HEALTHCARE REALTY TRUST INC
Form 10-K
February 13, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2018

OR

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

For the transition period to

Commission File Number: 001-11852

HEALTHCARE REALTY TRUST INCORPORATED

(Exact name of Registrant as specified in its charter)

Maryland	**62-1507028**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**

3310 West End Avenue
Suite 700
Nashville, Tennessee 37203
(Address of principal executive offices)

(615) 269-8175
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $0.01 par value per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer ý	Accelerated filer	o
Non-accelerated filer	Smaller reporting company	o
	Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the shares of common stock of the Registrant (based upon the closing price of these shares on the New York Stock Exchange on June 30, 2018) held by non-affiliates on June 30, 2018 was $3,548,286,261.

As of February 8, 2019, there were 125,294,458 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 are incorporated by reference into Part III of this Report.

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HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-K
December 31, 2018

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PART I

Item 1. Business

Overview

Healthcare Realty Trust Incorporated ("Healthcare Realty" or the "Company") is a self-managed and self-administered real estate investment trust ("REIT") that owns, leases, manages, acquires, finances, develops and redevelops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States. The Company was incorporated in Maryland in 1992 and listed on the New York Stock Exchange in 1993.

The Company operates so as to qualify as a REIT for federal income tax purposes. As a REIT, the Company is not subject to corporate federal income tax with respect to taxable income distributed to its stockholders. See "Risk Factors" in Item 1A for a discussion of risks associated with qualifying as a REIT.

Real Estate Properties

The Company had gross investments of approximately $4.0 billion in 199 real estate properties, construction in progress, land held for development and corporate property as of December 31, 2018. The Company provided property management services for 155 healthcare-related properties nationwide, totaling approximately 11.2 million square feet as of December 31, 2018. The Company's real estate property investments by geographic area are detailed in Note 2 to the Consolidated Financial Statements. The following table details the Company's owned properties by facility type as of December 31, 2018:

(Dollars and square feet in thousands)	Gross Investment	Square Feet	Percentage of Square Feet		December 31, 2018 Number of Properties	Occupancy [1]	
Medical office/outpatient	$ 3,525,277	13,671	92.4	%	189	87.3	%
Inpatient	250,919	570	3.8	%	5	100.0	%
Office	134,621	558	3.8	%	5	85.9	%
Sub-Total	**3,910,817**	**14,799**	**100.0**	**%**	**199**	**87.8**	**%**
Construction in progress	33,107						
Land held for development	24,647						
Corporate property	5,500						
Total	**$ 3,974,071**						

(1) The occupancy column represents the percentage of total rentable square feet leased (including month-to-month and holdover leases), excluding one property classified as held for sale as of December 31, 2018.

Financial Concentrations

The Company's real estate portfolio is leased to a diverse tenant base. For the year ended December 31, 2018, the Company did not have any tenants that accounted for 10% or more of the Company's consolidated revenues. The largest revenue concentration is with Baylor Scott & White Health and its affiliates, which accounted for 9.3% of the Company's consolidated revenues, comprising 156 leases spread over 22 buildings.

See Note 2 to the Consolidated Financial Statements for additional information regarding the Company's gross investments by geographic market.

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Expiring Leases

As of December 31, 2018, the weighted average remaining years to expiration pursuant to the Company's leases was approximately 3.9 years, with expirations through 2036. The table below details the Company's lease expirations as of December 31, 2018, excluding one property classified as held for sale.

Expiration Year	Number of Leases	Leased Square Feet	Percentage of Leased Square Feet	
2019 [(1)]	733	2,852,561	22.0	%
2020	485	1,899,982	14.6	%
2021	414	1,468,849	11.3	%
2022	316	1,396,595	10.8	%
2023	306	1,335,053	10.3	%
2024	167	943,981	7.3	%
2025	95	723,638	5.5	%
2026	70	226,921	1.7	%
2027	62	625,618	4.8	%
2028	93	755,676	5.8	%
Thereafter	77	761,529	5.9	%
	2,818	12,990,403	100.0	%

(1) Includes 59 leases totaling 160,749 square feet that expired prior to December 31, 2018 and are currently on month-to-month terms.

See "Trends and Matters Impacting Operating Results" as part of Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report for additional information regarding the Company's leases and leasing efforts.

Liquidity

The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company expects to meet its liquidity needs through cash on hand, cash flows from operations, property dispositions, equity and debt issuances in the public or private markets and borrowings under commercial credit facilities.

Business Strategy

The Company owns and operates properties that facilitate the delivery of healthcare services in primarily outpatient settings. To execute its strategy, the Company engages in a broad spectrum of integrated services including leasing, management, acquisition, financing, development and redevelopment of such properties. The Company seeks to generate stable, growing income and lower the long-term risk profile of its portfolio of properties by focusing on facilities located on or near the campuses of acute care hospitals associated with leading health systems. The Company seeks to reduce financial and operational risk by owning properties in diverse geographic locations with a broad tenant mix that includes over 30 physician specialties, as well as surgery, imaging, cancer, and diagnostic centers.

2018 Investment Activity

During 2018, the Company acquired five medical office buildings, an additional suite in a previously acquired medical office building, and two office buildings for purchase prices totaling $111.5 million, inclusive of the assumption of a mortgage note payable of $8.0 million. The weighted average capitalization rate for these investments was 5.7%. The Company calculates the capitalization rate for an acquisition as the forecasted first year cash net operating income divided by the purchase price plus acquisition costs and expected first year capital expenditures. The Company disposed of 16 properties during 2018 for a total sales price of $98.7 million. The weighted average capitalization rate for these 16 properties was 11.4%. The Company calculates the capitalization rate for dispositions as the in-place cash net operating income divided by the sales price.

In 2018, the Company funded $35.6 million toward development and redevelopment of properties. The Company had one redevelopment and one development under construction at December 31, 2018. In addition, the Company had one development and one redevelopment project that were in the process of stabilizing during 2018.

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See the Company's discussion regarding the 2018 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements and development activity in Note 14 to the Consolidated Financial Statements. Also, please refer to the Company's discussion in "Trends and Matters Impacting Operating Results" as part of Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report.

Competition

The Company competes for the acquisition and development of real estate properties with private investors, healthcare providers, other REITs, real estate partnerships and financial institutions, among others. The business of acquiring and developing new healthcare facilities is highly competitive and is subject to price, construction and operating costs, and other competitive pressures. Some of the Company's competitors may have lower costs of capital.

The financial performance of all of the Company’s properties is subject to competition from similar properties. The extent to which the Company’s properties are utilized depends upon several factors, including the number of physicians using or referring patients to an associated healthcare facility, healthcare employment, competitive systems of healthcare delivery, and the area’s population, size and composition. Private, federal and state health insurance programs and other laws and regulations may also have an effect on the utilization of the properties. The Company’s properties operate in a competitive environment, and patients and referral sources, including physicians, may change their preferences for a healthcare facility from time to time.

Government Regulation

The facilities owned by the Company are utilized by medical tenants which are required to comply with extensive regulation at the federal, state and local levels, including the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"), the Bipartisan Act of 2015, the Medicare Access and CHIP Modernization Act of 2015, and laws intended to combat fraud and waste such as the Anti-Kickback Statute, Stark Law, False Claims Act and Health Insurance Portability and Accountability Act of 1996. These laws and regulations establish, among other things, requirements for state licensure and criteria for medical tenants to participate in government-sponsored reimbursement programs, including the Medicare and Medicaid programs. The Company's leases generally require the tenant to comply with all applicable laws relating to the tenant's use and occupation of the leased premises. Although lease payments to the Company are not directly affected by these laws and regulations, changes in these programs or the loss by a tenant of its license or ability to participate in government-sponsored reimbursement programs could have a material adverse effect on the tenant's ability to make lease payments to the Company.

The Medicare and Medicaid programs are highly regulated and subject to frequent evaluation and change. Government healthcare spending has increased over time; however, changes from year to year in reimbursement methodology, rates and other regulatory requirements may cause the profitability of providing care to Medicare and Medicaid patients to decline, which could adversely affect tenants' ability to make lease payments to the Company.

The Affordable Care Act was intended to provide for comprehensive reform of the United States' healthcare system and extend health insurance benefits to the uninsured population, with a mandate for individuals to purchase health coverage, and the potential to alleviate high uncompensated care expense to healthcare providers. However, the law also increased regulatory scrutiny of providers and insurers by federal and state administrative authorities; lowered annual increases in Medicare payment rates; and implemented cost-saving measures and shared risk-and-reward payment models to promote value and savings, rather than payment based solely on volume of services. These initiatives may slow the growth of healthcare spending over time, but also require providers to expand access and quality of care, presenting the industry and its individual participants with uncertainty and greater financial risk.

The Tax Cuts and Jobs Act of 2017 eliminated the health insurance mandate penalty included in the Affordable Care Act. Subsequently, in 2018, a federal judge in Texas determined the Affordable Care Act could not be separated from the individual mandate and declared the Affordable Care Act no longer enforceable. The appeals process will ultimately determine the standing of the Affordable Care Act and its effect on healthcare providers, insurers and the level of the uninsured population. While the Affordable Care Act remains in effect pending the outcome of the appeals process, the ruling to overturn the law presents the industry and its individual participants with uncertainty and greater financial risk.

In 2018, President Trump's administration sought to decrease the Affordable Care Act's regulatory burden on healthcare providers and increase states' flexibility to offer short-term, basic insurance plans. These initiatives could affect the market for individual health insurance and, consequently, the demand for healthcare services. The Company cannot predict the degree to which any changes may affect indirectly the economic performance of the Company, or its tenants, positively or negatively.

The Centers for Medicare and Medicaid Services ("CMS") continued to adjust Medicare payment rates in 2018 for reimbursement “site-neutrality,” or equalizing Medicare rates for the same services provided across different facility-type settings. Section 603 of the Bipartisan Budget Act of 2015 lowered Medicare rates effective January 1, 2017 for services

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provided in off-campus, provider-based outpatient departments to the same level of rates for physician-office settings. While these changes are expected to lessen reimbursement disparity between off-campus medical office and outpatient facilities, the Company's medical office buildings that are located on hospital campuses could become more valuable as hospital tenants will keep their higher Medicare rates for on-campus outpatient services. However, the Company cannot predict the amount of benefit from these measures or if other federal health policy or regulation will ultimately require cuts to reimbursement rates for services provided in other facility-type settings. The Company cannot predict the degree to which these changes, or changes to federal healthcare programs in general, may affect the economic performance of some or all of the Company's tenants, positively or negatively.

In 2018, physicians were required to report patient data on quality and performance measures that will affect their Medicare payments for the year 2020. Implementation of the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"), unless amended in future legislation, will eventually replace the traditional fee-for-service payment model for physicians with a new value-based payment initiative. MACRA compliance, and the ongoing debate over the most effective payment system to use to promote value-based reimbursement, present the industry and its individual participants with uncertainty and financial risk. The Company cannot predict the degree to which any such changes may affect the economic performance of the Company's tenants or, indirectly, the Company.

Legislative Developments

Taxation of Dividends

The Tax Cuts and Jobs Act of 2017 generally allows a deduction for individuals equal to 20% of certain income from pass-through entities, including ordinary dividends distributed by a REIT (excluding capital gain dividends and qualified dividend income). In addition, the deduction for ordinary REIT dividends is not subject to the wage and tax basis limitations applicable to the deduction for other qualifying pass-through income. The Tax Cuts and Jobs Act of 2017 was a far-reaching and complex revision to the existing U.S. federal income tax laws and will require subsequent rulemaking and interpretation in a number of areas. As a result, the long-term impact of the Tax Reform Legislation cannot be reliably predicted. Further, many of the provisions of this act will expire in 2025, unless extended by legislative action.

Healthcare

Each year, legislative proposals for health policy are introduced in Congress and state legislatures, and regulatory changes are enacted by government agencies. These proposals, individually or in the aggregate, could significantly change the delivery of healthcare services, either nationally or at the state level, if implemented. Examples of significant legislation or regulatory action recently enacted or in the process of implementation include:

- the Tax Cuts and Jobs Act of 2017, affects healthcare providers and health systems in a variety of ways, positively and negatively, including by limiting their ability to deduct interest on debt, denying deductions for and imposing an excise tax on the compensation in excess of $1 million of the five most highly-compensated employees of health systems, and eliminating, in 2019, the tax penalty for the Affordable Care Act's individual health insurance mandate;
- the expansion of Medicaid benefits and the implementation of health insurance exchanges under the Affordable Care Act, whether run by the state or by the federal government, whereby individuals and small businesses purchase health insurance, including government-funded plans, many assisted by federal subsidies that are subject to ongoing legal and legislative challenges;
- quality control, cost containment, and value-based payment system reforms for Medicaid and Medicare, such as expansion of pay-for-performance criteria, bundled provider payments, accountable care organizations, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;
- implementation of MACRA, which, if not amended in future legislation, will eventually replace the traditional fee-for-service payment model for physicians with a new value-based payment initiative; the CMS exempted approximately two-thirds of physician practices from MACRA compliance in 2018;
- equalization of Medicare payment rates across different facility-type settings; Section 603 of the Bipartisan Budget Act of 2015 lowered Medicare payment rates, effective January 1, 2017, for services provided in off-campus, provider-based outpatient departments to the same level of rates for physician office settings;

- the continued adoption by providers of federal standards for the meaningful-use of electronic health records;
- anti-trust scrutiny of health insurance company mergers; and

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- consideration of significant cost-saving overhauls of Medicare and Medicaid, including capped federal Medicaid payments to states, premium-support models to provide for a fixed amount of Medicare benefits per enrollee, and an increase in the eligibility age for Medicare.

