purpose. None of our supplemental measures represent net income or cash flow provided from operating activities as determined in accordance with U.S. GAAP and should not be considered as alternative measures of profitability or liquidity. Finally, the supplemental measures, as defined by us, may not be comparable to similarly entitled items reported by other real estate investment trusts or other companies.

The table below reflects the reconciliation of FFO to net income attributable to common stockholders, the most directly comparable U.S. GAAP measure, for the periods presented. Noncontrolling interest and unconsolidated entity amounts represent adjustments to reflect our share of depreciation and amortization. Amounts are in thousands except for per share data.

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	Three Months Ended						
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
FFO Reconciliations:							
Net income (loss) attributable to common stockholders	\$ 190,799	\$ 312,573	\$ 182,043	\$ 132,931	\$ 148,969	\$ 195,474	\$ 334,910
Depreciation and amortization	188,829	208,802	205,799	222,809	228,696	226,569	218,061
Impairment of assets	2,220	-	-	-	14,314	-	9,705
Loss (gain) on sales of properties, net	(56,845)	(190,111)	(2,046)	(31,385)	-	(1,530)	(162,351)
Noncontrolling interests	(7,249)	(10,467)	(11,647)	(9,908)	(17,319)	(20,616)	(15,695)
Unconsolidated entities	26,496	19,791	18,146	18,062	16,604	17,077	17,240
Funds from operations attributable to common stockholders	<u>\$ 344,250</u>	<u>\$ 340,588</u>	<u>\$ 392,295</u>	<u>\$ 332,509</u>	<u>\$ 391,264</u>	<u>\$ 416,974</u>	<u>\$ 401,870</u>
Average common shares outstanding:							
Basic	336,754	350,399	351,765	353,604	355,076	356,646	358,932
Diluted	337,812	351,366	353,107	354,972	356,051	358,891	361,237
Per share data:							
Net income attributable to common stockholders							
Basic	\$ 0.57	\$ 0.89	\$ 0.52	\$ 0.38	\$ 0.42	\$ 0.55	\$ 0.93
Diluted	0.56	0.89	0.52	0.37	0.42	0.54	0.93
Funds from operations attributable to common stockholders							
Basic	\$ 1.02	\$ 0.97	\$ 1.12	\$ 0.94	\$ 1.10	\$ 1.17	\$ 1.12
Diluted	1.02	0.97	1.11	0.94	1.10	1.16	1.11

	Nine Months Ended	
	September 30, 2015	September 30, 2016
FFO Reconciliations:		
Net income attributable to common stockholders	\$ 685,413	\$ 679,353
Depreciation and amortization	603,431	673,326
Impairment of assets	2,220	24,019
Loss (gain) on sales of properties, net	(249,002)	(163,881)
Noncontrolling interests	(29,363)	(53,630)
Unconsolidated entities	64,433	50,921
Funds from operations attributable to common stockholders	<u>\$ 1,077,132</u>	<u>\$ 1,210,108</u>
Average common shares outstanding:		
Basic	346,425	356,911
Diluted	347,547	358,752
Per share data:		
Net income attributable to common stockholders		
Basic	\$ 1.98	\$ 1.90
Diluted	1.97	1.89
Funds from operations attributable to common stockholders		
Basic	\$ 3.11	\$ 3.39
Diluted	3.10	3.37

The table below reflects the reconciliation of EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Interest expense includes discontinued operations. Dollars are in thousands.

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

	Three Months Ended						
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
EBITDA Reconciliations:							
Net income	\$ 209,422	\$ 330,459	\$ 199,257	\$ 149,416	\$ 165,474	\$ 210,749	\$ 354,741
Interest expense	121,080	118,861	121,130	131,097	132,960	132,326	129,699
Income tax expense (benefit)	(304)	7,417	(3,344)	2,682	(1,725)	(513)	(305)
Depreciation and amortization	188,829	208,802	205,799	222,809	228,696	226,569	218,061
EBITDA	<u>\$ 519,027</u>	<u>\$ 665,539</u>	<u>\$ 522,842</u>	<u>\$ 506,004</u>	<u>\$ 525,405</u>	<u>\$ 569,131</u>	<u>\$ 702,196</u>
Interest Coverage Ratio:							
Interest expense	\$ 121,080	\$ 118,861	\$ 121,130	\$ 131,097	\$ 132,960	\$ 132,326	\$ 129,699
Non-cash interest expense	(119)	4,202	(3,791)	(2,878)	599	(1,519)	(543)
Capitalized interest	2,387	2,060	1,865	2,358	3,037	4,306	4,766
Total interest	123,348	125,123	119,204	130,577	136,596	135,113	133,922
EBITDA	\$ 519,027	\$ 665,539	\$ 522,842	\$ 506,004	\$ 525,405	\$ 569,131	\$ 702,196
Interest coverage ratio	<u>4.21x</u>	<u>5.32x</u>	<u>4.39x</u>	<u>3.88x</u>	<u>3.85x</u>	<u>4.21x</u>	<u>5.24x</u>
Fixed Charge Coverage Ratio:							
Total interest	\$ 123,348	\$ 125,123	\$ 119,204	\$ 130,577	\$ 136,596	\$ 135,113	\$ 133,922
Secured debt principal payments	15,630	17,336	15,817	18,281	18,642	19,096	18,151
Preferred dividends	16,352	16,352	16,352	16,352	16,352	16,352	16,352
Total fixed charges	155,330	158,811	151,373	165,210	171,590	170,561	168,425
EBITDA	\$ 519,027	\$ 665,539	\$ 522,842	\$ 506,004	\$ 525,405	\$ 569,131	\$ 702,196
Fixed charge coverage ratio	<u>3.34x</u>	<u>4.19x</u>	<u>3.45x</u>	<u>3.06x</u>	<u>3.06x</u>	<u>3.34x</u>	<u>4.17x</u>

	Nine Months Ended	
	September 30, 2015	September 30, 2016
EBITDA Reconciliations:		
Net income	\$ 739,134	\$ 730,961
Interest expense	361,071	394,985
Income tax expense (benefit)	3,769	(2,543)
Depreciation and amortization	603,431	673,326
EBITDA	<u>\$ 1,707,405</u>	<u>\$ 1,796,729</u>
Interest Coverage Ratio:		
Interest expense	\$ 361,071	\$ 394,985
Non-cash interest expense	291	(1,465)
Capitalized interest	6,311	12,109
Total interest	367,673	405,629
EBITDA	\$ 1,707,405	\$ 1,796,729
Interest coverage ratio	<u>4.64x</u>	<u>4.43x</u>
Fixed Charge Coverage Ratio:		
Total interest	\$ 367,673	\$ 405,629
Secured debt principal payments	48,783	55,889
Preferred dividends	49,055	49,055
Total fixed charges	465,511	510,573
EBITDA	\$ 1,707,405	\$ 1,796,729
Fixed charge coverage ratio	<u>3.67x</u>	<u>3.52x</u>

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

The table below reflects the reconciliation of Adjusted EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Interest expense includes discontinued operations. Dollars are in thousands.

	Twelve Months Ended						
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
Adjusted EBITDA							
Reconciliations:							
Net income	\$ 656,521	\$ 899,126	\$ 945,612	\$ 888,549	\$ 844,606	\$ 724,894	\$ 880,380
Interest expense	481,321	479,083	481,778	492,169	504,048	517,512	526,082
Income tax expense (benefit)	(3,832)	2,016	8,870	6,451	5,030	(2,899)	139
Depreciation and amortization	799,641	793,994	798,823	826,240	866,106	883,873	896,135
EBITDA	1,933,651	2,174,219	2,235,083	2,213,409	2,219,790	2,123,380	2,302,736
Transaction costs	117,140	122,590	118,369	110,926	70,579	63,245	73,754
Stock-based compensation expense	33,462	30,416	31,622	30,844	29,976	25,883	25,807
Loss (gain) on extinguishment of debt, net	25,108	43,464	41,356	34,677	19,252	398	(186)
Losses/impairments (gain) on sale of properties, net	(208,147)	(385,179)	(357,621)	(278,167)	(209,228)	(20,647)	(171,246)
Loss (gain) on derivatives, net	(59,922)	(60,273)	(60,322)	(58,427)	-	-	(2,516)
Other expenses	20,727	15,250	4,988	40,636	40,636	37,386	37,386
Additional other income	(2,144)	(2,144)	(2,144)	(2,144)	(2,144)	(13,955)	(11,811)
Adjusted EBITDA	\$ 1,859,875	\$ 1,938,343	\$ 2,011,331	\$ 2,091,754	\$ 2,168,861	\$ 2,215,690	\$ 2,253,924
Adjusted Fixed Charge Coverage Ratio:							
Interest expense	\$ 481,321	\$ 479,083	\$ 481,778	\$ 492,169	\$ 504,048	\$ 517,512	\$ 526,082
Capitalized interest	7,931	8,292	8,378	8,670	9,320	11,566	14,467
Non-cash interest expense	(2,215)	3,636	392	(2,586)	(1,868)	(7,589)	(4,341)
Total interest	487,037	491,011	490,548	498,253	511,500	521,489	536,208
Adjusted EBITDA	\$ 1,859,875	\$ 1,938,343	\$ 2,011,331	\$ 2,091,754	\$ 2,168,861	\$ 2,215,690	\$ 2,253,924
Adjusted interest coverage ratio	3.82x	3.95x	4.10x	4.20x	4.24x	4.25x	4.20x
Total interest	\$ 487,037	\$ 491,011	\$ 490,548	\$ 498,253	\$ 511,500	\$ 521,489	\$ 536,208
Secured debt principal payments	62,455	63,988	65,256	67,064	70,076	71,836	74,170
Preferred dividends	65,408	65,408	65,408	65,406	65,408	65,408	65,407
Total fixed charges	127,863	130,396	130,664	132,470	135,484	138,652	143,977
Adjusted EBITDA	\$ 1,859,875	\$ 1,938,343	\$ 2,011,331	\$ 2,091,754	\$ 2,168,861	\$ 2,215,690	\$ 2,253,924
Adjusted fixed charge coverage ratio	3.02x	3.12x	3.24x	3.32x	3.35x	3.36x	3.34x

The following tables reflect the reconciliation of NOI (which derives directly from consolidated results) and SSNOI for the periods presented. Dollars are in thousands.

