

May 22, 2024

Senator Elizabeth Warren
Senator Edward J. Markey

Re: April 15, 2024 Letter Regarding Steward Health Care System

Dear Senators Warren and Markey:

As you know, we represent Medical Properties Trust, Inc. (“MPT”) in connection with the above-referenced letter conveying concerns about the financial distress of Massachusetts hospitals operated by Steward Health Care System (“Steward”). We write in response to your request that we memorialize in writing our telephone conference from May 14, 2024, during which we provided you with MPT’s responses to the Senators’ follow-up questions to our letter dated April 26, 2024 (the “Letter”).

Follow-Up Question 1: You noted the reference in our Letter (at 3) to the 5% annual rent escalator ceiling in MPT’s sale-leaseback agreements. You asked whether there is a minimum annual rent escalator, and what happens to rent in years when inflation is minimal.

Response: The lease agreement that covers MPT’s Steward-run Massachusetts hospitals provides for a 2% annual rent escalator floor. This floor applies even if inflation is less than 2%. Over the lifetime of the agreement, this 2% to 5% rent collar has actually saved Steward more than \$5 million in rent, as compared to the rent that Steward would have had to pay if rent mapped exactly to the consumer price index measure of inflation. Moreover, we note that rents are determined at the outset of the agreements as a percentage of the valuation of the hospitals at the time the agreement is put in place. And, other than the inflation escalators, rents never change, no matter how much the value of the hospitals appreciate over the approximately 25 years that the agreements are in place. This means that MPT has no ability to “mark to market,” and no ability to re-price its rents based on the increasing value of its real estate.

Follow-Up Question 2: You noted the reference in our Letter (at 5) to an annual estimate of \$200-225 million in rent payments from Steward to MPT, and you asked if we could explain how much of the annual rent payments from Steward have been associated with the Massachusetts portfolio of hospitals.

Response: In October 2023, in connection with its Q3 2023 financial update, MPT prepared a presentation that details all of its investments in and loans to Steward. This presentation, titled Steward Update, was provided to the public, and a copy is enclosed herein. Slide 3 of the Steward Update presentation shows that in Q3 2023, approximately ¼ of the total rent that MPT received from Steward was associated with the Massachusetts portfolio.

Follow-Up Question 3: You asked for the current value of MPT’s Massachusetts real estate holdings.

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Response: As we explained to you on a prior telephone call, MPT does not do regular appraisals of its real estate assets. The Steward Massachusetts portfolio, with the exception of the currently-closed Norwood facility, was last valued in late 2021 in connection with the Macquarie joint partnership. At that time, the portfolio was assigned a valuation of approximately \$1.7 billion. That \$1.7 billion valuation remains on MPT’s books today, as reflected in the Company’s Q1 2024 financial update from May 9, 2024.

Follow-Up Question 4: You asked us whether MPT and Macquarie can act independently of each other in making decisions about rent under the joint partnership.

Response: The government documents of the partnership agreement require that major decisions—such as setting or changing rent levels—must be made unanimously.

Follow-Up Question 5: You asked whether MPT has either been asked for or offered any of the specific concessions listed in Questions 6.a., b., or c. of your letter dated April 15, 2024.

Response: MPT has offered numerous concessions to Steward as it works through its financial issues. For example, MPT has provided bridge loans, and has agreed to significant rent forbearance until July of this year. And in connection with Steward’s bankruptcy filing, MPT has agreed to fund \$75 million in debtor-in-possession financing. With respect to any other concessions, MPT was in ongoing discussions about potential replacement operators, including with the Massachusetts regulators, before the bankruptcy filing, and will remain in such discussions during the bankruptcy process. It is very much in MPT’s and its shareholders’ interests that the hospitals remain open.

Follow-Up Question 6: You asked for more detail about what MPT’s early working capital loans to Steward were used for.

Response: The details of MPT’s transaction-specific and working capital loans to Steward are set forth on Slide 5 of the Steward Update presentation.

Follow-Up Question 7: You asked how the “nearly \$5 billion” referenced in our Letter (at 5) that MPT has invested in real estate of hospitals leased to Steward was calculated.

Response: The “nearly \$5 billion” in our Letter was intended to reflect the total amount of investments that MPT has made in Steward-run real estate assets since 2016. We meant only to state how much cash MPT has invested in properties initially operated by Steward. That includes: \$1.2 billion for properties in Massachusetts, \$1.3 billion for properties in Florida, \$1.2 billion for properties in Utah (subsequently leased to a separate not-for-profit operator), \$0.7 billion for properties in Texas, Arkansas, Louisiana, and Utah, \$0.3 billion for properties in

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Arizona, and \$0.1 billion for properties in Ohio and Pennsylvania, for a total of approximately \$4.8 billion.

Follow-Up Question 8: You asked how many years are left on the current MPT lease for the Steward Massachusetts hospitals.

Response: The lease expires in 2041, in approximately 17.5 years. The agreements also provide the operator with the option to extend the lease for an additional five years (upon certain conditions).

Follow-Up Question 9: You asked that we direct you to the section of MPT’s recent Proxy Statement that explains how MPT’s performance-based compensation for its senior executives is calculated.

Response: MPT’s performance-based compensation for its most senior executive officers is explained in the Proxy Statement at pages 27, and 40-41, among others. In addition, we include herein supplemental proxy materials filed on May 22, 2024 that further describe the economics of MPT’s 2023 executive compensation program.

Follow-Up Question 10: You referenced the statement in our Letter (at 5) that “MPT has invested nearly \$5 billion in hospitals leased to Steward as well as debt and equity investments.” You noted that documents filed as part of the Steward bankruptcy disclosed a purported \$7 billion debt owed by Steward to MPT, and you asked for “insight into the composition of the \$7 billion debt.”

Response: First, as explained above, the “nearly \$5 billion” investment figure referenced in our Letter is the amount of capital that MPT has invested in the real estate assets of hospitals leased to Steward over the course of the relationship. This figure is not a current valuation of MPT’s holdings associated with Steward, nor does it reflect the amount of debt owed by Steward to MPT. Second, as explained during our May 14, 2024 telephone call, we are not sure where in the in the Steward bankruptcy filings the purported “\$7 billion debt” figure appears. You agreed to direct us to the source of this figure if you require any additional response.

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This letter, and any information that MPT will provide to you in the future, includes confidential, sensitive business information of MPT. We expect that the Staff would allow us the opportunity to discuss with you the need for continued confidentiality of MPT's responses prior to them being disclosed to the public.

We look forward to continuing to work with you in connection with MPT's cooperation with the Senators' requests.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Strassberg', with a long, sweeping underline.

Richard M. Strassberg

Enclosures

cc: [REDACTED], Oversight and Investigations Director
[REDACTED], Investigative Counsel
[REDACTED], Senior Health Policy Advisor
[REDACTED], Legislative Fellow
Office of Senator Elizabeth Warren (D-MA)