The Company cannot predict whether any proposals will be fully implemented, adopted, repealed, or amended, or what effect, whether positive or negative, such proposals might have on the Company's business.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property (such as the Company) may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, under, or disposed of in connection with such property, as well as certain other potential costs (including government fines and injuries to persons and adjacent property) relating to hazardous or toxic substances. Most, if not all, of these laws, ordinances and regulations contain stringent enforcement provisions including, but not limited to, the authority to impose substantial administrative, civil, and criminal fines and penalties upon violators. Such laws often impose liability, without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances, and may be imposed on the owner in connection with the activities of a tenant or operator of the property. The cost of any required remediation, removal, fines or personal or property damages and the owner’s liability therefore could exceed the value of the property and/or the aggregate assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner’s ability to sell or lease such property or to borrow using such property as collateral. A property can also be negatively impacted either through physical contamination, or by virtue of an adverse effect on value, from contamination that has or may have emanated from other properties.

Operations of the properties owned, developed or managed by the Company are and will continue to be subject to numerous federal, state, and local environmental laws, ordinances and regulations, including those relating to the following: the generation, segregation, handling, packaging and disposal of medical wastes; air quality requirements related to operations of generators, incineration devices, or sterilization equipment; facility siting and construction; disposal of non-medical wastes and ash from incinerators; and underground storage tanks. Certain properties owned, developed or managed by the Company contain, and others may contain or at one time may have contained, underground storage tanks that are or were used to store waste oils, petroleum products or other hazardous substances. Such underground storage tanks can be the source of releases of hazardous or toxic materials. Operations of nuclear medicine departments at some properties also involve the use and handling, and subsequent disposal of, radioactive isotopes and similar materials, activities which are closely regulated by the Nuclear Regulatory Commission and state regulatory agencies. In addition, several of the Company's properties were built during the period that asbestos was commonly used in building construction and other such facilities may be acquired by the Company in the future. The presence of such materials could result in significant costs in the event that any asbestos-containing materials requiring immediate removal and/or encapsulation are located in or on any facilities or in the event of any future renovation activities.

The Company has had environmental site assessments conducted on substantially all of the properties that it currently owns. These site assessments are limited in scope and provide only an evaluation of potential environmental conditions associated with the property, not compliance assessments of ongoing operations. While it is the Company’s policy to seek indemnification from tenants relating to environmental liabilities or conditions, even where leases do contain such provisions, there can be no assurance that the tenant will be able to fulfill its indemnification obligations. In addition, the terms of the Company’s leases or financial support agreements do not give the Company control over the operational activities of its tenants or healthcare operators, nor will the Company monitor the tenants or healthcare operators with respect to environmental matters.

Insurance

The Company carries comprehensive liability insurance and property insurance covering its owned and managed properties, including those held under long-term ground leases. In addition, tenants under long-term single-tenant net leases are required to carry property insurance covering the Company’s interest in the buildings.

Employees

At December 31, 2018, the Company employed 277 people. The employees are not members of any labor union, and the Company considers its relations with its employees to be excellent.

Available Information

The Company makes available to the public free of charge through its Internet website the Company's Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such reports with, or furnishes such reports to, the Securities and Exchange Commission ("SEC"). The Company's Internet website address is www.healthcarerealty.com.

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Corporate Governance Principles

The Company has adopted Corporate Governance Principles relating to the conduct and operations of the Board of Directors. The Corporate Governance Principles are posted on the Company's website (www.healthcarerealty.com) and are available in print to any stockholder who requests a copy.

Committee Charters

The Board of Directors has an Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Executive Committee. The Board of Directors has adopted written charters for each committee, except for the Executive Committee, which are posted on the Company's website (www.healthcarerealty.com) and are available in print to any stockholder who requests a copy.

Executive Officers

Information regarding the executive officers of the Company is set forth in Part III, Item 10 of this report and is incorporated herein by reference.

Item 1A. Risk Factors

The following are some of the risks and uncertainties that could negatively affect the Company's consolidated financial condition, results of operations, business and prospects. These risk factors are grouped into three categories: risks relating to the Company's business and operations; risks relating to the Company's capital structure and financings; and risks arising from the Company's status as a REIT and the regulatory environment in which it operates.

These risks, as well as the risks described in Item 1 under the headings "Competition," "Government Regulation," "Legislative Developments," and "Environmental Matters," and in Item 7 under the heading "Disclosure Regarding Forward-Looking Statements," should be carefully considered before making an investment decision regarding the Company. The risks and uncertainties described below are not the only ones facing the Company, and there may be additional risks that the Company does not presently know of or that the Company currently considers not likely to have a significant impact. If any of the events underlying the following risks actually occurred, the Company's business, consolidated financial condition, operating results and cash flows, including distributions to the Company's stockholders, could suffer, and the trading price of its common stock could decline.

Risk relating to our business and operations

The Company's expected results may not be achieved.

The Company's expected results may not be achieved, and actual results may differ materially from expectations. This may be the result of various factors, including, but not limited to: changes in the economy; the availability and cost of capital at favorable rates; increases in property taxes, utilities, and other operating expenses; changes to facility-related healthcare regulations; changes in interest rates; competition for quality assets; negative developments in the operating results or financial condition of the Company's tenants, including, but not limited to, their ability to pay rent and repay loans; the Company's ability to reposition or sell facilities with profitable results; the Company's ability to re-lease space at similar rates as vacancies occur; the Company's ability to timely reinvest proceeds from the sale of assets at similar yields; government regulations affecting tenants' Medicare and Medicaid reimbursement rates and operational requirements; unanticipated difficulties and/or expenditures relating to future acquisitions and developments; changes in rules or practices governing the Company's financial reporting; and other legal and operational matters.

The Company may decide or may be required under purchase options to sell certain properties. The Company may not be able to reinvest the proceeds from sales at rates of return equal to the return received on the properties sold. Uncertain market conditions could result in the Company selling properties at unfavorable rates or at losses in the future.

The Company had approximately $117.1 million, or 2.9% of the Company's real estate property investments, that were subject to purchase options held by lessees that were exercisable as of December 31, 2018 or could become exercisable in 2019. Other properties have purchase options that will become exercisable in future periods. Properties with options exercisable in 2019 produced aggregate net operating income of approximately $11.1 million in 2018. The exercise of these purchase options exposes the Company to reinvestment risk and a reduction in investment return. Certain properties subject to purchase options may be purchased at rates of return above the rates of return the Company expects to achieve with new investments. If the Company is unable to reinvest the sale proceeds at rates of return equal to the return received on the properties that are sold, it may experience a decline in lease revenues and profitability and a corresponding material adverse effect on the Company's consolidated financial condition and results

of operations.

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For more specific information concerning the Company's purchase options, see "Purchase Options" in the "Trends and Matters Impacting Operating Results" as a part of Management's Discuss and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report.

The Company's revenues depend on the ability of its tenants under its leases to generate sufficient income from their operations to make rental payments to the Company.

The Company's revenues are subject to the financial strength of its tenants and associated health systems. The Company has no operational control over the business of these tenants and associated health systems who face a wide range of economic, competitive, government reimbursement and regulatory pressures and constraints. Any slowdown in the economy, decline in the availability of financing from the capital markets, and changes in healthcare regulations may adversely affect the businesses of the Company's tenants to varying degrees. Such conditions may further impact such tenants' abilities to meet their obligations to the Company and, in certain cases, could lead to restructurings, disruptions, or bankruptcies of such tenants. In turn, these conditions could adversely affect the Company's revenues and could increase allowances for losses and result in impairment charges, which could decrease net income attributable to common stockholders and equity, and reduce cash flows from operations.

Owning real estate and indirect interests in real estate is subject to inherent risks.

The Company's operating performance and the value of its real estate assets are subject to the risk that if its properties do not generate revenues sufficient to meet its operating expenses, including debt service, the Company's cash flow and ability to pay dividends to stockholders will be adversely affected.

The Company may incur impairment charges on its real estate properties or other assets.

The Company performs an impairment review on its real estate properties every year. In addition, the Company assesses the potential for impairment of identifiable intangible assets and long-lived assets, including real estate properties, whenever events occur or a change in circumstances indicates that the recorded value might not be fully recoverable. The decision to sell a property also requires the Company to assess the potential for impairment. At some future date, the Company may determine that an impairment has occurred in the value of one or more of its real estate properties or other assets. In such an event, the Company may be required to recognize an impairment which could have a material adverse effect on the Company's consolidated financial condition and results of operations.

If the Company is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than the previous rates or if the Company is required to undertake significant expenditures or make significant leasing concessions to attract new tenants, then the Company's business, consolidated financial condition and results of operations would be adversely affected.

A portion of the Company's leases will expire over the course of any year. For more specific information concerning the Company's expiring leases, see "Multi-Tenant Leases" and "Single-Tenant Net Leases" in the "Trends and Matters Impacting Operating Results" as part of Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report. The Company may not be able to re-let space on terms that are favorable to the Company or at all. Further, the Company may be required to make significant capital expenditures to renovate or reconfigure space or make significant leasing concessions to attract new tenants. If unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than the previous rates, or if the Company is required to undertake significant capital expenditures in connection with re-letting units, the Company's business, consolidated financial condition and results of operations.

Certain of the Company's properties are special purpose healthcare facilities and may not be easily adaptable to other uses.

Some of the Company's properties are specialized medical facilities. If the Company or the Company's tenants terminate the leases for these properties or the Company's tenants lose their regulatory authority to operate such properties, the Company may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, the Company may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues and/or additional capital expenditures occurring as a result may have a material adverse effect on the Company's consolidated financial condition and results of operations.

The Company has, and in the future may have more, exposure to fixed rent escalators, which could lag behind inflation and the growth in operating expenses such as real estate taxes, utilities, insurance, and maintenance expense.

The Company receives a significant portion of its revenues by leasing assets subject to fixed rent escalations. Eighty-eight percent of leases have increases that are based upon fixed percentages, eleven percent of leases have

increases based on the Consumer Price Index and one percent have no increase. If the fixed percentage increases begin to lag behind inflation and operating expense growth, the Company's performance, growth, and profitability would be negatively impacted.

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The Company's real estate investments are illiquid and the Company may not be able to sell properties strategically targeted for disposition.

Because real estate investments are relatively illiquid, the Company's ability to adjust its portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including debt service (if any), real estate taxes, and operating and maintenance costs. This combination of variable revenue and relatively fixed expenditures may result in reduced earnings and could have an adverse effect on the Company's financial condition. In addition, the Company may not be able to sell properties targeted for disposition, including properties held for sale, due to adverse market conditions. This may negatively affect, among other things, the Company's ability to sell properties on favorable terms, execute its operating strategy, repay debt, or pay dividends.

The Company is subject to risks associated with the development and redevelopment of properties.

The Company expects development and redevelopment of properties will continue to be a key component of its growth plans. The Company is subject to certain risks associated with the development and redevelopment of properties including the following:

- The construction of properties generally requires various government and other approvals that may not be received when expected, or at all, which could delay or preclude commencement of construction;
- Opportunities that the Company pursued but later abandoned could result in the expensing of pursuit costs, which could impact the Company's consolidated results of operations;
- Construction costs could exceed original estimates, which could impact the building's profitability to the Company;
- Operating expenses could be higher than forecasted;
- Time required to initiate and complete the construction of a property and to lease up a completed property may be greater than originally anticipated, thereby adversely affecting the Company's cash flow and liquidity;
- Occupancy rates and rents of a completed development property may not be sufficient to make the property profitable to the Company; and
- Favorable capital sources to fund the Company's development and redevelopment activities may not be available when needed.

The Company may make material acquisitions and undertake developments and redevelopments that may involve the expenditure of significant funds and may not perform in accordance with management's expectations.

The Company regularly pursues potential transactions to acquire, develop or redevelop real estate assets. Future acquisitions could require the Company to issue equity securities, incur debt or other contingent liabilities or amortize expenses related to other intangible assets, any of which could adversely impact the Company's consolidated financial condition or results of operations. In addition, equity or debt financing required for such acquisitions may not be available at favorable times or rates.

The Company's acquired, developed, redeveloped and existing real estate properties may not perform in accordance with management's expectations because of many factors including the following:

- The Company's purchase price for acquired facilities may be based upon a series of market or building-specific judgments which may be incorrect;
- The costs of any maintenance or improvements for properties might exceed estimated costs;
- The Company may incur unexpected costs in the acquisition, construction or maintenance of real estate assets that could impact its expected returns on such assets; and
- Leasing may not occur at all, within expected time frames or at expected rental rates.

Further, the Company can give no assurance that acquisition, development and redevelopment opportunities that meet management's investment criteria will be available when needed or anticipated.

The Company is exposed to risks associated with geographic concentration.

As of December 31, 2018, the Company had investment concentrations of greater than 5% of its total investments in the Dallas, Texas (12.1%) and Seattle, Washington (11.8%) markets. These concentrations increase the exposure to adverse conditions that

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might affect these markets, including natural disasters, local economic conditions, local real estate market conditions, increased competition, state and local regulation, including property taxes, and other localized events or conditions.

Many of the Company's leases are dependent on the viability of associated health systems. Revenue concentrations relating to these leases expose the Company to risks related to the financial condition of the associated health systems.

The Company's revenue concentrations with tenants are diversified, with the largest revenue concentration relating to Baylor Scott & White Health and its affiliates, which accounted for 9.3% of the Company's consolidated revenues. Most of the Company's properties on or adjacent to hospital campuses are largely dependent on the viability of the health system's campus where they are located, whether or not the hospital or health system is a tenant in such properties. The viability of these health systems depends on factors such as the quality and mix of healthcare services provided, competition, demographic trends in the surrounding community, market position and growth potential. If one of these hospitals is unable to meet its financial obligations, is unable to compete successfully, or is forced to close or relocate, the Company's properties on or near such hospital campus could be adversely impacted.

Many of the Company's properties are held under ground leases. These ground leases contain provisions that may limit the Company's ability to lease, sell, or finance these properties.