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

	Three Months Ended						
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016
NOI Reconciliations:							
Consolidated revenues:							
Triple-net	\$ 280,575	\$ 291,732	\$ 298,037	\$ 305,460	\$ 308,168	\$ 310,311	\$ 310,864
Seniors housing operating	494,561	539,805	547,081	586,826	605,369	625,251	631,787
Outpatient medical	119,019	125,593	133,857	136,190	133,455	140,641	136,293
Non-segment/corporate	22	39	22	1,008	58	454	189
Total consolidated revenues	894,177	957,169	978,997	1,029,484	1,047,050	1,076,657	1,079,133
Consolidated property operating expenses:							
Seniors housing operating	338,507	360,569	368,050	399,882	408,894	417,996	432,292
Outpatient medical	37,954	37,785	40,653	38,856	40,742	40,836	41,388
Total consolidated property operating expenses	376,461	398,354	408,703	438,738	449,636	458,832	473,680
Consolidated net operating income:							
Triple-net	280,575	291,732	298,037	305,460	308,168	310,311	310,864
Seniors housing operating	156,054	179,236	179,031	186,944	196,475	207,255	199,495
Outpatient medical	81,065	87,808	93,204	97,334	92,713	99,805	94,905
Non-segment/corporate	22	39	22	1,008	58	454	189
Total consolidated net operating income	\$ 517,716	\$ 558,815	\$ 570,294	\$ 590,746	\$ 597,414	\$ 617,825	\$ 605,453

	Nine Months Ended	
	September 30, 2015	September 30, 2016
NOI Reconciliations:		
Consolidated revenues:		
Triple-net	\$ 870,345	\$ 929,343
Seniors housing operating	1,581,445	1,862,401
Outpatient medical	378,469	410,389
Non-segment/corporate	83	705
Total consolidated revenues	2,830,342	3,202,838
Consolidated property operating expenses:		
Seniors housing operating	1,067,127	1,259,182
Outpatient medical	116,392	122,966
Total consolidated property operating expenses	1,183,519	1,382,148
Consolidated net operating income:		
Triple-net	870,345	929,343
Seniors housing operating	514,318	603,219
Outpatient medical	262,077	287,423
Non-segment/corporate	83	705
Total consolidated net operating income	\$ 1,646,823	\$ 1,820,690

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		Three Months Ended						
		March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2016	March 31, 2016	June 30, 2016	September 30, 2016
Same Store NOI Reconciliations:								
NOI:								
Triple-net		\$ 280,572	\$ 291,729	\$ 298,037	\$ 305,460	\$ 308,168	\$ 310,309	\$ 310,864
Seniors housing operating		156,054	179,236	179,031	186,944	196,475	207,255	199,495
Outpatient medical		81,065	87,808	93,204	97,333	92,713	99,805	94,905
Total		517,691	558,773	570,272	589,737	597,356	617,369	605,264
Adjustments:								
Triple-net:								
Non-cash NOI on same store properties		(24,291)	(24,997)	(24,676)	(23,892)	(23,487)	(21,144)	(20,874)
NOI attributable to non same store properties		(54,159)	(61,515)	(66,716)	(73,927)	(77,024)	(78,548)	(79,368)
Subtotal		(78,450)	(86,512)	(91,392)	(97,819)	(100,511)	(99,692)	(100,242)
Seniors housing operating:								
Non-cash NOI on same store properties		251	253	250	249	248	242	1,269
NOI attributable to non same store properties		(3,843)	(17,255)	(19,054)	(32,156)	(38,030)	(40,129)	(45,186)
Subtotal		(3,592)	(17,002)	(18,804)	(31,907)	(37,782)	(39,887)	(43,917)
Outpatient medical:								
Non-cash NOI on same store properties		(2,258)	(2,044)	(2,116)	(2,054)	(1,499)	(1,478)	(1,462)
NOI attributable to non same store properties		(5,627)	(11,723)	(17,443)	(21,073)	(16,950)	(22,950)	(17,966)
Subtotal		(7,885)	(13,767)	(19,559)	(23,127)	(18,449)	(24,428)	(19,428)
Same store NOI:	<u>Properties</u>							
Triple-net	569	202,122	205,217	206,645	207,641	207,657	210,617	210,622
Seniors housing operating	298	152,462	162,234	160,227	155,037	158,693	167,368	155,578
Outpatient medical	219	73,180	74,041	73,645	74,206	74,264	75,377	75,477
Total	<u>1,086</u>	<u>\$ 427,764</u>	<u>\$ 441,492</u>	<u>\$ 440,517</u>	<u>\$ 436,884</u>	<u>\$ 440,614</u>	<u>\$ 453,362</u>	<u>\$ 441,677</u>
Same Store NOI Property Reconciliation:								
Total properties	1,399							
Acquisitions	(201)							
Developments	(32)							
Held-for-sale	(71)							
Segment transitions	(2)							
Other ⁽¹⁾	(7)							
Same store properties	<u>1,086</u>							

(1) Includes six land parcels and one loan.

		Nine Months Ended	
		September 30, 2015	September 30, 2016
Same Store NOI Reconciliations:			
NOI:			
Triple-net		\$ 870,345	\$ 929,343
Seniors housing operating		514,318	603,219
Outpatient medical		262,077	287,423
Total		1,646,740	1,819,985
Adjustments:			
Triple-net:			
Non-cash NOI on same store properties		(73,964)	(65,505)
NOI attributable to non same store properties		(182,397)	(234,942)
Subtotal		(256,361)	(300,447)
Seniors housing operating:			
Non-cash NOI on same store properties		754	1,759
NOI attributable to non same store properties		(40,151)	(123,342)
Subtotal		(39,397)	(121,583)
Outpatient medical:			
Non-cash NOI on same store properties		(6,418)	(4,439)
NOI attributable to non same store properties		(34,794)	(57,865)
Subtotal		(41,212)	(62,304)
Same store NOI:	<u>Properties</u>		
Triple-net	569	613,984	628,896
Seniors housing operating	298	474,921	481,636
Outpatient medical	219	220,865	225,119
Total	<u>1,086</u>	<u>\$ 1,309,770</u>	<u>\$ 1,335,651</u>

Other Disclosures

United States of America

Policy and legislative changes that increase or decrease government reimbursement impact our operators and tenants that participate in Medicare, Medicaid or other government programs. The reimbursement methodologies applied to health care facilities continue to evolve. To the extent that policy or legislative changes, or new reimbursement methodologies decrease government reimbursement to our operators and tenants, our revenue and operations may be indirectly adversely affected.

Licensing and Certification

Certain health care facilities are subject to a variety of licensure and certificate of need ("CON") laws and regulations. Where applicable, CON laws generally require, among other requirements, that a facility demonstrate the need for (1) constructing a new facility, (2) adding beds or expanding an existing facility, (3) investing in major capital equipment or adding new services, (4) changing the ownership or control of an existing licensed facility, or (5) terminating services that have been previously approved through the CON process. State and federal officials, increasingly including the Federal Trade Commission ("FTC") and the U.S. Department of Justice ("DOJ"), are challenging CON laws for reducing competition in the industry, creating barriers to entry and expansion, limiting consumer choice, and stifling innovation. We cannot predict whether current or future efforts to repeal or amend these state laws will be successful, nor can we predict the impact that such repeals or amendments would have on our operators or tenants and their ability to meet their obligations to us.

Reimbursement

The Department of Health and Human Services ("HHS") pledged to tie 30% of Medicare payments to quality or alternative payment models by the end of 2016 and to tie 50% of Medicare payments to quality or alternate payment models by the end of 2018. In January 2015, the Administration announced that it achieved its goal of tying 30% of Medicare payments to quality ahead of schedule, by year end 2015 rather than the targeted deadline of year end 2016. Providers increasingly are entering into value-based purchasing arrangements, which to the extent our operators and tenants enter into such agreements, could affect their reimbursement and indirectly impact our revenues and operations. For example, the Centers for Medicare and Medicaid Services ("CMS") launched the Hospital Value-Based Purchasing ("VBP") Program in 2013, which is an initiative designed to reward acute-care hospitals with incentive payments for the quality of care they provide to Medicare beneficiaries. In addition, in fiscal year 2019, CMS expects to implement the Skilled Nursing Facility Value-Based Purchasing Program ("SNFVBP"), which is intended to promote better clinical outcomes for skilled nursing facility ("SNF") patients through the use of incentive payments to participating SNFs based on the quality of care provided. Similarly, other public and private payors have started considering whether to base reimbursement decisions on access, price, quality, efficiency, and alignment of incentives, rewarding higher quality healthcare providers with enhanced payments and increased market share.