As of December 31, 2018, the Company had 107 properties that were held under ground leases, including one property with construction in progress, representing an aggregate gross investment of approximately $2.1 billion. The weighted average remaining term of the Company's ground leases is approximately 67.9 years, including renewal options. The Company's ground lease agreements with hospitals and health systems typically contain restrictions that limit building occupancy to physicians on the medical staff of an affiliated hospital and prohibit tenants from providing services that compete with the services provided by the affiliated hospital. Ground leases may also contain consent requirements or other restrictions on sale or assignment of the Company's leasehold interest, including rights of first offer and first refusal in favor of the lessor. These ground lease provisions may limit the Company's ability to lease, sell, or obtain mortgage financing secured by such properties which, in turn, could adversely affect the income from operations or the proceeds received from a sale. As a ground lessee, the Company is also exposed to the risk of reversion of the property upon expiration of the ground lease term, or an earlier breach by the Company of the ground lease, which may have a material adverse effect on the Company's consolidated financial condition and results of operations.

The Company may experience uninsured or underinsured losses.

The Company carries comprehensive liability insurance and property insurance covering its owned and managed properties. In addition, tenants under single-tenant net leases are required to carry property insurance covering the Company's interest in the buildings. Some types of losses may be uninsurable or too expensive to insure against. Insurance companies limit or exclude coverage against certain types of losses, such as losses due to named windstorms, terrorist acts, earthquakes, and toxic mold. Accordingly, the Company may not have sufficient insurance coverage against certain types of losses and may experience decreases in the insurance coverage available. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital it has invested in a property, as well as the anticipated future revenue from the property. In such an event, the Company might remain obligated for any mortgage debt or other financial obligation related to the property. Further, if any of the Company's insurance carriers were to become insolvent, the Company would be forced to replace the existing coverage with another suitable carrier, and any outstanding claims would be at risk for collection. In such an event, the Company cannot be certain that the Company would be able to replace the coverage at similar or otherwise favorable terms.

The Company has obtained title insurance policies for each of its properties, typically in an amount equal to its original price. However, these policies may be for amounts less than the current or future values of our properties. In such an event, if there is a title defect relating to any of the Company's properties, it could lose some of the capital invested in and anticipated profits from such property. The Company cannot give assurance that material losses in excess of insurance proceeds will not occur in the future.

The Company faces risks associated with security breaches through cyber attacks, cyber intrusions, or otherwise, as well as other significant disruptions of its information technology networks and related systems.

The Company faces risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to emails, persons inside the Company, or persons with access to

systems inside the Company, and other significant disruptions of the Company's information technology ("IT") networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. The Company's IT networks and related systems are essential to the operation of its business and its ability to perform day-to-day operations (including managing building systems) and, in some cases, may be critical to the operations of certain of our tenants. Although the Company makes efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage

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the risk of a security breach or disruption, there can be no assurance that these security measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems, and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not to be detected and may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and it is therefore impossible to entirely mitigate the risk.

A security breach or other significant disruption involving the Company's IT network and related systems could:

- disrupt the proper functioning of the Company's networks and systems and therefore the Company's operations and/or those of certain tenants;
- result in misstated financial reports, violations of loan covenants, missed reporting deadlines, and/or missed permitting deadlines;
- result in the Company's inability to properly monitor its compliance with the rules and regulations regarding the Company's qualification as a REIT;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive, or otherwise valuable information of the Company or others, which others could use to compete against the Company or which could expose it to damage claims by third-parties for disruption, destructive, or otherwise harmful purposes or outcomes;
- result in the Company's inability to maintain the building systems relied upon by the its tenants for the efficient use of their leased space;
- require significant management attention and resources to remedy any damages that result;
- subject the Company to claims for breach of contract, damages, credits, penalties, or termination of leases or other agreements; or
- damage the Company's reputation among its tenants and investors generally.

Any or all of the foregoing could have a material adverse effect on the Company's consolidated financial condition and results of operations.

United States government tenants may not receive annual budget appropriations, which could adversely affect their ability to pay the Company.

The Company may lease to United States government tenants from time to time. Such tenants may be subject to annual budget appropriations. If a United States government tenant fails to receive its annual budget appropriation, it might not be able to make its lease payments to the Company. In addition, defaults under leases with federal government tenants are governed by federal statute and not by state eviction or rent deficiency laws. Leases with United States government tenants typically provide that the government tenant may terminate the lease under certain circumstances. As of December 31, 2018, the Company had one lease with a United States government tenant which accounted for approximately 0.3% of the Company’s total annualized cash net operating income.

Risks relating to our capital structure and financings

The Company has incurred significant debt obligations and may incur additional debt and increase leverage in the future.

As of December 31, 2018, the Company had approximately $1.4 billion of outstanding indebtedness, excluding discounts, premiums and debt issuance costs. Covenants under the Credit Agreement, dated as of October 14, 2011, among the Company and Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto, as amended (“Unsecured Credit Facility”), the Term Loan Agreement, dated as of February 27, 2014, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto, as amended (the “Unsecured Term Loan due 2022”) and the indentures governing the Company’s senior notes permit the Company to incur substantial, additional debt, and the Company may borrow additional funds, which may include secured borrowings. A high level of indebtedness would require the Company to dedicate a substantial portion of its cash flows from operations to service the debt, thereby reducing the funds available to implement the Company’s business strategy and to make distributions to stockholders. A high level of indebtedness could also:

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limit the Company’s ability to adjust rapidly to changing market conditions in the event of a downturn in general economic conditions or in the real estate and/or healthcare industries;

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- impair the Company's ability to obtain additional debt financing or require potentially dilutive equity to fund obligations and carry out its business strategy; and
- result in a downgrade of the rating of the Company's debt securities by one or more rating agencies, which would increase the costs of borrowing under the Unsecured Credit Facility and the cost of issuance of new debt securities, among other things.

In addition, from time to time, the Company secures or assumes mortgages to partially fund its investments. If the Company is unable to meet its mortgage payments, then the encumbered properties could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value. A foreclosure on one or more of the Company's properties could have a material adverse effect on the Company's consolidated financial condition and results of operations.

The Company generally does not intend to reserve funds to retire existing debt upon maturity. The Company may not be able to repay, refinance, or extend any or all of our debt at maturity or upon any acceleration. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect the Company's financial condition and results of operations. Any such refinancing could also impose tighter financial ratios and other covenants that restrict the Company's ability to take actions that could otherwise be in its best interest, such as funding new development activity, making opportunistic acquisitions, or paying dividends.

Covenants in the Company's debt instruments limit its operational flexibility, and a breach of these covenants could materially affect the Company's consolidated financial condition and results of operations.

The terms of the Unsecured Credit Facility, the Unsecured Term Loan due 2022, the indentures governing the Company's outstanding senior notes and other debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. These provisions include, among other things: a limitation on the incurrence of additional indebtedness; limitations on mergers, investments, acquisitions, redemptions of capital stock, and transactions with affiliates; and maintenance of specified financial ratios. The Company's continued ability to incur debt and operate its business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in defaults under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit the Company's operational flexibility, as well as defaults resulting from a breach of any of these covenants in its debt instruments, could have a material adverse effect on the Company's consolidated financial condition and results of operations.

A change to the Company's current dividend payment may have an adverse effect on the market price of the Company's common stock.

The ability of the Company to pay dividends is dependent upon its ability to maintain funds from operations and cash flow, to make accretive new investments and to access capital. There can be no assurance that the Company will continue to pay dividends at current amounts, or at all. A failure to maintain dividend payments at current levels could result in a reduction of the market price of the Company's common stock.

If lenders under the Unsecured Credit Facility fail to meet their funding commitments, the Company's operations and consolidated financial position would be negatively impacted.

Access to external capital on favorable terms is critical to the Company's success in growing and maintaining its portfolio. If financial institutions within the Unsecured Credit Facility were unwilling or unable to meet their respective funding commitments to the Company, any such failure would have a negative impact on the Company's operations, consolidated financial condition and ability to meet its obligations, including the payment of dividends to stockholders.

The unavailability of equity and debt capital, volatility in the credit markets, increases in interest rates, or changes in the Company's debt ratings could have an adverse effect on the Company's ability to meet its debt payments, make dividend payments to stockholders or engage in acquisition and development activity.

A REIT is required by the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), to make dividend distributions, thereby retaining less of its capital for growth. As a result, a REIT typically requires new capital to invest in real estate assets. However, there may be times when the Company will have limited access to capital from the equity and/or debt markets. Changes in the Company's debt ratings could have a material adverse effect on its interest costs and financing sources. The Company's debt rating can be materially influenced by a number of factors including, but not limited to, acquisitions, investment decisions, and capital management activities. In recent years, the capital and credit markets have experienced volatility and at times have limited the availability of funds. The

Company’s ability to access the capital and credit markets may be limited by these or other factors, which could have an impact on its ability to refinance maturing debt, fund dividend payments and operations, acquire healthcare properties and complete development and redevelopment projects. If the Company is unable to refinance or extend principal payments due at maturity of its various debt instruments, its cash flow may not be sufficient to repay maturing debt and, consequently, make dividend payments to stockholders. If the Company defaults in paying any of its debts or satisfying its debt covenants, it could experience cross-defaults among debt instruments, the debts could be accelerated and the Company could be forced to liquidate assets for less than the values it would otherwise receive.

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Further, the Company obtains credit ratings from various credit-rating agencies based on their evaluation of the Company's credit. These agencies' ratings are based on a number of factors, some of which are not within the Company's control. In addition to factors specific to the Company's financial strength and performance, the rating agencies also consider conditions affecting REITs generally. The Company cannot assure you that its credit ratings will not be downgraded. If the Company's credit ratings are downgraded or other negative action is taken, the Company could be required, among other things, to pay additional interest and fees on borrowings under the Unsecured Credit Facility and Unsecured Term Loan due 2022.

The Company is exposed to increases in interest rates, changes to the method that LIBOR rates are determined, and the potential phasing out of LIBOR. Such changes could adversely impact the Company's ability to refinance existing debt, sell assets or engage in acquisition and development activity.

The Company receives a significant portion of its revenues by leasing its assets under long-term leases in which the rental rate is generally fixed, subject to annual rent escalators. A significant portion of the Company’s debt may be subject to floating rates, based on LIBOR or other indices. LIBOR and other interest benchmarks may be subject to regulatory reform that could cause fluctuations in interest rates under the Company's debt agreements that are unanticipated. The United Kingdom's Financial Conduct Authority, which regulates LIBOR, has announced that it intends to stop encouraging or requiring banks to submit rates for the calculation of LIBOR rates after 2021. It is unclear whether LIBOR will cease to exist or if new methods of calculating it will develop. The Company's existing and future debt agreements that are based on LIBOR could be adversely affected by such changes.

In addition, the generally fixed nature of revenues and the variable rate of certain debt obligations create interest rate risk for the Company. Increases in interest rates could make the financing of any acquisition or investment activity more costly. Rising interest rates would increase the cost of borrowing under the Unsecured Credit Facility and the Unsecured Term Loan due 2022, could limit the Company’s ability to refinance existing debt when it matures or cause the Company to pay higher rates upon refinancing. An increase in interest rates also could have the effect of reducing the amounts that third parties might be willing to pay for real estate assets, which could limit the Company’s ability to sell assets at times when it might be advantageous to do so.

The Company's swap agreements may not effectively reduce its exposure to changes in interest rates.

The Company enters into swap agreements from time to time to manage some of its exposure to interest rate volatility. These swap agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements. In addition, these arrangements may not be effective in reducing the Company’s exposure to changes in interest rates. When the Company uses forward-starting interest rate swaps, there is a risk that it will not complete the long-term borrowing against which the swap is intended to hedge. If such events occur, the Company’s consolidated financial condition and results of operations may be adversely affected. See Note 10 to the Consolidated Financial Statements for additional information on the Company's interest rate swaps.

Risks relating to government regulations

If a healthcare tenant loses its licensure or certification, becomes unable to provide healthcare services, cannot meet its financial obligations to the Company or otherwise vacates a facility, the Company would have to obtain another tenant for the affected facility.

If the Company loses a tenant or sponsoring health system because such tenant loses its license or certification, becomes unable to provide healthcare services, cannot meet its financial obligations to the Company or otherwise vacates a facility, and the Company is unable to attract another healthcare provider on a timely basis and on acceptable terms, the Company’s cash flows and results of operations could suffer. Transfers of operations of healthcare facilities are often subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

Adverse trends in the healthcare service industry may negatively affect the Company’s lease revenues and the values of its investments.

The healthcare service industry may be affected by the following:

- trends in the method of delivery of healthcare services;
- competition among healthcare providers;

- consolidation among healthcare providers, health insurers, hospitals and health systems;

- lower reimbursement rates from government and commercial payors, high uncompensated care expense, investment losses and limited admissions growth pressuring operating profit margins for healthcare providers;

- availability of capital;

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- credit downgrades;
- liability insurance expense;
- pharmaceutical drug expense;
- regulatory and government reimbursement uncertainty resulting from the Affordable Care Act and other healthcare reform laws;
- efforts to repeal, replace or modify the Affordable Care Act in whole or in part;
- health reform initiatives to address healthcare costs through expanded value-based purchasing programs, bundled provider payments, health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, lower payments for hospital readmissions, and shared risk-and-reward payment models such as accountable care organizations;
- federal court decisions on cases challenging the legality of the Affordable Care Act, in whole or in part;
- federal and state government plans to reduce budget deficits and address debt ceiling limits by lowering healthcare provider Medicare and Medicaid payment rates;
- equalizing Medicare payment rates across different settings;
- heightened health information technology security standards and the meaningful use of electronic health records by healthcare providers; and
- potential tax law changes affecting providers.

These changes, among others, can adversely affect the economic performance of some or all of the tenants and sponsoring health systems who provide financial support to the Company’s investments and, in turn, negatively affect the lease revenues and the value of the Company’s property investments.

The costs of complying with governmental laws and regulations may adversely affect the Company's results of operations.

All real property and the operations conducted on real property are subject to federal, state, and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on tenants, owners, or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may hinder the Company's ability to sell, rent, or pledge such property as collateral for future borrowings.

Compliance with new laws or regulations or stricter interpretation of existing laws may require the Company to incur significant expenditures. Future laws or regulations may impose significant environmental liability. Additionally, tenant or other operations in the vicinity of the Company's properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect the Company's properties. In addition, there are various local, state, and federal fire, health, life-safety, and similar regulations with which the Company may be required to comply and that may subject us to liability in the form of fines or damages for noncompliance. Any expenditures, fines, or damages that the Company must pay would adversely affect its results of operations. Proposed legislation to address climate change could increase utility and other costs of operating the Company's properties.

Discovery of previously undetected environmentally hazardous conditions may adversely affect the Company's financial condition and results of operations. Under various federal, state, and local environmental laws and regulations, a current or previous property owner or operator may be liable for the cost to remove or remediate hazardous or toxic substances on such property. These costs could be significant. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require significant expenditures or prevent the Company from entering into leases with prospective tenants that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or private parties.

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Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could adversely affect the Company's financial condition and results of operations.

If the Company fails to remain qualified as a REIT, the Company will be subject to significant adverse consequences, including adversely affecting the value of its common stock.

The Company intends to operate in a manner that will allow it to continue to qualify as a REIT for federal income tax purposes. Although the Company believes that it qualifies as a REIT, it cannot provide any assurance that it will continue to qualify as a REIT for federal income tax purposes. The Company's continued qualification as a REIT will depend on the satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. The Company's ability to satisfy the asset tests depends upon the characterization and fair market values of its assets. The Company's compliance with the REIT income and quarterly asset requirements also depends upon the Company's ability to successfully manage the composition of the Company's income and assets on an ongoing basis. Accordingly, there can be no assurance that the Internal Revenue Service ("IRS") will not contend that the Company has operated in a manner that violates any of the REIT requirements.

If the Company were to fail to qualify as a REIT in any taxable year, the Company would be subject to federal income tax on its taxable income at regular corporate rates and possibly increased state and local taxes (and the Company might need to borrow money or sell assets in order to pay any such tax). Further, dividends paid to the Company's stockholders would not be deductible by the Company in computing its taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to the Company's stockholders, which in turn could have an adverse impact on the value of, and trading prices for, the Company's common stock. In addition, in such event the Company would no longer be required to pay dividends to maintain REIT status, which could adversely affect the value of the Company's common stock. Unless the Company were entitled to relief under certain provisions of the Internal Revenue Code, the Company also would continue to be disqualified from taxation as a REIT for the four taxable years following the year in which the Company failed to qualify as a REIT.

Even if the Company remains qualified for taxation as a REIT, the Company is subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed taxable income, and state or local income, franchise, property and transfer taxes. These tax liabilities would reduce the Company's cash flow and could adversely affect the value of the Company's common stock. For more specific information on state income taxes paid, see Note 15 to the Consolidated Financial Statements.

The Company's Articles of Incorporation, as well as provisions of Maryland general corporation law, contain limits and restrictions on transferability of the Company's common stock which may have adverse effects on the value of the Company's common stock.

In order to qualify as a REIT, no more than 50% of the value of the Company's outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. To assist in complying with this REIT requirement, the Company's Articles of Incorporation contain provisions restricting share transfers where the transferee would, after such transfer, own more than 9.9% either in number or value of the outstanding stock of the Company. If, despite this prohibition, stock is acquired increasing a transferee's ownership to over 9.9% in value of the outstanding stock, the stock in excess of this 9.9% in value is deemed to be held in trust for transfer at a price that does not exceed what the purported transferee paid for the stock, and, while held in trust, the stock is not entitled to receive dividends or to vote. In addition, under these circumstances, the Company has the right to redeem such stock.

In addition, provisions of Maryland general corporation law may have anti-takeover effects that delay, defer or prevent a takeover attempt. These provisions include the following:

•

Preferred Stock. The Company's charter authorizes the board of directors to issue preferred stock in one or more classes and establish the preferences and rights of any class of preferred stock issued. These actions can be taken without stockholder approval. The issuance of preferred stock could have the effect of delaying or preventing someone from taking control of the Company.

Business combinations. Pursuant to the Maryland law, the Company cannot merge into or consolidate with another corporation or enter into a statutory share exchange transaction in which the Company is not the surviving entity or sell all or substantially all of its assets unless the board of directors adopts a resolution declaring the proposed transaction advisable and two-thirds of the stockholders voting together as a single class approve the transaction.

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Maryland law prohibits stockholders from taking action by written consent unless all stockholders consent in writing. The practical effect of this limitation is that any action required or permitted to be taken by the Company's stockholders may only be taken if it is properly brought before an annual or special meeting of stockholders. The Company's bylaws further provide that in order for a stockholder to properly bring any matter before a meeting, the stockholder must comply with requirements regarding advance notice. The foregoing provisions could have the effect of delaying until the next annual meeting stockholder actions that the holders of a majority of the Company's outstanding voting securities favor. These provisions may also discourage another person from making a tender offer for the Company's common stock, because such person or entity, even if it acquired a majority of the Company's outstanding voting securities, would likely be able to take action as a stockholder, such as electing new directors or approving a merger, only at a duly called stockholders meeting. Maryland law also establishes special requirements with respect to business combinations between Maryland corporations and interested stockholders unless exemptions apply. Among other things, the law prohibits for five years a merger and other similar transactions between a corporation and an interested stockholder and requires a supermajority vote for such transactions after the end of the five-year period.

- **Control share acquisitions.** Maryland general corporation law also provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquirer or by officers or employee directors. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or to acquisitions approved or exempted by the corporation's charter or bylaws.
- **Maryland unsolicited takeover statute.** Under Maryland law, the Company's board of directors could adopt various anti-takeover provisions without the consent of stockholders. The adoption of such measures could discourage offers for the Company or make an acquisition of the Company more difficult. On February 12, 2019, the Company opted out of the provision of this statute that permits the board to classify without shareholder vote. As such, the Company's board could not classify into multiple classes without stockholders' approval.

These restrictions on transfer of the Company’s shares could have adverse effects on the value of the Company’s common stock.

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

To qualify as a REIT for federal income tax purposes, the Company must continually satisfy tests concerning, among other things, the sources of its income, the nature of its assets, the amounts it distributes to its stockholders and the ownership of its stock. The Company may be unable to pursue investments that would be otherwise advantageous to the Company in order to satisfy the source-of-income or distribution requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder the Company’s ability to make certain attractive investments.

The prohibited transactions tax may limit the Company's ability to sell properties.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The Company may be subject to the prohibited transaction tax equal to 100% of net gain upon a disposition of real property. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, the Company cannot assure you that it can in all cases comply with the safe harbor or that it will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business. Consequently, the Company may choose not to engage in certain sales of its properties or may conduct such sales through a taxable REIT subsidiary, which would be subject to federal and state income taxation.

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize the Company’s REIT qualification. The Company’s continued qualification as a REIT will depend on the Company’s satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, the Company’s ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which the Company has no control or only limited influence,

including in cases where the Company owns an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

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New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for the Company to qualify as a REIT.

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in the Company. The federal income tax rules that affect REITs are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in federal tax laws and interpretations thereof could cause the Company to change its investments and commitments and affect the tax considerations of an investment in the Company. There can be no assurance that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to the Company's qualification as a REIT or with respect to the federal income tax consequences of qualification.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

In addition to the properties described in Item 1. "Business," in Note 2 to the Consolidated Financial Statements, and in Schedule III of Item 15 of this Annual Report on Form 10-K, the Company leases office space from unrelated third parties from time to time. The Company's base rent for 2018 was approximately $1.0 million for office space leases, including its Corporate Headquarters located at 3310 West End Avenue in Nashville, Tennessee. The Company acquired the property where the Corporate Headquarters is located in December 2018.

Item 3. Legal Proceedings

The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of the Company's common stock are traded on the New York Stock Exchange under the symbol "HR." At December 31, 2018, there were 1,005 stockholders of record.

Future dividends will be declared and paid at the discretion of the Board of Directors. The Company's ability to pay dividends is dependent upon its ability to generate funds from operations and cash flows, and to make accretive new investments.

Equity Compensation Plan Information

The following table provides information as of December 31, 2018 about the Company's common stock that may be issued as restricted stock and upon the exercise of options, warrants and rights under all of the Company's existing compensation plans, including the 2015 Stock Incentive Plan and the 2000 Employee Stock Purchase Plan.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	328,533	—	1,788,760
Equity compensation plans not approved by security holders	—	—	—
Total	328,533	—	1,788,760

(1) The outstanding options relate only to the 2000 Employee Stock Purchase Plan. The Company is unable to ascertain with specificity the number of securities to be issued upon exercise of outstanding rights under the 2000 Employee Stock Purchase Plan or the weighted average exercise price of outstanding rights under that plan. The 2000 Employee Stock Purchase Plan provides that shares of common stock may be purchased at a per share price equal to 85% of the fair market value of the common stock at the beginning of the offering period or a purchase date applicable to such offering period, whichever is lower.

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Issuer Purchases of Equity Securities

During the year ended December 31, 2018, the Company withheld and canceled shares of Company common stock to satisfy employee tax withholding obligations payable upon the vesting of non-vested shares, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31	20,687	$ 32.12	—	—
February 1 - February 28	509	29.36	—	—
March 1 - March 31	—	—	—	—
April 1 - April 30	—	—	—	—
May 1 - May 31	—	—	—	—
June 1 - June 30	—	—	—	—
July 1 - July 31	1,359	29.04	—	—
August 1 - August 31	—	—	—	—
September 1 - September 30	—	—	—	—
October 1 - October 31	—	—	—	—
November 1 - November 30	11,318	29.80	—	—
December 1 - December 31	117,480	28.89	—	—
Total	151,353			

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Item 6. Selected Financial Data

The following table sets forth financial information for the Company, which is derived from the Consolidated Financial Statements:

	Year Ended December 31,				
(Amounts in thousands except per share data)	2018	2017 [1]	2016 [1]	2015	2014
Statement of Income Data:					
Total revenues	$450,389	$424,737	$411,955	$388,471	$370,855
Total expenses	370,016	335,055	310,003	283,541	267,100
Other income (expense)	(10,602)	(66,590)	(16,381)	(46,094)	(69,776)
Income from continuing operations	$69,771	$23,092	$85,571	$58,836	$33,979
Income (loss) from discontinued operations	—	—	—	10,600	(1,799)
Net income attributable to common stockholders	$69,771	$23,092	$85,571	$69,436	$31,887
Diluted earnings per common share:					
Income from continuing operations	$0.55	$0.18	$0.78	$0.59	$0.35
Income (loss) from discontinued operations	—	—	—	0.11	(0.02)
Net income attributable to common stockholders	$0.55	$0.18	$0.78	$0.70	$0.33
Weighted average common shares outstanding-Diluted	123,351	118,017	109,387	99,880	96,759
Balance Sheet Data *(as of the end of the period):*					
Real estate properties, gross	$3,974,071	$3,838,638	$3,628,221	$3,380,908	$3,258,279
Real estate properties, net	$2,958,897	$2,941,208	$2,787,382	$2,618,982	$2,557,608
Mortgage notes receivable	$—	$—	$—	$—	$1,900
Assets held for sale, net	$9,272	$33,147	$3,092	$724	$9,146
Total assets	$3,191,247	$3,193,585	$3,040,647	$2,810,224	$2,757,510
Notes and bonds payable, net	$1,345,984	$1,283,880	$1,264,370	$1,424,992	$1,403,692
Total stockholders' equity	$1,716,642	$1,789,883	$1,653,414	$1,242,747	$1,221,054
Other Data:					
Funds from operations [2]	$194,960	$134,274	$174,420	$124,571	$146,493
Funds from operations per common share - Diluted [2]	$1.57	$1.13	$1.59	$1.25	$1.51
Cash flows from operations	$208,355	$179,766	$151,272	$160,375	$125,370
Dividends paid	$150,266	$142,327	$131,759	$120,266	$116,371
Dividends declared and paid per common share	$1.20	$1.20	$1.20	$1.20	$1.20

(1) The Company made certain reclassifications to the Consolidated Statements of Income that are outlined in Note 1, "Summary of Significant Accounting Policies" to the Consolidated Financial Statements. Also, the Company adopted Topic 606 using the full retrospective method on January 1, 2018. The years ended December 31, 2017 and 2016 includes the impact of the adoption.

(2) See "Management’s Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of funds from operations (“FFO”), including why the Company presents FFO and a reconciliation of net income attributable to common stockholders to FFO.

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

Disclosure Regarding Forward-Looking Statements

This report and other materials Healthcare Realty has filed or may file with the Securities and Exchange Commission ("SEC"), as well as information included in oral statements or other written statements made, or to be made, by senior management of the Company, contain, or will contain, disclosures that are "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "target," "intend," "plan," "estimate," "project," "continue," "should," "could" and other comparable terms. These forward-looking statements are based on the current plans and expectations of management and are subject to a number of risks and uncertainties that could significantly affect the Company's current plans and expectations and future financial condition and results.