On October 6, 2014, the President signed into law the Improving Medicare Post-Acute Transformation Act of 2014 ("IMPACT Act"). The law required MedPAC to submit a report to Congress by June 30, 2016, evaluating and recommending features of a post-acute payment system that establishes payment rates according to individual characteristics instead of the post-acute setting where the patient is treated. On June 15, 2016, MedPAC submitted this report to Congress, which provides general guidelines, rather than specific details, for developing a new cross-facility payment system, including a common unit of service, a common risk adjustment system using patient characteristics, separate models to establish payments for non-therapy ancillary services and therapy services, and two outlier policies for high-cost stays and short stays. The IMPACT Act requires MedPAC to issue another report in 2023, following CMS's development of an actual payment prototype.

On November 3, 2015, CMS published a proposed rule that would revise the discharge planning requirements that hospitals, including long-term acute care hospitals ("LTCHs"), inpatient rehabilitation facilities ("IRFs") and home health agencies ("HHAs") must meet in order to participate in the Medicare and Medicaid programs. Among other things, the proposed rule would require hospitals and other facilities to evaluate patients for their discharge needs and develop specific written discharge plans for them. The proposed rule would also implement the discharge planning requirements of the IMPACT Act. Provider groups have expressed concern that the proposed rule, if implemented, could create burdensome paperwork requirements, resulting in the need to hire additional staff and necessarily expend more resources.

On February 9, 2016, President Obama released his budget proposal for fiscal year ("FY") 2017. The proposed budget would cut Medicare payments to providers by \$420 billion over ten years. Among other Medicare-related changes, the President's budget plan over ten years would: (1) reduce bad debt payments to providers by \$32.9 billion, (2) reduce the payment updates for post-acute care

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

providers by \$86.6 billion, (3) raise the "60% Rule" threshold for IRFs back to 75% for reductions of \$2.2 billion, and (4) implement bundled post-acute care payments for reductions of \$9.9 billion. If these recommendations are adopted, we cannot predict whether they will have a material impact on our operators' or tenants' property or business.

On March 11, 2016, CMS published a proposed rule to test new models regarding Medicare Part B payments for prescription drugs. The proposal is designed to test different physician and patient incentives to drive the prescribing of the most effective drugs and test new payment approaches to reward positive patient outcomes. If this proposed rule is finalized, it may impact our operators' and tenants' Medicare reimbursement rates, and our revenues and operations may be indirectly affected.

On March 15, 2016, the House Energy and Commerce Committee approved the Common Sense Act of 2016, which would lower the maximum rate for Medicaid provider tax assessments from 6.0% of taxpayer revenues to 5.5%. If enacted, the bill could lower funds available for state Medicaid programs and may result in lower Medicaid rates to our operators.

On March 24, 2016, CMS announced the next phase of its Initiative to Reduce Avoidable Hospitalizations among Nursing Facility Residents. Through this new payment model, CMS will encourage healthcare practitioners to provide additional treatments for especially ill or frail nursing home residents by equalizing the payments between a comprehensive assessment given at SNFs and hospitals. Participating SNFs will also receive payment to provide additional treatment for common medical conditions that often lead to avoidable hospitalizations. To the extent our operators and tenants participate in this initiative, it could affect their reimbursement and indirectly impact our revenues and operations.

On April 1, 2016, CMS's bundled payment program for Lower Extremity Joint Replacement ("CJR") procedures went into effect. The CJR bundled payment program is mandatory for all hospitals paid under the Medicare Inpatient Prospective Payment System and located in the 67 selected Metropolitan Statistical Areas. On August 2, 2016, CMS published a proposed rule that, among other things, would expand the CJR bundles to include hip and femur fractures, as well as total knee and hip joint replacements. This could have an effect on our SNF operators as patients are down streamed for recovery.

On April 4, 2016, CMS announced the final 2017 payment rates for Medicare Advantage, with an expected average payment increase of 0.85%. Changes in Medicare Advantage plan payments may indirectly affect our operators and tenants that contract with Medicare Advantage plans.

On June 16, 2016, CMS published a proposed rule that would update the requirements that hospitals and critical access hospitals ("CAHs") must meet to participate in the Medicare and Medicaid programs. The rule would apply new conditions of participation to such hospitals, including revisions to reduce readmissions, advance non-discrimination protections, increase infection control, and address other quality measures. If finalized, these new conditions of participation may potentially increase the operating costs of our tenants and operators.

On July 14, 2016, CMS published a proposed rule regarding 2017 Medicare payment rates for Hospital Outpatient Departments ("HOPDs") and Ambulatory Surgery Centers ("ASCs"). CMS Estimates that updates in the proposed rule would increase HOPD payments by approximately 1.6% and ASC payments by 1.2% in 2017. In addition, CMS proposes to implement section 603 of the Bipartisan Budget Act of 2015, which requires that, with the exception of dedicated emergency department services, services furnished in off-campus provider-based departments that began billing under the HOPD Prospective Payment System ("PPS") on or after November 2, 2015 would no longer be paid under the HOPD PPS; instead, these services would be paid under other applicable Part B payment systems, including the Physician Fee Schedule ("PFS"), beginning January 1, 2017. Specifically, CMS would pay physicians at the "nonfacility" PFS rate and there would be no payment made directly to the hospital by Medicare.

On August 2, 2016, CMS published a proposed rule that would create a bundled payment program for acute myocardial infarction or coronary artery bypass graft surgery procedures. Similar to the CJR bundled payment program, the Cardiac Care bundled payment program would be mandatory for all hospitals paid under the Medicare Inpatient Prospective Payment System and located in the 98 selected Metropolitan Statistical Areas. If finalized, this proposed rule could have an effect on our SNF operators as patients are down streamed for recovery.

On August 5, 2016, CMS published a final rule regarding FY 2017 Medicare payment policies and rates for SNFs and IRFs. Under the final SNF rule, CMS projects that aggregate payments to SNFs will increase in FY 2017 by \$920 million, or 2.4%, from payments in FY 2016. The final SNF rule also finalized three quality and resource use measures SNFs are required to report pursuant to the Protecting Access to Medicare Act of 2014. Beginning in FY 2018, SNFs that fail to submit the required quality data to CMS will be subject to a 2% reduction to the annual market basket percentage update. Under the final IRF rule, CMS estimates that aggregate payments to IRFs will increase in FY 2017 by \$145 million, or 1.9%, relative to payments in FY 2016.

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On August 16, 2016, CMS published a proposed rule that would revise and update the requirements for the Programs of All-Inclusive Care for the Elderly ("PACE") program under Medicare and Medicaid, a unique capitated managed care benefit for the frail elderly, including strengthening protections and improving care for beneficiaries and providing administrative flexibility and regulatory relief for PACE organizations. Among other updates, CMS is proposing to allow non-physician primary care practitioners to provide some services in the place of primary care physicians in order to expand access to PACE and allow PACE organizations the flexibility to continue to meet the needs and preferences of participants. Additional proposed beneficiary protections include requiring PACE organizations that offer prescription drug coverage to comply with Medicare Part D prescription drug program requirements and strengthening CMS's ability to impose sanctions and enforcement actions on PACE organizations.

On August 22, 2016, CMS published a final rule regarding FY 2017 Medicare payment policies and rates for LTCHs. As a result of the continuation of the phase-in of site neutral payment rates for specified cases in LTCHs, CMS projects FY 2017 Medicare payments to LTCHs will decrease by 7.1%, or approximately \$363 million in FY 2017. Payment rates will increase by 0.7% for cases that qualify for the higher standard LTCH Prospective Payment System rate. The final rule also implements the proposed 25% threshold policy, under which payment adjustments are made when the number of cases an LTCH admits from a single hospital exceeds a specified threshold (generally 25%). Finally, in response to the federal district court's review of the "Two-Midnight" payment policy in *Shands Jacksonville Medical Center, Inc., et al. v. Burwell, No. 14-263 (D.D.C.)*, CMS finalized its proposal to remove the 0.2% Medicare Part A hospital payment cut and also its effects for FYs 2014, 2015, and 2016 though an approximate 0.8% increase to FY 2017 payment rates. Along with the final rule, CMS issued an interim final rule with comment period to implement section 231 of the Consolidated Appropriations Act (2016) that established a temporary exception from the site neutral payment rate for certain severe wound care discharges from certain LTCHs.

On October 4, 2016, CMS published a final rule that, for the first time in nearly 25 years, comprehensively updates the SNF and LTCH requirements for participation under Medicare and Medicaid. Among other things, the final rule addresses requirements relating to quality of care and quality of life, facility responsibilities and staffing considerations, resident assessments, and compliance and ethics programs. CMS estimates that this rule would result in an estimated first-year cost of approximately \$62,900 per facility and \$55,000 per facility in subsequent years.

HHS Office of Inspector General Recommendations Addressing SNF Billing

In the HHS, Office of Inspector General's ("OIG's") April 2016 Compendium of Unimplemented Recommendations, OIG cited its prior September 2014 report addressing the need to reform the Medicare payment system for SNF services. In response to its findings that Medicare payments for therapy greatly exceeded SNF's costs for therapy, OIG recommended, among other things, that CMS evaluate the extent to which Medicare payment rates for therapy should be reduced. Similarly, in May 2016, OIG issued a report finding that the improper payment rate for SNF claims increased by 4.10% in FY 2015 (compared to FY 2014) due to insufficient documentation. If followed, these reports and recommendations may impact our tenants and operators.