Such risks and uncertainties as more fully discussed in Item 1A "Risk Factors" of this report and in other reports filed by the Company with the SEC from time to time include, among other things, the following:

Risks relating to our business and operations

- The Company's expected results may not be achieved;
- The Company may decide or may be required under purchase options to sell certain properties. The Company may not be able to reinvest the proceeds from sale at rates of return equal to the return received on the properties sold.
- Uncertain market conditions could result in the Company selling properties at unfavorable rates or at losses in the future;
- The Company's revenues depend on the ability of its tenants under its leases to generate sufficient income from their operations to make rental payments to the Company;
- Owning real estate and indirect interests in real estate is subject to inherent risks;
- The Company may incur impairment charges on its real estate properties or other assets;
- If the Company is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than the previous rates or if the Company is required to undertake significant expenditures to attract new tenants, then the Company's business, consolidated financial condition and results of operations would be adversely affected;
- Certain of the Company's properties are special purpose healthcare facilities and may not be easily adaptable to other uses;
- The Company has, and may have more in the future, exposure to fixed rent escalators, which could lag behind inflation and the growth in operating expenses such as real estate taxes, utilities, insurance, and maintenance expenses;
- The Company's real estate investments are illiquid and the Company may not be able to sell properties strategically targeted for disposition;
- The Company is subject to risks associated with the development and redevelopment of properties;
- The Company may make material acquisitions and undertake developments that may involve the expenditure of significant funds and may not perform in accordance with management's expectations;
- The Company is exposed to risks associated with geographic concentration;
- Many of the Company's leases are dependent on the viability of associated health systems. Revenue concentrations relating to these leases expose the Company to risks related to the financial condition of the associated health systems;
- Many of the Company's properties are held under ground leases. These ground leases contain provisions that may limit the Company's ability to lease, sell, or finance these properties;
- The Company may experience uninsured or underinsured losses;
- The Company faces risks associated with security breaches through cyber attacks, cyber intrusions, or otherwise, as well as other significant disruptions of its information technology networks and related systems;
- United States government tenants may not receive annual budget appropriations, which could adversely affect their ability to pay the Company;

Risks relating to our capital structure and financings

- The Company has incurred significant debt obligations and may incur additional debt and increase leverage in the future;

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- Covenants in the Company’s debt instruments limit its operational flexibility, and a breach of these covenants could materially affect the Company’s consolidated financial condition and results of operations;
- A change to the Company’s current dividend payment may have an adverse effect on the market price of the Company’s common stock;
- If lenders under the Unsecured Credit Facility fail to meet their funding commitments, the Company’s operations and consolidated financial position would be negatively impacted;
- The unavailability of equity and debt capital, volatility in the credit markets, increases in interest rates, or changes in the Company’s debt ratings could have an adverse effect on the Company’s ability to meet its debt payments, make dividend payments to stockholders or engage in acquisition and development activity;
- The Company is exposed to increases in interest rates, changes to the method that LIBOR rates are determined, and the potential phasing out of LIBOR; and such changes could adversely impact the Company's ability to refinance existing debt, sell assets or engage in acquisition and development activity;
- The Company's swap agreements may not effectively reduce its exposure to changes in interest rates;

Risks relating to government regulations

- If a healthcare tenant loses its licensure or certification, becomes unable to provide healthcare services, cannot meet its financial obligations to the Company or otherwise vacates a facility, the Company would have to obtain another tenant for the affected facility;
- Adverse trends in the healthcare service industry may negatively affect the Company’s lease revenues and the values of its investments;
- The costs of complying with governmental laws and regulations may adversely affect the Company's results of operations;
- If the Company fails to remain qualified as a REIT, the Company will be subject to significant adverse consequences, including adversely affecting the value of its common stock;
- The Company's Articles of Incorporation, as well as provisions of Maryland general corporation law, contain limits and restrictions on transferability of the Company's common stock which may have adverse effects on the value of the Company's common stock;
- Complying with the REIT requirements may cause the Company to forego otherwise attractive opportunities;
- The prohibited transactions tax may limit the Company's ability to sell properties;
- Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code; and
- New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for the Company to qualify as a REIT.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Stockholders and investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in the Company’s filings and reports, including, without limitation, estimates and projections regarding the performance of development projects the Company is pursuing.

This section is provided as a supplement to, and should be read in conjunction with, the Company's Consolidated Financial Statements and accompanying notes. This section is organized in the following sections:

- Overview
- Liquidity and Capital Resources
- Trends and Matters Impacting Operating Results
- Results of Operations
- Non-GAAP Financial Measures and Key Performance Indicators
- Off-Balance Sheet Arrangements
- Contractual Obligations
- Application of Critical Accounting Policies to Accounting Estimates

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Overview

The Company owns and operates properties that facilitate the delivery of healthcare services in primarily outpatient settings. To execute its strategy, the Company engages in a broad spectrum of integrated services including leasing, management, acquisition, financing, development and redevelopment of such properties. The Company seeks to generate stable, growing income and lower the long-term risk profile of its portfolio of properties by focusing on facilities located on or near the campuses of acute care hospitals associated with leading health systems. The Company seeks to reduce financial and operational risk by owning properties in diverse geographic locations with a broad tenant mix that includes over 30 physician specialties, as well as surgery, imaging, cancer, and diagnostic centers.

Liquidity and Capital Resources

The Company monitors its liquidity and capital resources and relies on several key indicators in its assessment of capital markets for financing acquisitions and other operating activities as needed, including the following:

•Leverage ratios and lending covenants;

•Dividend payout percentage; and

•Interest rates, underlying treasury rates, debt market spreads and equity markets.

The Company uses these indicators and others to compare its operations to its peers and to help identify areas in which the Company may need to focus its attention.

Sources and Uses of Cash

The Company's revenues are derived from its real estate property portfolio based on contractual arrangements with its tenants and sponsoring health systems. These sources of revenue represent the Company's primary source of liquidity to fund its dividends and its operating expenses, including interest incurred on debt, general and administrative costs, capital expenditures and other expenses incurred in connection with managing its existing portfolio and investing in additional properties. To the extent additional investments are not funded by these sources, the Company will fund its investment activity generally through equity or debt issuances either in the public or private markets, property dispositions or through proceeds from the Unsecured Credit Facility.

The Company expects to continue to meet its liquidity needs, including capital for additional investments, dividend payments and debt service funds through cash flows from operations and the cash flow sources addressed above. The Company also had unencumbered real estate assets, excluding assets held for sale, with a gross book value of approximately $3.6 billion at December 31, 2018, of which a portion could serve as collateral for secured mortgage financing. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

The Company has exposure to variable interest rates and its common stock price is impacted by the volatility in the stock markets. However, the Company’s leases, which provide its main source of income and cash flow, have terms of approximately one to 20 years and have lease rates that generally increase on an annual basis at fixed rates or based on consumer price indices.

Operating Activities

Cash flows provided by operating activities for the three years ended December 31, 2018, 2017 and 2016 were $208.4 million, $179.8 million and $151.3 million, respectively. Several items impact cash flows from operating activities including, but not limited to, cash generated from property operations, interest payments and the timing related to the payment of invoices and other expenses and receipt of tenant rent.

The Company may sell additional properties and redeploy cash from property sales into new investments. To the extent revenues related to the properties being sold exceed income from these new investments, the Company's consolidated results of operations and cash flows could be adversely affected.

See "Trends and Matters Impacting Operating Results" for additional information regarding the Company's operating activities.

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Investing Activities

A summary of the significant transactions impacting investing activities for the year ended December 31, 2018 is listed below. See Note 4 to the Consolidated Financial Statements for more detail on these activities.

Outflows

The following table details the acquisitions for the year ended December 31, 2018:

(Dollars in millions)	Health System Affiliation	Date Acquired	Purchase Price	Mortgage Notes Payable Assumed	Square Footage	Cap Rate [1]	Hospital Campus Location [2]	Type [3]
Seattle, WA	Overlake Health	5/4/18	$ 7.8	$ —	13,314	5.0 %	ADJ	MOB
Denver, CO [4]	CHI	5/18/18	12.1	(8.0)	93,992	5.5 %	ADJ	MOB
Denver, CO [4]	CHI	5/18/18	12.9	—	93,869	7.3 %	ADJ	OFC
Oklahoma City, OK	Integris Health	5/21/18	11.4	—	82,647	5.9 %	ADJ	MOB
Seattle, WA	MultiCare Health	6/29/18	26.2	—	86,942	5.7 %	ON	MOB
Denver, CO	CHI	8/24/18	4.1	—	17,084	6.0 %	ADJ	MOB
Nashville, TN	N/A	12/4/18	31.9	—	108,691	5.0 %	N/A	OFC
Chicago, IL [5]	Ascension Health	12/19/18	5.1	—	14,883	5.9 %	ON	MOB
			$ 111.5	**$ (8.0)**	**511,422**	**5.7 %**		

(1) Cap rate equals the forecasted first year cash net operating income divided by the purchase price plus acquisition costs and expected first year capital expenditures.
(2) ON = Located on a hospital campus; ADJ = Adjacent to hospital campus
(3) MOB = medical office building; OFC = office building
(4) The mortgage note payable assumed at acquisition encumbers both buildings.
(5) The Company acquired an additional suite in a previously acquired medical office building.

In 2018, the Company funded $35.6 million toward development and redevelopment of properties.

In 2018, the Company funded the following tenant improvements and capital expenditures:

- First generation tenant improvements and planned capital expenditures for acquisitions of approximately $13.1 million;
- Second generation tenant improvements of approximately $30.9 million; and
- Capital expenditures of approximately $20.3 million. See the Trends and Matters Impacting Operating Results - Capital Expenditures for more detail.

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Inflows

The following table details these dispositions for the year ended December 31, 2018:

(Dollars in millions)	Date Disposed	Sales Price	Square Footage	Cap Rate [1]	Type [2]
Roanoke, VA [3] [4]	4/26/18	$46.2	460,881	13.3%	MOB, OFC
Michigan [5]	6/27/18	9.5	121,672	25.5%	SNF
St. Louis, MO	8/30/18	9.8	70,893	4.3 %	MOB
Denver, CO	12/20/18	16.9	34,068	6.9 %	IRF
Cleveland, TN	12/21/18	13.3	81,382	6.5 %	MOB
Tucson, AZ	12/27/18	3.0	37,310	8.8 %	MOB
Total dispositions		**$98.7**	**806,206**	**11.4%**	

(1) Cap rate equals in-place cash net operating income divided by the sales price.
(2) MOB = medical office building; SNF = skilled nursing facility; OFC = office; IRF = inpatient rehabilitation facility
(3) Previously classified as held for sale.
(4) Includes seven properties and comprised of five single-tenant net lease buildings and two multi-tenant buildings.
(5) Includes five skilled nursing facilities.

Financing Activities

Debt Activity

Below is a summary of the significant financing activity for the year ended December 31, 2018. See Notes 9 and 10 to the Consolidated Financial Statements for more information on the capital markets and financing activities:

The Company had the following changes in debt structure:

- In January 2018, the Company entered into two interest rate swaps totaling $50.0 million to hedge the 1-month LIBOR portion of the cost of borrowing under the Unsecured Term Loan due 2022 to a fixed rate of interest of 2.46% (plus the applicable margin rate, currently 1.10%) through December 16, 2022.

- The following table details the mortgage note payable activity for the year ended December 31, 2018:

(Dollars in millions)	Transaction Date	Borrowing (Repayment)	Encumbered Square Footage	Contractual Interest Rate
Debt assumptions:				
Denver, CO [1]	05/18/18	$ 8.0	187,861	4.5 %
Total borrowings		**$ 8.0**	**187,861**	**4.5 %**
Repayments in full:				
Richmond, VA	10/1/18	$ (5.7)	59,240	6.6 %
Seattle, WA	12/3/18	(9.1)	35,558	5.8 %
Total repayments		**$ (14.8)**	**94,798**	**6.1 %**

(1) Assumed upon acquisition and excluding fair value adjustments totaling $0.1 million in aggregate recorded at closing.

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The following table details the Company's debt balances as of December 31, 2018:

	Principal Balance	Carrying Balance [3]	Weighted Years to Maturity	Contractual Rate	Effective Rate
Senior Notes due 2023	$250,000	$248,117	4.3	3.75 %	3.95 %
Senior Notes due 2025	250,000	248,278	6.3	3.88 %	4.08 %
Senior Notes due 2028	300,000	295,198	9.0	3.63 %	3.84 %
Total Senior Notes Outstanding	**$800,000**	**$791,593**	**6.7**	**3.74 %**	**3.95 %**
Unsecured credit facility due 2020 [1]	262,000	262,000	1.6	LIBOR+1.00%	3.50 %
Unsecured term loan due 2022 [2]	150,000	149,183	4.0	LIBOR+1.10%	3.53 %
Mortgage notes payable	143,115	143,208	5.1	4.96 %	4.79 %
Total Outstanding Notes and Bonds Payable	**$1,355,115**	**$1,345,984**	**5.2**	**3.80 %**	**3.91 %**

(1) As of December 31, 2018, the Company had $262.0 million outstanding under the Unsecured Credit Facility with a weighted average interest rate of approximately 3.50% and a remaining borrowing capacity of approximately $438.0 million.

(2) The effective interest rate includes the impact of interest rate swaps totaling $25.0 million and $50.0 million to hedge the 1-month LIBOR portion of the cost of borrowing under the Term Loan to a fixed rate of interest of 2.18% and 2.46%, respectively (plus the applicable margin rate, currently 1.10%).

(3) Balances are reflected net of discounts and debt issuance costs and include premiums.

Debt Covenant Information

As of December 31, 2018, 99.0% of the Company’s debt balances were due after 2019. Also, as of December 31, 2018, the Company's limitations of incurrence of total debt covenant as defined in the senior notes due 2025 and 2028 [debt divided by (total assets less intangibles and accounts receivable)] was approximately 32.9% (cannot be greater than 60%) and debt service coverage [interest expense divided by (net income plus interest expense, taxes, deprecation and amortization, gains and impairments)] was approximately 4.8 times (cannot be less than 1.5x).

The Company’s various debt agreements contain certain representations, warranties, and financial and other covenants customary in such debt agreements. Among other things, these provisions require the Company to maintain certain financial ratios and impose certain limits on the Company’s ability to incur indebtedness and create liens or encumbrances. As of December 31, 2018, the Company was in compliance with the financial covenant provisions under all of its various debt instruments.

The Company plans to manage its capital structure to maintain compliance with its debt covenants consistent with its current profile. Downgrades in ratings by the rating agencies could have a material adverse impact on the Company’s cost and availability of capital, which could in turn have a material adverse impact on consolidated results of operations, liquidity and/or financial condition.

Common Stock Issuances

On February 19, 2016, the Company entered into sales agreements with five investment banks to allow sales under its at-the-market equity offering program of up to 10,000,000 shares of common stock. On May 5, 2017, the Company entered into a sales agreement with a sixth investment bank in connection with the same allotment of shares. No shares were issued under this program in 2018. The Company has 5,868,697 authorized shares remaining available to be sold under the current sales agreements as of February 13, 2019.