Other Related Laws, Initiatives, and Considerations

Following a similar report issued in October 2015, on October 6, 2016, the U.S. Government Accountability Office ("GAO") released a report recommending that CMS (1) improve public stakeholders' ability to locate and use SNF expenditure data and (2) ensure the accuracy and completeness of this data. According to the GAO, timely completion of these actions is particularly important because Medicare payments to nursing homes will be dependent on quality data, through the implementation of the value based purchasing program, starting in fiscal year 2019. To the extent such recommendations are implemented, they could impact our operators and tenants.

On February 12, 2016, CMS published a final rule regarding the obligations of Medicare providers to report and return overpayments arising under Parts A and B. The final rule, which became effective March 14, 2016, implements § 6402(a) of the Affordable Care Act, also known as the "60-day report and return statute," which requires providers to report and return Medicare and Medicaid overpayments within the later of (a) 60 days after the overpayment is "identified," or (b) the date any corresponding cost report is due, if applicable. An overpayment impermissibly retained under this statute could violate the federal False Claims Act and subject providers to potential Medicare and Medicaid program exclusion and penalties under the federal Civil Monetary Penalty statute.

On March 9, 2016, CMS released SNF utilization and payment data around facility costs and services. In its press release, CMS expressed concern that the amount of therapy provided for ultra-high and very high resource utilization groups is often very close to the minimum amount of minutes needed to qualify a patient for these categories. CMS referred the issue to Recovery Auditor

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Contractors for further investigation. On March 30, 2016, the DOJ launched 10 regional Elder Justice Task Forces to coordinate and enhance efforts to pursue nursing homes that provide grossly substandard care to their residents. We cannot predict the extent to which increased monitoring and auditing activities by government agencies may impact our operators.

On June 30, 2016, DOJ issued an interim rule increasing the penalties under the False Claims Act ("FCA") from the current range of \$5,500 to \$11,000 per false claim, to a new range of \$10,781 to \$21,562. The interim rule takes effect August 1, 2016, and applies to false claims made after November 2, 2015.

On September 6, 2016, CMS published an interim rule increasing healthcare civil monetary penalties ("CMPs") by as much as 150%. The final rule, which also took effect on September 6, 2016, implemented the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, which not only adjusted the CMPs to meet current inflation rates, but also requires annual adjustments moving forward. Notably, the CMP for improper billing by hospitals, critical access hospitals, or skilled nursing homes, which was last updated in 1972, increased by 150% under the interim rule, from a maximum penalty of \$2,000 to \$5,000 per violation.

Many of our operators and tenants are subject to federal and state privacy and security laws. There have been increased enforcement efforts under these laws, and we expect this trend to continue. Under the Health Information Technology for Economic and Clinical Health Act ("HITECH"), state attorney generals have the right to prosecute Health Insurance Portability and Accountability Act ("HIPAA") violations committed against residents of their states, and several such actions have been brought to-date. In addition, HITECH mandates that the Secretary of HHS conduct periodic compliance audits of HIPAA covered entities and business associates. On March 21, 2016, the HHS Office of Civil Rights announced the official start of the 2016 Phase 2 HIPAA Audit Program. Enforcement actions may stem from these audits, including civil monetary penalty fines or monetary settlements, which may impact an operator's ability to meet their financial obligations to us.

United Kingdom

Brexit

On June 23, 2016, the United Kingdom ("UK") held an "in-or-out referendum" on the UK's membership of the European Union ("EU"), the result of which favored the exit of the UK from the EU ("Brexit"). A process of negotiation will determine the future terms of the UK's relationship with the EU which could take many forms. In the meantime, the UK remains a member of the EU. The potential impact of Brexit is currently unclear, but may include reduced economic growth and volatility, changes to the regulatory environment and uncertainty in the capital markets. We cannot predict whether Brexit will have a material impact on our operators' or tenants' property or business.

National Minimum Wage

In the July 2015 Budget the UK government announced that it would introduce the National Living Wage at a premium of 50 pence above the National Minimum Wage to take effect from April 2016. The National Minimum Wage (Amendment) Regulations 2016 came into force on April 1, 2016 ("2016 Regulations"). The 2016 Regulations amend the Regulation of the National Minimum Wage Regulations 2015 to provide a National Living Wage rate of £7.20 an hour for workers aged 25 and over. On October 1, 2016, the National Minimum Wage for workers aged 21 to 24 was raised to £6.95 an hour. Starting in April 2017, both rates will change every April. The 2016 Regulations also amend the National Minimum Wage Act 1998 by increasing the financial penalty payable by employers who underpay the National Minimum Wage from 100% to 200% of the underpayment due to each worker. The maximum fine for non-payment will be £20,000 per worker and employers who fail to pay will be banned from being a company director for up to 15 years.

Privacy

In the EU, data protection is governed by the EU Data Protection Directive 95/46/EC (the "Data Protection Directive"). The Data Protection Directive has been implemented in the UK by the Data Protection Act 1998 (the "Act") which entered into force on March 2000 and is enforced by the Information Commissioner's Office ("ICO").

A new EU General Data Protection Regulation will replace the Data Protection Directive and impose a significant number of new obligations including, among others, a requirement to appoint data protection officers, having detailed documentation on the processing of personal data, carrying out privacy impact assessments in certain circumstances, providing standardized data protection notices, reporting security breaches without undue delay, and providing certain rights to individuals such as a right of erasure of personal data. The EU General Data Protection Regulation is expected to have significant enforcement powers with fines proposed by

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the European Commission of up to 4% of annual worldwide turnover or €20 million, whichever is greater. The EU General Data Protection Regulation was adopted in May 2016 and will enter into force in EU Member States on May 25, 2018. It is unclear, as a result of Brexit, whether the Regulation will become law in the UK. If the EU General Data Protection Regulation is adopted, we cannot predict whether it will have a material impact on our operators' or tenants' property or business.

Canada

Licensing and Regulation

British Columbia

The Community Care and Assisted Living Act, the Residential Care Regulation, and the Community Care and Assisted Living Regulation (together, the "B.C. Act") regulate "community care facilities" (long-term care facilities) as premises used for the purpose of supervising vulnerable persons who require three or more prescribed services (from a list that includes regular assistance with activities of daily living; distribution of medication; management of cash resources; monitoring of food intake; structured behavior management and intervention; and psychosocial or physical rehabilitative therapy) and "assisted living residences," the definition of which is anticipated to be soon changed to refer to facilities providing any of a list of assisted living services.

The B.C. Act also creates a separate regime for regulating "assisted living residences," the definition of which changed in May 2016 to facilities providing one or more prescribed care services.

Quebec

In Québec, retirement homes are regulated by the Act Respecting Health Services and Social Services and the Regulation required to obtain a certificate of compliance based on operating standards for a private seniors' residence. The required certificate of compliance is issued for a period of four years, is renewable and can only be validly transferred to another person with the written permission of the regional licensing agency.

Privacy

Some privacy regulators in Canada have order-making authority and others are ombudspersons who make recommendations that may only be enforced by a court. Under a number of privacy laws, a finding by a regulator that a custodian has breached the law creates a right to apply to a court for money damages. In some provinces there is a statutory civil cause of action for breach of privacy and personal liability for directors and officers. In other provinces, the courts have recognized a limited common law cause of action for breach of privacy.

The powers of privacy regulators and penalties for violations of privacy law vary according to the applicable law or are left to the courts. To date, monetary penalties granted have been on the low side, although that is changing with civil actions for breach of privacy and may change further as a result of class action activity. Regulators have the authority to make public the identity of a custodian that has been found to have committed a breach, so that there is a reputational risk associated with privacy law violations even where no monetary damages are incurred. The notification of patients (mandatory under some privacy laws) and other activities required to manage a privacy breach can give rise to significant costs.

Other Legislation

In Quebec, the Safety Code was amended in December 2015 to require that private seniors' residences be equipped with a fire alarm and detection system, as well as the installation of a sprinkler system in certain private seniors' residences. The amendments came into force March 18, 2016, except regarding the installation of the sprinkler system, which has a five year grace period, and comes into force December 2, 2020.

Critical Accounting Policies

Our unaudited consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions. Management considers an accounting estimate or assumption critical if:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on financial condition or operating performance is material.

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

Management has discussed the development and selection of its critical accounting policies with the Audit Committee of the Board of Directors. Management believes the current assumptions and other considerations used to estimate amounts reflected in our unaudited consolidated financial statements are appropriate and are not reasonably likely to change in the future. However, since these estimates require assumptions to be made that were uncertain at the time the estimate was made, they bear the risk of change. If actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our unaudited consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, liquidity and/or financial condition. Please refer to Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for further information regarding significant accounting policies that impact us. There have been no material changes to these policies in 2016.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995. When the company uses words such as "may," "will," "intend," "should," "believe," "expect," "anticipate," "project," "estimate" or similar expressions that do not relate solely to historical matters, it is making forward-looking statements. In particular, these forward-looking statements include, but are not limited to, those relating to the company's opportunities to acquire, develop or sell properties; the company's ability to close its anticipated acquisitions, investments or dispositions on currently anticipated terms, or within currently anticipated timeframes; the expected performance of the company's operators/tenants and properties; the company's expected occupancy rates; the company's ability to declare and to make distributions to shareholders; the company's investment and financing opportunities and plans; the company's continued qualification as a real estate investment trust ("REIT"); the company's ability to access capital markets or other sources of funds; and the company's ability to meet its earnings guidance. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that may cause the company's actual results to differ materially from the company's expectations discussed in the forward-looking statements. This may be a result of various factors, including, but not limited to: the status of the economy; the status of capital markets, including availability and cost of capital; issues facing the health care industry, including compliance with, and changes to, regulations and payment policies, responding to government investigations and punitive settlements and operators'/tenants' difficulty in cost-effectively obtaining and maintaining adequate liability and other insurance; changes in financing terms; competition within the health care and seniors housing industries; negative developments in the operating results or financial condition of operators/tenants, including, but not limited to, their ability to pay rent and repay loans; the company's ability to transition or sell properties with profitable results; the failure to make new investments or acquisitions as and when anticipated; natural disasters and other acts of God affecting the company's properties; the company's ability to re-lease space at similar rates as vacancies occur; the company's ability to timely reinvest sale proceeds at similar rates to assets sold; operator/tenant or joint venture partner bankruptcies or insolvencies; the cooperation of joint venture partners; government regulations affecting Medicare and Medicaid reimbursement rates and operational requirements; liability or contract claims by or against operators/tenants; unanticipated difficulties and/or expenditures relating to future investments or acquisitions; environmental laws affecting the company's properties; changes in rules or practices governing the company's financial reporting; the movement of U.S. and foreign currency exchange rates; the company's ability to maintain its qualification as a REIT; and key management personnel recruitment and retention. Other important factors are identified in the company's Annual Report on Form 10-K for the year ended December 31, 2015, including factors identified under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Finally, the company undertakes no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, or to update the reasons why actual results could differ from those projected in any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates and foreign currency exchange rates. We seek to mitigate the underlying foreign currency exposures with gains and losses on derivative contracts hedging these exposures. We seek to mitigate the effects of fluctuations in interest rates by matching the terms of new investments with new long-term fixed rate borrowings to the extent possible. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to match our variable rate investments with comparable borrowings, but are also based on the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. This section is presented to provide a discussion of the risks associated with potential fluctuations in interest rates and foreign currency exchange rates.

We historically borrow on our primary unsecured credit facility to acquire, construct or make loans relating to health care and seniors housing properties. Then, as market conditions dictate, we will issue equity or long-term fixed rate debt to repay the borrowings under our primary unsecured credit facility. We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of current

indebtedness. The majority of our borrowings were completed under indentures or contractual agreements that limit the amount of indebtedness we may incur. Accordingly, in the event that we are unable to raise additional equity or borrow money because of these limitations, our ability to acquire additional properties may be limited.

A change in interest rates will not affect the interest expense associated with our fixed rate debt. Interest rate changes, however, will affect the fair value of our fixed rate debt. Changes in the interest rate environment upon maturity of this fixed rate debt could have an effect on our future cash flows and earnings, depending on whether the debt is replaced with other fixed rate debt, variable rate debt or equity or repaid by the sale of assets. To illustrate the impact of changes in the interest rate markets, we performed a sensitivity analysis on our fixed rate debt instruments whereby we modeled the change in net present values arising from a hypothetical 1% increase in interest rates to determine the instruments' change in fair value. The following table summarizes the analysis performed as of the dates indicated (in thousands):

	September 30, 2016		December 31, 2015	
	Principal balance	Change in fair value	Principal balance	Change in fair value
Senior unsecured notes	\$ 8,095,320	\$ (579,585)	\$ 7,965,107	\$ (519,901)
Secured debt	2,521,844	(84,672)	2,757,123	(91,376)
Totals	\$ 10,617,164	\$ (664,257)	\$ 10,722,230	\$ (611,277)

Our variable rate debt, including our primary unsecured credit facility, is reflected at fair value. At September 30, 2016, we had \$2,824,420,000 outstanding under our variable rate debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would result in increased annual interest expense of \$28,244,000. At December 31, 2015, we had \$2,236,733,000 outstanding under our variable rate debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would have resulted in increased annual interest expense of \$22,367,000.

We are subject to currency fluctuations that may, from time to time, affect our financial condition and results of operations. Increases or decreases in the value of the Canadian Dollar or Pounds Sterling relative to the U.S. Dollar impact the amount of net income we earn from our investments in Canada and the United Kingdom. Based solely on our results for the three months ended September 30, 2016, including the impact of existing hedging arrangements, if these exchange rates were to increase or decrease by 10%, our net income from these investments would increase or decrease, as applicable, by less than \$1,200,000. We will continue to mitigate these underlying foreign currency exposures with non-U.S. denominated borrowings and gains and losses on derivative contracts. If we increase our international presence through investments in, or acquisitions or development of, seniors housing and health care properties outside the U.S., we may also decide to transact additional business or borrow funds in currencies other than U.S. Dollars, Canadian Dollars or Pounds Sterling. To illustrate the impact of changes in foreign currency markets, we performed a sensitivity analysis on our derivative portfolio whereby we modeled the change in net present values arising from a hypothetical 1% increase in foreign currency exchange rates to determine the instruments' change in fair value. The following table summarizes the results of the analysis performed (dollars in thousands):

	September 30, 2016		December 31, 2015	
	Carrying Value	Change in fair value	Carrying Value	Change in fair value
Foreign currency forward contracts ⁽¹⁾	\$ 95,031	\$ 917	\$ 117,452	\$ 1,915
Debt designated as hedges	1,557,196	13,000	1,728,979	13,000
Totals	\$ 1,652,227	\$ 13,917	\$ 1,846,431	\$ 14,915

(1) Amounts exclude cross currency hedge activity.

For additional information regarding fair values of financial instruments, see "Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" and Notes 11 and 16 to our unaudited consolidated financial statements.

Item 4. Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by us in the reports we file with or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. No changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred

during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, there are various legal proceedings pending to which we are a party or to which some of our properties are subject arising in the normal course of business. We do not believe that the ultimate resolution of these proceedings will have a material adverse effect on our consolidated financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors identified under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2016 through July 31, 2016	-	\$ -		
August 1, 2016 through August 31, 2016	246	76.96		
September 1, 2016 through September 30, 2016	-	-		
Totals	246	\$ 76.96		

(1) During the three months ended September 30, 2016, the company acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

(2) No shares were purchased as part of publicly announced plans or programs.

Item 5. Other Information

None.

Item 6. Exhibits

- 10.1 Employment Agreement, dated as of October 4, 2016, by and between Welltower Inc. and Mercedes T. Kerr*
- 12 Statement Regarding Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends (Unaudited).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer.
- 101.INS XBRL Instance Document**
- 101.SCH XBRL Taxonomy Extension Schema Document**
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document**
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

* Management Contract or Compensatory Plan or Arrangement

** Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2016 and 2015, (iii) the Consolidated Statements of Equity for the nine months ended September 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 and (v) the Notes to Unaudited Consolidated Financial Statements.

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.

WELLTOWER INC.

Date: November 2, 2016

By: /s/ THOMAS J. DEROSA

Thomas J. DeRosa,
Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2016

By: /s/ SCOTT A. ESTES

Scott A. Estes,
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 2, 2016

By: /s/ PAUL D. NUNGESTER, JR.

Paul D. Nungester, Jr.,
Senior Vice President and Controller
(Principal Accounting Officer)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, effective the 4th day of October, 2016 (the “Agreement”), is entered into by and between WELLTOWER INC., a Delaware corporation (the “Corporation”), and MERCEDES T. KERR (the “Executive”).

WHEREAS, the Corporation wishes to assure itself of the services of the Executive for the period provided in this Agreement and the Executive is willing to serve in the employ of the Corporation for such period upon the terms and conditions set forth in this Agreement.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties, intending to be legally bound, hereby agree as follows:

1. EMPLOYMENT

The Corporation hereby agrees to employ the Executive as Executive Vice President – Business Development upon the terms and conditions herein contained, and the Executive hereby agrees to accept such employment and to serve in such position. As Executive Vice President – Business Development, the Executive will (i) be responsible for the origination of new investment relationships and the development of existing investment relationships in the United States across the full health care continuum and (ii) undertake such other responsibilities as may be assigned to the Executive by the Corporation’s Chief Executive Officer (the “CEO”) from time to time. In such capacity, the Executive shall report to the Corporation’s CEO and Board of Directors and shall have such powers and responsibilities consistent with her position as may be assigned.

Throughout the term of this Agreement, the Executive shall devote her best efforts and all of her business time and services to the business and affairs of the Corporation.

2. TERM OF AGREEMENT

The current term of employment under this Agreement shall expire on January 31, 2018. Upon the expiration of such term, the term of employment hereunder shall automatically be extended without further action by the parties for successive two (2) year renewal terms, unless either party shall give at least six (6) months advance written notice to the other of her or its intention that this Agreement shall terminate upon the expiration of the current term or the then current renewal term, as the case may be. Notwithstanding the foregoing, if a Change in Corporate Control (as defined in Section 6 hereof) occurs during the term of this Agreement, the term of employment hereunder shall automatically be extended for twenty-four (24) months following the occurrence of the Change in Corporate Control.

The Corporation shall be entitled to terminate this Agreement immediately for any reason, subject to the continuing obligations of the Corporation under this Agreement.