Trends and Matters Impacting Operating Results

Management monitors factors and trends important to the Company and the REIT industry in order to gauge their potential impact on the operations of the Company. Discussed below are some of the factors and trends that management believes may impact future operations of the Company.

Acquisitions and Dispositions

During 2018, the Company acquired five medical office buildings, an additional suite in a previously acquired medical office building, and two office buildings for purchase prices totaling $111.5 million, including cash consideration of $103.1 million. This includes the assumption of a mortgage note payable of $8.0 million (excluding fair value adjustments totaling $0.1 million recorded at closing). The weighted average capitalization rate for these investments was 5.7%.

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The Company disposed of 16 properties in 2018 for a total sales price of $98.7 million, yielding net cash proceeds of $96.8 million net of $1.9 million of closing costs and related adjustments. The weighted average capitalization rate for these investments was 11.4%.

A component of the Company's strategy is to continually monitor its portfolio for opportunities to improve the overall quality. Properties that are located off-campus, in smaller markets or not associated with the delivery of outpatient healthcare may be sold for higher capitalization rates than properties acquired to replace them. Properties that meet the Company's investment criteria sell for lower capitalization rates because of their lower-risk profile and higher internal growth potential. In addition, the volume and timing of such acquisitions and dispositions could have a material impact on operating results.

See the Company's discussion regarding the 2018 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements.

Development and Redevelopment Activity

In 2018, the Company funded $35.6 million toward development and redevelopment of properties, including the following:

- The Company continued the redevelopment of a medical office building in Charlotte, North Carolina, which includes a 38,000 square foot vertical expansion. The Company funded approximately $6.1 million during the year ended December 31, 2018. The Company expects initial occupancy to occur in the second quarter of 2019.

- The Company continued development of a 151,000 square foot medical office building in Seattle, Washington. The Company funded $21.5 million during the year ended December 31, 2018. The Company expects initial occupancy to occur in the fourth quarter of 2019.

- The Company received a certificate of occupancy for a 99,957 square foot medical office building in Denver, Colorado in 2017. The Company spent $1.8 million during the year ended December 31, 2018 including approximately $0.1 million related to overages on tenant improvement projects that have been or will be reimbursed by the tenant. The Company anticipates funding tenant improvements throughout 2019.

- The Company completed the redevelopment and expansion of one of its medical office buildings in Nashville, Tennessee in 2017. The Company spent approximately $6.1 million during the year ended December 31, 2018, including approximately $1.9 million related to overages on tenant improvement projects that have been or will be reimbursed by the tenant.

The Company is in the planning stages with several health systems and developers regarding new development and redevelopment opportunities and expects one or more to begin in 2019. Total costs to develop or redevelop a typical medical office building can vary depending on the scope of the project, market rental terms, parking configuration, building amenities, asset type and geographic location.

The Company’s disclosures regarding projections or estimates of completion dates and leasing may not reflect actual results. See Note 14 to the Consolidated Financial Statements for more information on the Company’s development and redevelopment activities.

Security Deposits and Letters of Credit

As of December 31, 2018, the Company held approximately $9.1 million in letters of credit and security deposits for the benefit of the Company in the event the obligated tenant fails to perform under the terms of its respective lease. Generally, the Company may, at its discretion and upon notification to the tenant, draw upon these instruments if there are any defaults under the leases.

Multi-Tenant Leases

The Company expects that approximately 20% of the leases in its multi-tenant portfolio will expire each year. In-place multi-tenant leases have a weighted average lease term of 7.4 years and a weighted average remaining lease term of 3.4 years. Demand for well-located real estate with complementary practice types and services remains consistent, and the Company's 2018 quarterly tenant retention statistics ranged from 77% to 87%. In 2019, the Company has 731 leases totaling 2.7 million square feet in its multi-tenant portfolio that are scheduled to expire. Of those leases, 89% are in on-campus buildings, which tend to have a high tenant retention rate.

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Included in the 2019 lease expirations is a 111,000 square foot fitness center leased by Baylor Scott & White that will not renew. This fitness center is located in a 217,000 square foot on-campus medical office building. The Company is exploring options for redevelopment, including converting some or all of the space to clinical use.

The Company continues to emphasize revenue growth for its in-place leases. In 2018, the Company experienced contractual rental rate growth which averaged 2.8% for in-place leases compared to 2.7% in 2017. In addition, the Company continued to see strong quarterly weighted average rental rate growth for renewing leases ("cash leasing spread") and expects the majority of its renewals to increase between 3.0% and 4.0%. In 2018, cash leasing spreads averaged 3.3%.

In a further effort to maximize revenue growth and reduce its exposure to key expenses such as taxes and utilities, the Company carefully manages its balance of lease types. Gross leases, wherein the Company has full exposure to all operating expenses, comprise 13% of its lease portfolio. Modified gross or base year leases, in which the Company and tenant both pay a share of operating expenses, comprise 32% of the Company's leased portfolio. Net leases, in which tenants pay all allowable operating expenses, total 55% of the leased portfolio.

Capital Expenditures

As a part of the Company's leasing practice, the Company seeks to earn a return on capital expenditures when determining asking lease rates for each property by considering gross investment, inclusive of any actual or expected capital expenditures. The Company invested $20.3 million, or $1.37 per square foot, in capital expenditures in 2018 and $18.8 million, or $1.28 per square foot, in capital expenditures in 2017. As a percentage of cash net operating income, 2018 and 2017 capital expenditures were 7.3% and 7.1%, respectively.

Capital expenditures are long-term investments made to maintain and improve the physical and aesthetic attributes of the Company's owned properties. Examples of such improvements include, but are not limited to, material changes to, or the full replacement of, major building systems (exterior facade, building structure, roofs, elevators, mechanical systems, electrical systems, energy management systems, upgrades to existing systems for improved efficiency) and common area improvements (furniture, signage and artwork, bathroom fixtures and finishes, exterior landscaping, parking lots or garages). These additions are capitalized into the gross investment of a property and then depreciated over their estimated useful lives, typically ranging from 7 to 20 years. Capital expenditures specifically do not include recurring maintenance expenses, whether direct or indirect, related to the upkeep and maintenance of major building systems or common area improvements. Capital expenditures also do not include improvements related to a specific tenant suite, unless the improvement is part of a major building system or common area improvement.

Tenant Improvements

The Company may invest in tenant improvements for the purpose of refurbishing or renovating tenant space. The Company categorizes these expenditures into first and second generation tenant improvements.

First Generation Tenant Improvements & Planned Capital Expenditures for Acquisitions

First generation tenant improvements and planned capital expenditures for acquisition spending totaled $13.1 million and $5.4 million for the years ended December 31, 2018 and 2017, respectively. Planned capital expenditures for acquisitions include expected near-term fundings that were contemplated as part of the acquisition.

Second Generation Tenant Improvements

Second generation tenant improvements spending totaled $30.9 million in 2018, or 11.2% of total cash net operating income. In 2017, this spending totaled $20.4 million, or 7.7% of total cash net operating income.

If a tenant spends more than their tenant improvement allowance, the Company generally offers the tenant the option to finance the excess over the lease term with interest or reimburse the overage to the Company in a lump sum. In either case, such overages are amortized by the Company as rental income over the term of the lease. Interest earned on tenant overages is included in other operating income in the Company's Consolidated Statements of Income and

totaled approximately $0.3 million in 2018, $0.4 million in 2017, and $0.5 million in 2016. The tenant overage amount amortized to rent totaled approximately $4.4 million in 2018, $4.6 million in 2017, and $4.6 million in 2016.

Second generation, multi-tenant tenant improvement commitments in 2018 for renewals averaged $1.94 per square foot per lease year, ranging quarterly from $1.50 to $2.48. In 2017, these commitments averaged $1.78 p $1.38 to $2.30. In 2016, these commitments averaged $1.55 per square foot per lease year, ranging quarterly from $1.04 to $1.84.

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Second generation, multi-tenant tenant improvement commitments in 2018 for new leases averaged $4.82 per square foot per lease year, ranging quarterly from $4.04 to $5.42. In 2017, these commitments averaged $3.60 p
$2.10 to $4.78. In 2016, these commitments averaged $4.74 per square foot per lease year, ranging quarterly from $3.79 to $5.55.

Leasing Commissions

In certain markets, the Company may pay leasing commissions to real estate brokers who represent either the Company or prospective tenants, with commissions generally equating to 4% to 6% of the gross lease value for new leases and 2% to 4% of the gross lease value for renewal leases. In 2018, the Company paid leasing commissions of approximately $7.1 million, or $0.48 per square foot. In 2017, the Company paid leasing commissions of approximately $7.1 million, or $0.49 per square foot. As a percentage of total cash net operating income, leasing commissions paid for 2018 and 2017 were 2.6% and 2.7%, respectively. The amount of leasing commissions amortized over the term of the applicable leases and included in property operating expense in the Company's Consolidated Statements of Income totaled $5.2 million, $4.5 million and $4.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Rent Abatements

Rent abatements, which generally take the form of deferred rent, are sometimes used to help induce a potential tenant to lease space in the Company's properties. Such abatements, when made, are amortized by the Company on a straight-line basis against rental income over the lease term. Rent abatements for 2018 totaled approximately $3.1 million, or $0.21 per square foot. Rent abatements for 2017 totaled approximately $3.0 million, or $0.20 per square foot. Rent abatements for 2016 totaled approximately $3.5 million, or $0.24 per square foot.

Single-Tenant Net Leases

The Company has two single-tenant net leased, on-campus inpatient rehabilitation facilities with lease terms scheduled to expire in the third quarter of 2019. The Company expects that the lessee will exercise its third renewal option related to one of the leases, representing 0.9% of the total cash NOI for the twelve months ended December 31, 2018. The other lease, representing 0.8% of total cash NOI for the same period, is not expected to renew; however, the Company expects that either (1) the hospital ground lessor will either exercise its option to purchase the building prior to the expiration of the ground lease on July 31, 2019, or (2) if not, the Company will exercise its option to purchase the land. The purchase price in either case would be determined pursuant to an appraisal process.

As of December 31, 2018, the Company had a total of 16 single-tenant net leases, excluding assets held for sale, with a weighted average lease term of 13.6 years and a weighted average remaining lease term of 8.0 years.

Property Operating Agreement

One of the Company’s 199 owned real estate properties as of December 31, 2018 was covered under a property operating agreement between the Company and a sponsoring health system. This agreement contractually obligates the sponsoring health system to provide to the Company a minimum return on the Company’s investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the Company calculates and accrues to property lease guaranty revenue, each quarter, any shortfalls due from the sponsoring health systems under the terms of the property operating agreement. This agreement expires in February 2019. The Company recognized $0.7 million in property operating guaranty revenue during 2018 related to this agreement.

Operating Leases

As of December 31, 2018, the Company was obligated to make rental payments under operating lease agreements consisting primarily of ground leases related to 60 real estate investments, excluding those ground leases the Company has prepaid. At December 31, 2018, the Company had 107 properties totaling 8.8 million square feet that were held under ground leases with a remaining weighted average term of 67.9 years, including renewal options. These ground leases typically have initial terms of 50 to 75 years with one or more renewal options extending the terms to 75 to 100 years, with expiration dates through 2117. Rental expense relating to the operating leases for the years ended December 31, 2018, 2017 and 2016 was $6.9 million, $6.5 million and $5.8 million, respectively. The Company adopted Accounting Standards Codification 842, "Leases" as of January 1, 2019. See Note 1 to the Consolidated

Financial Statements for additional information regarding the impact of the adoption of this accounting standard.

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Purchase Options

The Company had approximately $117.1 million in real estate properties as of December 31, 2018 that were subject to exercisable purchase options or purchase options that become exercisable during 2019. The Company has approximately $404.1 million in real estate properties that are subject to purchase options that will become exercisable after 2019. Additional information about the amount and basis for determination of the purchase price is detailed in the table below (dollars in thousands):

	Number of Properties		Gross Real Estate Investment as of December 31, 2018		
Year Exercisable	MOB	Inpatient	Fair Market Value Method [1]	Non Fair Market Value Method [2]	Total
Current [3]	3	1	$95,709	$—	$95,709
2019	—	1	21,355	—	21,355
2020	—	—	—	—	—
2021	1	—	—	14,984	14,984
2022	—	—	—	—	—
2023	—	—	—	—	—
2024	—	—	—	—	—
2025	5	1	47,615	221,929	269,544
2026	—	—	—	—	—
2027	—	—	—	—	—
2028	1	—	43,858	—	43,858
2029 and thereafter	3	—	75,733	—	75,733
Total	13	3	$284,270	$236,913	$521,183

(1) The purchase option price includes a fair market value component that is determined by an appraisal process.

(2) Includes properties with stated purchase prices or prices based on fixed capitalization rates. These properties have purchase prices that are on average 17% greater than the Company's current gross investment.

(3) These purchase options have been exercisable for an average of 10.4 years.

Debt Management

The Company maintains a conservative and flexible capital structure that allows it to fund new investments and operate its existing portfolio. The Company has approximately $143.1 million of mortgage notes payable, most of which were assumed when the Company acquired properties. In 2019, approximately $8.9 million of these mortgage notes payable will mature. The Company intends to repay the mortgage notes upon maturity with cash on hand or borrowings under the unsecured credit facility.

Impact of Inflation

The Company is subject to the risk of inflation as most of its revenues are derived from long-term leases. Most of the Company's leases provide for fixed increases in base rents or increases based on the Consumer Price Index, and require the tenant to pay all or some portion of increases in operating expenses. The Company believes that these provisions mitigate the impact of inflation. However, there can be no assurance that the Company's ability to increase rents or recover operating expenses will always keep pace with inflation. The Company's leases have a weighted average lease term remaining of approximately 3.9 years. The following table shows the percentage of the Company's leases that provide for fixed or CPI-based rent increases by type as of December 31, 2018:

	% Increase	% of Base Rent
Annual increase		
CPI	2.1 %	10.0 %
Fixed	2.9 %	81.1 %

Non-annual increase			
CPI	0.9	%1.5	%
Fixed	1.9	%5.9	%
No increase			
Term > 1 year	—	%1.5	%

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New Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for information on new accounting standards including both standards that the Company adopted during the year and those that have not yet been adopted. The Company continues to evaluate the impact of the new standards that have not yet been adopted.