3. SALARY AND BONUS

The Executive shall receive a base salary during the term of this Agreement at a rate of \$484,500 per annum for 2016, and at a rate of not less than that amount per annum for subsequent years, payable in substantially equal semi-monthly installments. The Compensation Committee of the Board of Directors shall consult with the CEO and review the Executive’s base salary at annual intervals, and may adjust the Executive’s annual base salary from time to time as the Committee deems to be appropriate.

The Executive shall also be eligible to receive an annual bonus from the Corporation each year during the term of this Agreement, with the actual amount of such bonus to be determined by the Compensation Committee of the Corporation’s Board of Directors, using such performance measures as the Committee deems to be appropriate. Such bonus, if any, shall be paid to the Executive no later than sixty (60) days after the end of the year to which the bonus relates.

4. ADDITIONAL COMPENSATION AND BENEFITS

The Executive shall receive the following additional compensation and welfare and fringe benefits during the term of the Agreement:

(a) Stock Options and Other Long-Term Incentives. During the term of the Agreement, any stock options, restricted stock or other awards granted under the 2016 Long-Term Incentive Plan shall be at the discretion of the Compensation Committee of the Corporation's Board of Directors.

(b) Health Insurance. The Corporation shall provide the Executive and her dependents with health insurance, life insurance and disability coverage on terms no less favorable than that from time to time made available to other key employees.

(c) Paid Time Off. The Executive shall be entitled to paid time off ("PTO") (based on number of years of service) in accordance with the Corporation's PTO policy during the term of this Agreement and any extensions thereof.

(d) Business Expenses. The Corporation shall reimburse the Executive for all reasonable expenses she incurs in promoting the Corporation's business, including expenses for travel and similar items, upon presentation by the Executive from time to time of an itemized account of such expenditures.

In addition to the benefits provided pursuant to the preceding paragraphs of this Section 4, the Executive shall be eligible to participate in such other executive compensation and retirement plans of the Corporation as are applicable generally to other officers, and in such welfare benefit plans, programs, practices and policies of the Corporation as are generally applicable to other key employees, unless such participation would duplicate, directly or indirectly, benefits already accorded to the Executive.

5. PAYMENTS UPON TERMINATION

(a) Involuntary Termination or Termination by Executive for Good Reason (as defined below). If the Executive's employment is involuntarily terminated by the Corporation or terminated by the Executive for Good Reason during the term of this Agreement, the Executive shall be entitled to the following:

- (i) base salary accrued through the date of termination;
- (ii) any accrued but unpaid vacation pay through the date of termination;
- (iii) any bonuses earned but unpaid with respect to fiscal years or other completed periods preceding the termination date;
- (iv) any nonforfeitable benefits payable to the Executive under the terms of any deferred compensation, incentive or other benefit plans maintained by the Corporation, payable in accordance with the terms of the applicable plan;

(v) all stock options, restricted stock or other awards with time-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become fully vested and earned and payable and, in the case of stock options, exercisable in full and all stock options, restricted stock or other awards with performance-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become vested to the extent provided in the applicable award agreements;

(vi) continued coverage at the Corporation's expense under any life, health and disability insurance programs maintained by the Corporation in which the Executive participated at the time of her termination for the remaining term of the Agreement (but not less than six (6) months and not more than the period during which the Executive would be entitled to continuation coverage under Section 4980B of the Internal Revenue Code, as amended (the "Code"), if the Executive elected such coverage and paid the applicable premiums), or until, if earlier, the date the Executive obtains comparable coverage under benefit plans maintained by a new employer; and

(vii) subject to the Executive signing a general release of claims in favor of the Corporation and related persons and entities in a form and manner satisfactorily to the Corporation (the "Release"), and the Release becoming irrevocable within thirty (30) days after the date of termination, a series of monthly severance payments for each month during the remaining term of this Agreement, but not less than twelve (12) months (the "Severance Period"), each in an amount equal to one-twelfth (1/12th) of the sum of (A) the Executive's base salary, as in effect on the date of termination, and (B) the average of the annual bonuses paid to the Executive for the prior three fiscal years preceding the termination date, which shall be paid to the Executive beginning with the first payroll date that begins thirty (30) days following the date of termination in accordance with the Corporation's normal payroll practices, except to the extent delayed payments are required by Section 16 below. The Executive shall be under no duty to mitigate the amounts owed to her under this paragraph by seeking such a replacement position but all payments of severance payments shall cease if the Executive violates the provisions of Section 10 hereof.

All cash payments required to be paid pursuant to this Section (other than severance payments) shall be made to the Executive within sixty (60) days following the date of such termination.

For purposes of this Agreement, "Good Reason" shall mean, without the Executive's prior consent: (1) the assignment of Executive to a position other than the Executive Vice President – Business Development of the Corporation (other than for Cause or by reason of permanent disability) or the assignment of duties materially inconsistent with such position if either such change in assignment constitutes a material diminution in the Executive's authority, duties or responsibilities, or (2) the direction of Executive to report to anyone other than the Corporation's CEO or Board of Directors if such change in reporting duties constitutes a material diminution in the authority, duties or responsibilities of the supervisor to whom the Executive is required to report; provided, however, with respect to clauses (1) or (2) above, the Executive must have notified the Corporation within the first ninety (90) days following the initial date of such change in assignment or reporting duties that she regarded such change in assignment or reporting duties as grounds justifying resignation for Good Reason under this paragraph and the Corporation must have failed to cure such change in assignment or reporting duties within ninety (90) days following its receipt of such notice from the Executive; and provided further, the Executive must have resigned under this paragraph within one (1) year following the initial existence of a change in assignment or reporting duties described herein.

(b) Disability. The Corporation shall be entitled to terminate the Executive's employment if the Board of Directors determines that the Executive has been unable to attend to her duties for at least ninety (90) days because of a medically diagnosable physical or mental condition, and has received a written opinion from a physician acceptable to the Board of Directors that such condition prevents the Executive from resuming full performance of her duties and is likely to continue for an indefinite period. Upon such termination, the Executive shall be entitled to the following:

- (i) base salary accrued through the date of termination;
- (ii) any accrued but unpaid vacation pay through the date of termination;
- (iii) any bonuses earned but unpaid with respect to fiscal years or other completed periods preceding the termination date;
- (iv) any nonforfeitable benefits payable to the Executive under the terms of any deferred compensation, incentive or other benefit plans maintained by the Corporation, payable in accordance with the terms of the applicable plan; and
- (v) all stock options, restricted stock or other awards with time-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become fully vested and earned and payable and, in the case of stock options, exercisable in full and all stock options, restricted stock or other awards with performance-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become vested to the extent provided in the applicable award agreements.

All cash payments required to be paid pursuant to this Section shall be made to the Executive within sixty (60) days following the date of such termination.

(c) Termination for Cause. If the Executive's employment is terminated by the Corporation for Cause, the Executive shall be entitled to the following:

- (i) base salary accrued through the date of termination;
- (ii) any accrued but unpaid vacation pay through the date of termination;
- (iii) any bonuses earned but unpaid with respect to fiscal years or other completed periods preceding the termination date; and
- (iv) any nonforfeitable benefits payable to the Executive under the terms of any deferred compensation, incentive or other benefit plans maintained by the Corporation, payable in accordance with the terms of the applicable plan.

All cash payments required to be paid pursuant to this Section shall be made to the Executive within sixty (60) days following the date of such termination.

For purposes of this Agreement, "Cause" shall mean: (1) action by the Executive involving willful disloyalty to the Corporation, such as embezzlement, fraud, misappropriation of corporate assets or a breach of the covenants set forth in Sections 9 and 10 herein; (2) the Executive being convicted of a felony; (3) the Executive being convicted of any crime or offense that is not a felony but was (x) committed in connection with the performance of her duties hereunder or (y) involved moral turpitude; or (4) the intentional and willful failure by the Executive to substantially perform her duties hereunder as directed by the Corporation's CEO (other than any such failure

resulting from the Executive's incapacity due to physical or mental disability) after a demand for substantial performance is made on the Executive by the Board of Directors.

(d) Voluntary Termination or Resignation by the Executive. If the Executive voluntarily terminates (but not by reason of expiration of the term) or resigns her employment, the Executive shall be entitled to the following:

- (i) base salary accrued through the date of termination;
- (ii) any accrued but unpaid vacation pay through the date of termination;
- (iii) any bonuses earned but unpaid with respect to fiscal years or other completed periods preceding the termination date; and
- (iv) any nonforfeitable benefits payable to the Executive under the terms of any deferred compensation, incentive or other benefit plans maintained by the Corporation, payable in accordance with the terms of the applicable plan.

All cash payments required to be paid pursuant to this Section shall be made to the Executive within sixty (60) days following the date of such termination.

(e) Termination upon Expiration of the Term. If the Executive's employment terminates as a result of the expiration of the term of this Agreement, the Executive shall be entitled to the following:

- (i) base salary accrued through the date of termination;
- (ii) any accrued but unpaid vacation pay through the date of termination;
- (iii) any bonuses earned but unpaid with respect to fiscal years or other completed periods preceding the termination date;
- (iv) any nonforfeitable benefits payable to the Executive under the terms of any deferred compensation, incentive or other benefit plans maintained by the Corporation, payable in accordance with the terms of the applicable plan; and

(v) in the event the expiration of the term of this Agreement is as a result of non-renewal of the Agreement by the Corporation, all stock options, restricted stock or other awards with time-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become fully vested and earned and payable and, in the case of stock options, exercisable in full and all stock options, restricted stock or other awards with performance-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become vested to the extent provided in the applicable award agreements.

All cash payments required to be paid pursuant to this Section shall be made to the Executive within sixty (60) days following the date of such termination.

6. CHANGE IN CORPORATE CONTROL

(a) In the event of a Change in Corporate Control (as defined below), all stock options, restricted stock or other awards with time-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become fully vested and earned and payable and, in the case of stock options, exercisable in full and all stock options, restricted stock or other awards with performance-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become vested to the extent provided in the applicable award agreements.

(b) at any time during the period of twenty-four (24) consecutive months following the occurrence of a Change in Corporate Control (as defined below), and during the term of this Agreement, the Executive is involuntarily terminated (other than for Cause), or resigns her employment for Good Reason, the Executive shall be entitled to the following:

- (i) base salary accrued through the date of termination;
 - (ii) any accrued but unpaid vacation pay through the date of termination;
 - (iii) any bonuses earned but unpaid with respect to fiscal years or other completed periods preceding the termination date;
 - (iv) any nonforfeitable benefits payable to the Executive under the terms of any deferred compensation, incentive or other benefit plans maintained by the Corporation, payable in accordance with the terms of the applicable plan;
-

(v) continued coverage at the Corporation's expense under any life, health and disability insurance programs maintained by the Corporation in which the Executive participated at the time of her termination for the remaining term of the Agreement (but not less than six (6) months and not more than the period during which the Executive would be entitled to continuation coverage under Section 4980B of the Code if the Executive elected such coverage and paid the applicable premiums), or until, if earlier, the date the Executive obtains comparable coverage under benefit plans maintained by a new employer; and

(vi) a lump sum severance payment equal to the present value of a series of monthly severance payments for twenty-four (24) months, each in an amount equal to one-twelfth (1/12th) of the sum of (A) the Executive's base salary, as in effect at the time of the Change in Corporate Control, and (B) the average of the annual bonuses paid to the Executive for the prior three fiscal years of the Corporation ending prior to the Change in Corporate Control. Such present value shall be calculated using a discount rate equal to the interest rate on 90-day Treasury bills, as reported in the Wall Street Journal (or similar publication) on the date of the Change in Corporate Control.

All cash payments required to be paid pursuant to this Section (other than severance) shall be made to the Executive within sixty (60) days following the date of such termination. The lump sum severance payment described in the preceding subsection (viii) shall also be paid within sixty (60) days, except to the extent a delayed payment is required by Section 16 below. Notwithstanding the foregoing, the severance payment under this Section shall be payable on a monthly basis instead of a lump sum if the "Change in Corporate Control" does not constitute a "change in control event" within the meaning of Treasury Regulation Section 1.409A-3(i)(g).

(c) For purposes of this Agreement, a "Change in Corporate Control" shall mean:

(i) the acquisition in one or more transactions of more than twenty percent (20%) of the Corporation's outstanding common stock (or the equivalent in voting power of any class or classes of securities of the Corporation entitled to vote in elections of directors) by any corporation, or other person or group (within the meaning of Section 14(d)(3) of the Securities Exchange Act of 1934, as amended), except for acquisitions of the Corporation's outstanding common stock by (A) the Corporation or an affiliate or subsidiary of the Corporation, (B) an employee benefit plan (or any trust forming a part thereof) of the Corporation, or (C) an underwriter temporarily holding securities of the Corporation pursuant to an offering of such securities;

(ii) stockholder approval of a plan for the liquidation or sale of substantially all of the assets of the Corporation;

(iii) the consummation of any merger or consolidation involving the Corporation, unless (A) the stockholders of the Corporation, immediately before such merger or consolidation, own, directly or indirectly, immediately following such merger or consolidation, more than fifty percent (50%) of the then outstanding shares of common stock (or the equivalent in voting power of any class or classes of securities of the corporation entitled to vote in elections of directors) of the corporation resulting from such merger or consolidation (the "Surviving Company") in substantially the same proportion as their ownership of the Corporation's outstanding common stock (or the equivalent in voting power of any class or classes of securities of the Corporation entitled to vote in elections of directors) immediately before such merger or consolidation, and (B) the persons who were Continuing Directors (as defined below) immediately prior to the execution of the agreement providing for such merger or consolidation constitute more than fifty percent (50%) of the members of the Board of Directors of the Surviving Company; or

(iv) during any twenty-four (24) month period, individuals who, as of the beginning of such period, constitute the Board of Directors (the "Continuing Directors") cease for any reason to constitute at least a majority of the Board of Directors. For this purpose, any person who is nominated for election as a member of the Board of Directors after May 5, 2016 shall also be considered a "Continuing Director" if, and only if, her or her nomination for election to the Board of Directors is approved or recommended by a majority of the members of the Board of Directors (or of the relevant Nominating Committee) and at least five (5) members of the Board of Directors are themselves Continuing Directors at the time of such nomination.

(d) Notwithstanding anything else in this Agreement, if any payment, accelerated vesting or other benefit provided by the Corporation to the Executive in connection with a Change in Corporate Control, whether paid or payable pursuant to the terms of this Agreement or otherwise (a "Parachute Payment") is determined to be a parachute payment subject to the excise tax imposed by Section 4999 of the Code or any other tax having the same effect (such excise tax or other tax, together with any interest and penalties incurred by the Executive with respect to such taxes, are collectively referred to herein as the "Excise Tax"), and if reducing the amount of the payments would result in greater benefits to the Executive (after taking into consideration the payment by the Executive of all income and excise taxes that would be owing as a result of the Parachute Payment), the payments will be reduced by the amount necessary to maximize the benefits received by the Executive, determined on an after-tax basis.

7. **DEATH**

If the Executive dies during the term of this Agreement, the Corporation shall pay to the Executive's estate the following:

- (i) base salary accrued through the date of death;
- (ii) any accrued but unpaid vacation pay through the date of death;
- (iii) any bonuses earned but unpaid with respect to fiscal years or other completed periods preceding the date of death;
- (iv) any nonforfeitable benefits payable to the Executive under the terms of any deferred compensation, incentive or other benefit plans maintained by the Corporation, payable in accordance with the terms of the applicable plan; and
- (v) all stock options, restricted stock or other awards with time-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become fully vested and earned and payable and, in the case of stock options, exercisable in full and all stock options, restricted stock or other awards with performance-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Corporation shall become vested to the extent provided in the applicable award agreements.

All cash payments required to be paid pursuant to this Section shall be made to the estate within sixty (60) days following the date of death.

8. **WITHHOLDING**

The Corporation shall, to the extent permitted by law, have the right to withhold and deduct from any payment hereunder any federal, state or local taxes of any kind required by law to be withheld with respect to any such payment.

9. **PROTECTION OF CONFIDENTIAL INFORMATION**

The Executive agrees that she will keep all confidential and proprietary information of the Corporation or relating to its business confidential, and that she will not (except with the Corporation's prior written consent), while in the employ of the Corporation or thereafter, disclose any such confidential information to any person, firm, corporation, association or other entity, other than in furtherance of her duties hereunder, and then only to those with a "need to know." The Executive shall not make use of any such confidential information for her own purposes or for the benefit of any person, firm, corporation, association or other entity (except the Corporation) under any circumstances during or after the term of her employment. The foregoing shall not apply to any information which is already in the public domain, or is generally disclosed by the Corporation or is otherwise in the public domain at the time of disclosure.

The Executive recognizes that because her work for the Corporation may bring her into contact with confidential and proprietary information of the Corporation, the restrictions of this Section 9 are required for the reasonable protection of the Corporation and its investments and for the Corporation's reliance on and confidence in the Executive.

10. **COVENANT NOT TO COMPETE**

The Executive hereby agrees that she will not, either during the employment term or during the period of one (1) year from the time the Executive's employment under this Agreement ceases (for whatever reason other than after the expiration of the term of this Agreement as a result of the Corporation electing not to renew the term thereof), engage in any business activities on behalf of any enterprise which competes with the Corporation in the business of (i) ownership or operation of Health Care Facilities (defined below); (ii) investment in or lending to health care related enterprises (including, without limitation, owners or developers of Health Care Facilities); (iii) management of Health Care Facilities; or (iv) provision of any planning or development services for Health Care Facilities. "Health Care Facilities" means any senior housing facilities or facilities used or intended primarily for the delivery of health care services, including, without limitation, any active adult communities, independent living facilities, assisted living facilities, skilled nursing facilities, inpatient rehabilitation facilities, ambulatory surgery centers, medical office buildings, hospitals of any kind, or any similar types of facilities or projects. The Executive will be deemed to be engaged in such competitive business activities if she participates in such a business enterprise as an employee, officer, director, consultant, agent, partner, proprietor, or other participant; provided that the ownership of no more than two percent (2%) of the stock of a publicly traded corporation engaged in a competitive business shall not be deemed to be engaging in competitive business activities.

The Executive agrees that she shall not, for a period of one year from the time her employment under this Agreement ceases (for whatever reason other than after the expiration of the term of this Agreement as a result of the Corporation electing not to renew

the term thereof), or, if later, during any period in which she is receiving monthly severance payments under Section 5 of this Agreement, solicit any employee or full-time consultant of the Corporation for the purposes of hiring or retaining such employee or consultant.