Other Items Impacting Operations

General and administrative expenses will fluctuate quarter-to-quarter. In the first quarter of each year, general and administrative expense includes increases for certain expenses such as payroll taxes, non-cash Employee Stock Purchase Plan expense and healthcare savings account fundings. The Company expects these customary expenses to increase by approximately $0.8 million in the first quarter of 2019. Approximately $0.7 million is not expected to recur in subsequent quarters in 2019.

Results of Operations

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The Company's consolidated results of operations for 2018 compared to 2017 were significantly impacted by acquisitions, dispositions, extinguishments of debt, gain on sales and impairment charges recorded on real estate properties.

Revenues

Rental income increased $25.4 million, or 6.1%, to approximately $442.4 million compared to $417.0 million in the prior year and is comprised of the following:

			Change	
(Dollars in thousands)	**2018**	**2017**	$	%
Property operating	$390,256	$358,009	$32,247	9.0 %
Single-tenant net lease	47,860	52,897	(5,037)	(9.5)%
Straight-line rent	4,281	6,072	(1,791)	(29.5)%
Total Rental income	$442,397	$416,978	$25,419	6.1 %

Property operating income increased $32.2 million, or 9.0%, from the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2017 and 2018 contributed $26.8 million.
- Leasing activity, including contractual rent increases, contributed $8.3 million.
- The conversion of one property to single-tenant net lease resulted in a decrease of $0.6 million.
- Dispositions in 2017 and 2018 resulted in a decrease of $2.3 million.

Single-tenant net lease income decreased $5.0 million, or 9.5%, from the prior year primarily as a result of the following activity:

- Dispositions in 2017 and 2018 resulted in a decrease of $7.2 million.
- Acquisitions in 2017 contributed $0.5 million.
- The conversion of one property from multi-tenant resulted in an increase of $0.4 million.
- Leasing activity, including contractual rent increases, contributed $1.3 million.

Straight-line rent income decreased $1.8 million, or 29.5%, from the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2017 and 2018 resulted in an increase of $0.8 million.
- Dispositions in 2017 and 2018 resulted in a decrease of $0.4 million.
- Net leasing activity and contractual rent increases resulted in a decrease of $2.2 million.

Expenses

Property operating expenses increased $13.3 million, or 8.4%, for the year ended December 31, 2018 compared to the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2017 and 2018 resulted in an increase of $11.4 million.

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- Increases in portfolio operating expenses as follows:
  - property tax expense of $1.6 million;
  - compensation-related expense of $1.1 million;
  - janitorial expense of $0.3 million; and
  - maintenance and repair expense of $0.2 million.
- Dispositions in 2017 and 2018 resulted in a decrease of $1.3 million.

General and administrative expenses increased approximately $1.5 million, or 4.6%, for the year ended December 31, 2018 compared to the prior year primarily as a result of the following activity:
- Increase in non-cash performance-based compensation expense totaling $0.6 million.
- Increase in payroll compensation of $0.9 million.
- Decrease in cash performance-based compensation expense totaling $0.4 million.
- Other net increases, including professional fees and other administrative costs, of $0.4 million.

Depreciation and amortization expense increased $21.7 million, or 15.3%, for the year ended December 31, 2018 compared to the prior year primarily as a result of the following activity:
- Acquisitions and developments in 2017 and 2018 resulted in increases of $18.6 million.
- Various building and tenant improvement expenditures caused increases of $11.7 million.
- Dispositions in 2017 and 2018 resulted in decreases of $3.2 million.
- Assets that became fully depreciated resulted in decreases of $5.4 million.

Other Income (Expense)

Other income (expense), a net expense, decreased $56.0 million, or 84.1%, for the year ended December 31, 2018 compared to the prior year mainly due to the following activity:

Gain on Sales of Real Estate Properties

Gain on sales of real estate properties totaling approximately $41.7 million and $39.5 million are associated with the sales of sixteen and eight real estate properties during 2018 and 2017, respectively.

Interest Expense

Interest expense decreased $3.6 million for the year ended December 31, 2018 compared to the prior year. The components of interest expense are as follows:

(Dollars in thousands)	2018	2017	Change	Percentage Change
Contractual interest	$51,147	$54,435	$(3,288)	(6.0)%
Net discount/premium accretion	5	187	(182)	(97.3)%
Debt issuance costs amortization	2,435	2,476	(41)	(1.7)%
Amortization of interest rate swap settlement	168	175	(7)	(4.0)%
Interest cost capitalization	(951)	(871)	(80)	9.2 %
Total interest expense	$52,804	$56,402	$(3,598)	(6.4)%

Contractual interest decreased $3.3 million, or 6.0%, primarily as a result of the following activity:
- The Senior Notes due 2028 in an aggregate amount of $300.0 million were issued in the fourth quarter of 2017 and accounted for an increase of $10.3 million.
- The Senior Notes due 2021 were repaid in the fourth quarter of 2017 and accounted for a decrease of $21.9 million.
- The Unsecured Credit Facility due 2020 and Unsecured Term Loan due 2022 accounted for a net increase of $7.1 million.
- Mortgage notes assumed upon acquisition of real properties accounted for an increase of $1.7 million, and mortgage notes repayments accounted for a decrease of $0.2 million.
- Scheduled monthly interest payments related to the Company's mortgage notes payable decreased $0.3 million.

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Loss on Extinguishments of Debt

Loss on extinguishment of debt of approximately $45.0 million is associated with the 2017 redemption of the Senior Notes due 2021.

Impairment of Real Estate Assets

Impairment of real estate assets totaling approximately $5.4 million is associated with the sale of two real estate properties during 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

The Company's consolidated results of operations for 2017 compared to 2016 were significantly impacted by acquisitions, dispositions, extinguishments of debt, gain on sales and impairment charges recorded on real estate properties.

Revenues

Rental income increased $14.8 million, or 3.7%, to approximately $417.0 million compared to $402.2 million in the prior year and is comprised of the following:

			Change	
(Dollars in thousands)	**2017**	**2016**	$	%
Property operating	$358,009	$331,109	$26,900	8.1 %
Single-tenant net lease	52,897	63,895	(10,998)	(17.2)%
Straight-line rent	6,072	7,201	(1,129)	(15.7)%
Total Rental income	$416,978	$402,205	$14,773	3.7 %

Property operating income increased $26.9 million, or 8.1%, from the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2016 and 2017 resulted in an increase of $18.2 million.
- Net leasing activity including contractual rent increases and renewals contributed $13.1 million.
- Dispositions in 2016 and 2017 resulted in a decrease of $4.4 million.

Single-tenant net lease income decreased $11.0 million, or 17.2%, from the prior year primarily as a result of the following activity:

- Dispositions in 2016 and 2017 resulted in a decrease of $10.1 million.
- Reduction in lease revenue of $2.1 million upon tenant vacate and reclassification to held for sale.
- Acquisitions in 2016 and 2017 resulted in an increase of $0.7 million.
- Contractual rent increases resulted in an increase of $0.5 million.

Straight-line rent income decreased $1.1 million, or 15.7%, from the prior year primarily as a result of the following activity:

- Acquisitions in 2016 and 2017 resulted in an increase of $0.8 million.
- Dispositions in 2016 and 2017 resulted in a decrease of $0.5 million.
- The effect of prior year rent abatements that expired and net leasing activity resulted in a decrease of $1.4 million.

Other operating income decreased $2.0 million, or 20.4% from the prior year primarily due to the expiration of property operating agreements.

Expenses

Property operating expenses increased $10.7 million, or 7.3%, for the year ended December 31, 2017 compared to the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2016 and 2017 resulted in an increase of $7.7 million.
- Increases in portfolio operating expenses as follows:

property tax expense of $2.0 million;

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maintenance and repair expense of $0.3 million;
ground lease straight-line rent expense of $0.8 million;
janitorial expense of $0.7 million;
utilities expense of $0.3 million;
compensation-related expense of $0.4 million; and
security expense of $0.1 million.

- Dispositions in 2016 and 2017 resulted in a decrease of $1.6 million.

General and administrative expenses increased approximately $1.7 million, or 5.4%, for the year ended December 31, 2017 compared to the prior year primarily as a result of the following activity:

- Increase in non-cash performance-based compensation expense totaling $2.6 million.
- Increase in payroll compensation of $0.4 million.
- Decrease in cash performance-based compensation expense totaling $0.8 million.
- Other net decreases, including professional fees and other administrative costs, of $0.5 million.

Depreciation and amortization expense increased $14.8 million, or 11.6%, for the year ended December 31, 2017 compared to the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2016 and 2017 resulted in increases of $11.1 million.
- Various building and tenant improvement expenditures caused increases of $11.9 million.
- Dispositions in 2016 and 2017 resulted in decreases of $5.2 million.
- Assets that became fully depreciated resulted in decreases of $3.0 million.

Other Income (Expense)

Other income (expense), a net expense, increased $50.2 million, or 306.5%, for the year ended December 31, 2017 compared to the prior year mainly due to the following activity:

Gain on Sales of Real Estate Properties

Gain on sales of real estate properties totaling approximately $39.5 million and $41.0 million are associated with the sales of eight and six real estate properties during 2017 and 2016, respectively.

Interest Expense

Interest expense decreased $0.9 million for the year ended December 31, 2017 compared to the prior year. The components of interest expense are as follows:

(Dollars in thousands)	2017	2016	Change	Percentage Change
Contractual interest	$54,435	$55,666	$(1,231)	(2.2)%
Net discount/premium accretion	187	(45)	232	(515.6)%
Debt issuance costs amortization	2,476	2,820	(344)	(12.2)%
Amortization of interest rate swap settlement	175	168	7	4.2 %
Interest cost capitalization	(871)	(1,258)	387	(30.8)%
Total interest expense	$56,402	$57,351	$(949)	(1.7)%

Contractual interest decreased $1.2 million, or 2.2%, primarily as a result of the following activity:

- The Senior Notes due 2028 in an aggregate amount of $300.0 million were issued in the fourth quarter of 2017 and accounted for an increase of $0.6 million.
- The Senior Notes due 2021 were repaid in the fourth quarter of 2017 and accounted for a decrease of $1.1 million.
- The Unsecured Credit Facility and Unsecured Term Loan due 2022 accounted for a net decrease of $0.2 million.
- Mortgage notes assumed upon acquisition of real properties accounted for an increase of $0.3 million, and mortgage notes repayments accounted for a decrease of $0.9 million.
- Scheduled monthly interest payments related to the Company's mortgage notes payable increased $0.1 million.

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Loss on Extinguishments of Debt

Loss on extinguishment of debt of approximately $45.0 million is associated with the 2017 redemption of the Senior Notes due 2021.

Impairment of Real Estate Assets

Impairment of real estate assets totaling approximately $5.4 million associated with the sale of two real estate properties during 2017.

Non-GAAP Financial Measures and Key Performance Indicators

Management considers certain non-GAAP financial measures and key performance indicators to be useful supplemental measures of the Company's operating performance. A non-GAAP financial measure is generally defined as one that purports to measure financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable measure determined in accordance with generally accepted accounting principles ("GAAP"). Set forth below are descriptions of the non-GAAP financial measures management considers relevant to the Company's business and useful to investors, as well as reconciliations of these measures to the most directly comparable GAAP financial measures.

The non-GAAP financial measures and key performance indicators presented herein are not necessarily identical to those presented by other real estate companies due to the fact that not all real estate companies use the same definitions. These measures should not be considered as alternatives to net income, as indicators of the Company's financial performance, or as alternatives to cash flow from operating activities as measures of the Company's liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of the Company's needs. Management believes that in order to facilitate a clear understanding of the Company's historical consolidated operating results, these measures should be examined in conjunction with net income and cash flows from operations as presented in the Consolidated Financial Statements and other financial data included elsewhere in this Annual Report on Form 10-K.

Funds from Operations ("FFO"), Normalized FFO and Funds Available for Distribution ("FAD")

FFO and FFO per share are operating performance measures adopted by the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as the most commonly accepted and reported measure of a REIT’s operating performance equal to “net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, impairment, and after adjustments for unconsolidated partnerships and joint ventures.”

In addition to FFO, the Company presents Normalized FFO and FAD. Normalized FFO is presented by adding to FFO acquisition-related costs, acceleration of debt issuance costs, debt extinguishment costs and other Company-defined normalizing items to evaluate operating performance. FAD is presented by adding to Normalized FFO non-real estate depreciation and amortization, deferred financing fees amortization, stock-based compensation expense and provision for bad debts, net; and subtracting maintenance capital expenditures, including second generation tenant improvements and leasing commissions paid and straight-line rent income, net of expense. The Company's definition of these terms may not be comparable to that of other real estate companies as they may have different methodologies for computing these amounts. Normalized FFO and FAD should not be considered as an alternative to net income as an indicator of the Company's financial performance or to cash flow from operating activities as an indicator of the Company's liquidity. Normalized FFO and FAD should be reviewed in connection with GAAP financial measures.

Management believes FFO, Normalized FFO, FFO per share, Normalized FFO per share and FAD ("Non-GAAP Measures") provide an understanding of the operating performance of the Company’s properties without giving effect to certain significant non-cash items, primarily depreciation and amortization expense. Historical cost accounting for real estate assets in accordance with GAAP assumes that the value of real estate assets diminishes predictably over time. However, real estate values instead have historically risen or fallen with market conditions. The Company believes that by excluding the effect of depreciation, amortization, impairments and gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, Non-GAAP Measures can facilitate comparisons of operating performance between periods. The Company reports Non-GAAP Measures because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs. For these reasons,

management deems it appropriate to disclose and discuss these Non-GAAP Measures. However, none of these measures represent cash generated from operating activities determined in accordance with GAAP and are not necessarily indicative of cash available to fund cash needs. Further, these measures should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity.