11. INJUNCTIVE RELIEF

The Executive acknowledges and agrees that it would be difficult to fully compensate the Corporation for damages resulting from the breach or threatened breach of the covenants set forth in Sections 9 and 10 of this Agreement and accordingly agrees that the Corporation shall be entitled to temporary and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, to enforce such provisions in any action or proceeding instituted in the United States District Court for the Northern District of Ohio or in any court in the State of Ohio having subject matter jurisdiction. This provision with respect to injunctive relief shall not, however, diminish the Corporation's right to claim and recover damages.

It is expressly understood and agreed that although the parties consider the restrictions contained in this Agreement to be reasonable, if a court determines that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction on the activities of the Executive, no such provision of this Agreement shall be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such extent as such court may judicially determine or indicate to be reasonable.

12. NOTICES

All notices or communications hereunder shall be in writing and sent certified or registered mail, return receipt requested, postage prepaid, addressed as follows (or to such other address as such party may designate in writing from time to time):

If to the Corporation:

Welltower Inc.
4500 Dorr Street
Toledo, OH 43615

Attention: Matthew McQueen, Senior Vice President – General Counsel and Corporate Secretary

If to the Executive:

Mercedes T. Kerr
4500 Dorr Street
Toledo, OH 43615

The actual date of receipt, as shown by the receipt therefor, shall determine the time at which notice was given.

13. SEPARABILITY

If any provision of this Agreement shall be declared to be invalid or unenforceable, in whole or in part, such invalidity or unenforceability shall not affect the remaining provisions hereof which shall remain in full force and effect.

14. ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of the heirs and representatives of the Executive and the assigns and successors of the Corporation, but neither this Agreement nor any rights hereunder shall be assignable or otherwise subject to hypothecation by the Executive.

15. ENTIRE AGREEMENT

This Agreement represents the entire agreement of the parties and shall supersede any and all previous contracts, arrangements or understandings between the Corporation and the Executive. The Agreement may be amended at any time by mutual written agreement of the parties hereto.

16. SECTION 409A COMPLIANCE

This Agreement is intended to comply with the requirements of Section 409A of the Code, and shall be interpreted and construed consistently with such intent. The payments to the Executive pursuant to this Agreement are also intended to be exempt

from Section 409A of the Code to the maximum extent possible, under either the separation pay exemption pursuant to Treasury Regulation Section 1.409A-1(b)(9)(iii) or as short-term deferrals pursuant to Treasury Regulation Section 1.409A-1(b)(4). Each payment and benefit hereunder shall constitute a "separately identified" amount within the meaning of Treasury Regulation Section 1.409A-2(b)(2). In the event the terms of this Agreement would subject the Executive to taxes or penalties under Section 409A of the Code ("409A Penalties"), the Corporation and the Executive shall cooperate diligently to amend the terms of the Agreement to avoid such 409A Penalties, to the extent possible. To the extent any amounts under this Agreement are payable by reference to Executive's "termination," "termination of employment," or similar phrases, such term shall be deemed to refer to the Executive's "separation from service" (as defined in Treasury Regulation Section 1.409A-1(h) (without regard to any permissible alternative definition thereunder) with the Corporation and all entities treated as a single employer with the Corporation under Sections 414(b) and (c) of the Code but substituting a 50% ownership level for the 80% ownership level set forth therein). Notwithstanding any other provision in this Agreement, if the Executive is a "Specified Employee" (as defined Treasury Regulation Section 1.409A-1(i) on December 31st of the prior calendar year), as of the date of the Executive's separation from service, then to the extent any amount payable under this Agreement (i) constitutes the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, (ii) is payable upon the Executive's separation from service and (iii) under the terms of this Agreement would be payable prior to the six-month anniversary of the Executive's separation from service, such payment shall be delayed and paid to the Executive, together with interest at an annual rate equal to the interest rate specified by KeyBank for a six-month certificate of deposit, on the first day of the first calendar month beginning at least six months following the date of termination, or, if earlier, within ninety (90) days following the Executive's death to the Executive's surviving spouse (or such other beneficiary as the Executive may designate in writing). Any reimbursement or advancement payable to the Executive pursuant to this Agreement shall be conditioned on the submission by the Executive of all expense reports reasonably required by the Corporation under any applicable expense reimbursement policy, and shall be paid to the Executive within thirty (30) days following receipt of such expense reports, but in no event later than the last day of the calendar year following the calendar year in which the Executive incurred the reimbursable expense. Any amount of expenses eligible for reimbursement, or in-kind benefit provided, during a calendar year shall not affect the amount of expenses eligible for reimbursement, or in-kind benefit to be provided, during any other calendar year. The right to any reimbursement or in-kind benefit pursuant to this Agreement shall not be subject to liquidation or exchange for any other benefit.

17. GOVERNING LAW AND FORUM SELECTION

This Agreement shall be construed, interpreted, and governed in accordance with the laws of the State of Ohio, other than the conflict of laws provisions of such laws. Both the Corporation and the Executive submit to the exclusive jurisdiction of the state courts located in Lucas County, Ohio and to the United States District Court for the Northern District of Ohio as to all actions and proceedings relating in any way to this Agreement and/or to the Executive's relationship with the Corporation.

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IN WITNESS WHEREOF, the Corporation has caused this Agreement to be duly executed, and the Executive has hereunto set her hand, as of the day and year first above written.

WELLTOWER INC.

By: /s/ Matthew McQueen

Name: Matthew McQueen

Title: Senior Vice President – General Counsel and Corporate Secretary

EXECUTIVE:

/s/ Mercedes T. Kerr

Mercedes T. Kerr

STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS (UNAUDITED)

(dollars in thousands)	Year Ended December 31,					Nine Months Ended September 30,	
	2011	2012	2013	2014	2015	2015	2016
Earnings:							
Pretax income from continuing operations before adjustment for income or loss from equity investees ⁽¹⁾	\$ 112,203	\$ 185,912	\$ 102,245	\$ 384,213	\$ 636,117	\$ 512,132	\$ 572,065
Fixed charges	290,240	359,947	460,918	485,762	498,253	367,673	405,629
Capitalized interest	(13,164)	(9,777)	(6,700)	(7,150)	(8,670)	(6,311)	(12,109)
Amortized premiums, discounts and capitalized expenses related to indebtedness	13,905	11,395	4,142	2,427	2,586	(291)	1,465
Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges	4,894	2,415	6,770	(147)	(4,799)	(4,666)	(2,553)
Earnings	\$ 408,078	\$ 549,892	\$ 567,375	\$ 865,105	\$ 1,123,487	\$ 868,537	\$ 964,497
Fixed charges:							
Interest expense ⁽¹⁾	\$ 290,981	\$ 361,565	\$ 458,360	\$ 481,039	\$ 492,169	\$ 361,071	\$ 394,985
Capitalized interest	13,164	9,777	6,700	7,150	8,670	6,311	12,109
Amortized premiums, discounts and capitalized expenses related to indebtedness	(13,905)	(11,395)	(4,142)	(2,427)	(2,586)	291	(1,465)
Fixed charges	\$ 290,240	\$ 359,947	\$ 460,918	\$ 485,762	\$ 498,253	\$ 367,673	\$ 405,629
Consolidated ratio of earnings to fixed charges	1.41	1.53	1.23	1.78	2.25	2.36	2.38
Earnings:							
Pretax income from continuing operations before adjustment for income or loss from equity investees ⁽¹⁾	\$ 112,203	\$ 185,912	\$ 102,245	\$ 384,213	\$ 636,117	\$ 512,132	\$ 572,065
Fixed charges	290,240	359,947	460,918	485,762	498,253	367,673	405,629
Capitalized interest	(13,164)	(9,777)	(6,700)	(7,150)	(8,670)	(6,311)	(12,109)
Amortized premiums, discounts and capitalized expenses related to indebtedness	13,905	11,395	4,142	2,427	2,586	(291)	1,465
Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges	4,894	2,415	6,770	(147)	(4,799)	(4,666)	(2,553)
Earnings	\$ 408,078	\$ 549,892	\$ 567,375	\$ 865,105	\$ 1,123,487	\$ 868,537	\$ 964,497
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Amortized premiums, discounts and capitalized expenses related to indebtedness	(13,905)	(11,395)	(4,142)	(2,427)	(2,586)	291	(1,465)
Fixed charges	290,240	359,947	460,918	485,762	498,253	367,673	405,629
Preferred stock dividends	60,502	69,129	66,336	65,408	65,406	49,055	49,055
Combined fixed charges and preferred stock dividends	\$ 350,742	\$ 429,076	\$ 527,254	\$ 551,170	\$ 563,659	\$ 416,728	\$ 454,684
Consolidated ratio of earnings to combined fixed charges and preferred stock dividends	1.16	1.28	1.08	1.57	1.99	2.08	2.12

(1) We have reclassified the income and expenses attributable to the properties sold prior to or held for sale at January 1, 2014 to discontinued operations.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, **Thomas J. DeRosa**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Welltower Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2016

/s/ THOMAS J. DEROSA

Thomas J. DeRosa,
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, **Scott A. Estes**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Welltower Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2016

/s/ SCOTT A. ESTES

Scott A. Estes,
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

I, Thomas J. DeRosa, the Chief Executive Officer of Welltower Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended September 30, 2016 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ THOMAS J. DEROSA

Thomas J. DeRosa,

Chief Executive Officer

Date: November 2, 2016

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

I, Scott A. Estes, the Chief Financial Officer of Welltower Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended September 30, 2016 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SCOTT A. ESTES

Scott A. Estes,

Chief Financial Officer

Date: November 2, 2016

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