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The table below reconciles net income attributable to common stockholders to FFO, Normalized FFO and FAD for the years ended December 31, 2018, 2017, and 2016.

	Year Ended December 31,		
(Amounts in thousands, except per share data)	**2018**	**2017**	**2016**
Net income	$69,771	$23,092	$85,571
Gain on sales of real estate properties	(41,665)	(39,524)	(41,044)
Impairments	—	5,385	121
Real estate depreciation and amortization	166,854	145,321	129,772
Total adjustments	125,189	111,182	88,849
Funds from Operations	$194,960	$134,274	$174,420
Acquisition and pursuit costs	738	2,180	3,414
Write-off of debt issuance costs upon amendment of credit facilities	—	—	81
Pension termination	—	—	4
Forfeited earnest money received	(466)	—	—
Revaluation of awards upon retirement	70	—	89
Debt financing costs	—	45,773	—
Normalized Funds from Operations	$195,302	$182,227	$178,008
Non-real estate depreciation and amortization	5,892	5,551	5,475
Provision for bad debt, net	60	159	(21)
Straight-line rent income, net	(2,728)	(4,575)	(7,134)
Stock-based compensation	10,621	10,027	7,509
Non-cash items included in cash flows from operating activities	13,845	11,162	5,829
2nd Generation tenant improvements	(30,939)	(20,367)	(23,692)
Leasing commissions paid	(7,119)	(7,099)	(5,210)
Capital expenditures	(20,347)	(18,790)	(17,122)
Funds Available for Distribution	$150,742	$147,133	$137,813
Funds from Operations per Common Share - Diluted	$1.57	$1.13	$1.59
Normalized Funds from Operations per Common Share - Diluted	$1.57	$1.53	$1.63
Weighted average common shares outstanding - Diluted	124,104	118,877	109,387

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Same Store Cash NOI

Cash net operating income ("NOI") and same store cash NOI are key performance indicators. Management considers same store cash NOI a supplemental measure because it allows investors, analysts and Company management to measure unlevered property-level operating results. The Company defines cash NOI as operating revenues (property operating revenue, single-tenant net lease revenue, parking income and property lease guaranty revenue) less property operating expenses related specifically to the property portfolio. Cash NOI excludes general and administrative expenses, interest expense, depreciation and amortization, gains and losses from property sales, property management fees and other revenues and expenses not specifically related to the property portfolio. Cash NOI also excludes non-cash items such as straight-line rent, above and below market lease intangibles, leasing commission amortization, lease inducements, lease terminations and tenant improvement amortization. Same store NOI is historical and not necessarily indicative of future results.

The following table reflects the Company's same store cash NOI for the years ended December 31, 2018 and 2017.

			Same Store Cash NOI for the Year Ended December 31,	
(Dollars in thousands)	**Number of Properties** [1]	**Gross Investment at December 31, 2018**	**2018**	**2017**
Multi-tenant Properties	151	$2,897,873	$208,348	$202,556
Single-tenant Net Lease Properties	14	471,319	42,476	41,101
Total	165	$3,369,192	$250,824	$243,657

(1) Properties are based on the same store definition included below and exclude assets classified as held for sale.

Properties included in the same store analysis are stabilized properties. Stabilized properties are properties that have been included in operations for the duration of the year-over-year comparison period presented and include redevelopment projects. Accordingly, stabilized properties exclude properties that were recently acquired or disposed of, properties classified as held for sale, and recently completed developments. In addition, the Company excludes properties that meet any of the following Company-defined criteria to be included in the reposition property group:

- Properties having less than 60% occupancy that is expected to last at least two quarters;
- Properties that experience a loss of occupancy over 30% in a single quarter; or
- Properties with negative net operating income that is expected to last at least two quarters.

Any recently acquired property will be included in the same store pool once the Company has owned the property for eight full quarters. Development properties will be included in the same store pool eight full quarters after substantial completion or initial occupancy, if different. Any additional square footage created by redevelopment projects at a same store property is included in the same store pool immediately upon completion. Any property included in the reposition property group will be included in the same store analysis once occupancy has increased to 60% or greater with positive net operating income and has remained at that level for eight full quarters.

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The following tables reconcile same store cash NOI to the respective line items in the Consolidated Statements of Income and the same store property count to the total owned real estate portfolio:

Reconciliation of Same Store Cash NOI:

(Dollars in thousands)	Year Ended December 31, 2018	2017
Net income	$69,771	$23,092
Other income (expense)	10,602	66,590
General and administrative expense	34,511	32,992
Depreciation and amortization expense	164,201	142,472
Other expenses [1]	7,849	8,626
Straight-line rent revenue	(4,281)	(6,072)
Other revenue [2]	(5,287)	(4,566)
Cash NOI	277,366	263,134
Cash NOI not included in same store	(26,542)	(19,477)
Same store Cash NOI	$250,824	$243,657

(1) Includes acquisition and pursuit costs, bad debt, above and below market ground lease intangible amortization, leasing commission amortization and ground lease straight-line rent.

(2) Includes management fee income, storage income, interest, mortgage interest income, above and below market lease intangible amortization, lease inducement amortization, lease terminations and tenant improvement overage amortization.

Reconciliation of Same Store Property Count:

	Property Count as of December 31, 2018
Same store properties	165
Acquisitions	22
Development Completions	1
Reposition	11
Total owned real estate properties	199

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that are reasonably likely to have a current or future material effect on its consolidated financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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Contractual Obligations

The Company monitors its contractual obligations to manage the availability of funds necessary to meet obligations when due. The following table represents the Company's long-term contractual obligations for which the Company was making payments as of December 31, 2018, including interest payments due where applicable. The Company is also required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to maintain its qualification as a REIT under the Internal Revenue Code. The Company's material contractual obligations are included in the table below. As of December 31, 2018, the Company had no long-term capital lease obligations.

	Payments Due by Period				
(Dollars in thousands)	**Total**	**Less than 1 Year**	**1 -3 Years**	**3 - 5 Years**	**More than 5 Years**
Long-term debt obligations, including interest [1]	$1,602,728	$52,365	$376,206	$507,276	$666,881
Operating lease commitments [2]	349,750	5,288	10,498	10,431	323,533
Construction in progress [3]	46,133	39,352	6,781	—	—
Tenant improvements [4]	29,176	29,176	—	—	—
Total contractual obligations	$2,027,787	$126,181	$393,485	$517,707	$990,414

(1) The amounts shown include estimated interest on total debt other than the Unsecured Credit Facility and a portion of the Unsecured Term Loan due 2022, whose balance and interest rate may fluctuate from day to day. The fixed rate interest resulting from the Company's outstanding swaps on $75.0 million of the Unsecured Term Loan due 2022 are reflected in the table above. Excluded from the table above are the discounts on the Company's outstanding senior notes of approximately $3.4 million, net premiums totaling $0.8 million on 17 mortgage notes payable, and debt issuance costs totaling approximately $6.5 million which are included in notes and bonds payable on the Company's Consolidated Balance Sheet as of December 31, 2018. The Company's long-term debt principal obligations are presented in more detail in the table below.

(In millions)	**Principal Balance at Dec. 31, 2018**	**Principal Balance at Dec. 31, 2017**	**Maturity Date**	**Contractual Interest Rates at December 31, 2018**	**Principal Payments**	**Interest Payments**
Unsecured Credit Facility	$ 262.0	$ 189.0	7/20	LIBOR + 1.00%	At maturity	Monthly
Unsecured Term Loan due 2022	150.0	150.0	12/22	LIBOR + 1.10%	At maturity	Monthly
Senior Notes due 2023	250.0	250.0	4/23	3.75 %	At maturity	Semi-Annual
Senior Notes due 2025	250.0	250.0	5/25	3.88 %	At maturity	Semi-Annual
Senior Notes due 2028	300.0	300.0	1/28	3.63 %	At maturity	Semi-Annual
Mortgage notes payable	143.1	154.9	7/19-5/40	3.31%-6.88%	Monthly	Monthly
	$ 1,355.1	$ 1,293.9				

(2) Includes primarily ground leases, with expiration dates through 2117, related to various real estate investments for which the Company is currently making payments.

(3) Includes cash flow projections related to the construction of one building in Seattle, Washington and the redevelopment of a building in Charlotte, North Carolina. This amount includes $3.4 million of invoices that were accrued and included in construction in progress on the Company's Consolidated Balance Sheet as of December 31, 2018.

(4) The Company has remaining tenant improvement allowances, excluding construction in progress, of approximately $29.2 million.

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Application of Critical Accounting Policies to Accounting Estimates

The Company's Consolidated Financial Statements are prepared in accordance with GAAP and the rules and regulations of the SEC. In preparing the Consolidated Financial Statements, management is required to exercise judgment and make assumptions that impact the carrying amount of assets and liabilities and the reported amounts of revenues and expenses reflected in the Consolidated Financial Statements.

Management routinely evaluates the estimates and assumptions used in the preparation of its Consolidated Financial Statements. These regular evaluations consider historical experience and other reasonable factors and use the seasoned judgment of management personnel. Management has reviewed the Company's critical accounting policies with the Audit Committee of the Board of Directors.

Management believes the following paragraphs in this section describe the application of critical accounting policies by management to arrive at the critical accounting estimates reflected in the Consolidated Financial Statements. The Company's accounting policies are more fully discussed in Note 1 to the Consolidated Financial Statements.

Principles of Consolidation

The Company's Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries, joint ventures, partnerships and consolidated variable interest entities ("VIE") where the Company controls the operating activities. All material intercompany accounts and transactions have been eliminated.

Management relies on a qualitative analysis based on power and benefits regarding the Company's level of influence or control over an entity to determine whether or not the Company is the primary beneficiary of a variable interest entity. Consideration of various factors includes, but is not limited to, the Company's ability to direct the activities that most significantly impact the entity's economic performance, the Company's form of ownership interest, the Company's representation on the entity's governing body, the size and seniority of the Company's investment, the Company's ability and the rights of other investors to participate in policy making decisions, the Company's ability to replace the manager and/or liquidate the entity. Management's ability to correctly assess its influence or control over an entity when determining the primary beneficiary of a VIE affects the presentation of these entities in the Company's Consolidated Financial Statements.

If it is determined that the Company is the primary beneficiary of a VIE, the Company's Consolidated Financial Statements would include the operating results of the VIE rather than the results of the variable interest in the VIE. The Company would also incorporate the VIE in its internal controls over financial reporting. Untimely or inaccurate financial information provided to the Company or deficiencies in the VIE's internal controls over financial reporting could impact the Consolidated Financial Statements and its internal control over financial reporting.

Capitalization of Costs

GAAP generally allows for the capitalization of various types of costs. The rules and regulations on capitalizing costs and the subsequent depreciation or amortization of those costs versus expensing them in the period incurred vary depending on the type of costs and the reason for capitalizing the costs.

Direct costs of a development project generally include construction costs, professional services such as architectural and legal costs, travel expenses, and land acquisition costs as well as other types of fees and expenses. These costs are capitalized as part of the basis of an asset to which such costs relate. Indirect costs include capitalized interest and overhead costs. Indirect costs are capitalized during construction and on the unoccupied space in a property for up to one year after the property is ready for its intended use. Capitalized interest is calculated using the weighted average interest rate of the Company's unsecured debt or the interest rate on project specific debt, if applicable. The Company's overhead costs are based on overhead load factors that are charged to a project based on direct time incurred. The Company computes the overhead load factors annually for its acquisition and development departments, which have employees who are involved in the projects. The overhead load factors are computed to absorb that portion of indirect employee costs (payroll and benefits, training, and similar costs) that are attributable to the productive time the employee incurs working directly on projects. The employees in the Company's development departments who work on these projects maintain and report their hours daily, by project. Employee costs that are administrative, such as vacation time, sick time, or general and administrative time, are expensed in the period incurred.

Acquisition-related costs include finder's fees, advisory, legal, accounting, valuation, other professional or consulting fees, and certain general and administrative costs are expensed in the period incurred for acquisitions accounted for as

a business combination under Accounting Standards Codification Topic 805, *Business Combinations*. These costs associated with asset acquisitions are capitalized in accordance with GAAP.

Management's judgment is also exercised in determining whether costs that have been previously capitalized to a project should be reserved for or written off if or when the project is abandoned or circumstances otherwise change that would call the

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project’s viability into question. The Company follows a standard and consistently applied policy of classifying pursuit activity as well as reserving for these types of costs based on their classification.

The Company classifies its pursuit projects into two categories relating to development. The first category includes pursuits of developments that have a remote chance of producing new business. Costs for these projects are expensed in the period incurred. The second category includes those pursuits of developments that are either probable or highly probable to result in a project or contract. Since the Company believes it is probable that these pursuits will result in a project or contract, it capitalizes these costs in full and records no reserve.

Each quarter, all capitalized pursuit costs are again reviewed carefully for viability or a change in classification, and a management decision is made as to whether any additional reserve is deemed necessary. If necessary and considered appropriate, management would record an additional reserve at that time. Capitalized pursuit costs, net of the reserve, are carried in other assets in the Company’s Consolidated Balance Sheets, and any reserve recorded is charged to acquisition and pursuit costs on the Consolidated Statements of Income. All pursuit costs will ultimately be written off to expense or capitalized as part of the constructed real estate asset.

As of December 31, 2018 and 2017, the Company's Consolidated Balance Sheets include capitalized pursuit costs relating to potential developments totaling $2.2 million and $2.0 million respectively. The Company expensed costs related to the pursuit of acquisitions totaling $0.6 million, $2.0 million and $4.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. In addition, the Company expensed costs related to the pursuit of developments totaling $0.1 million, $0.2 million and $0.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Valuation of Long-Lived and Intangible Assets and Goodwill

Long-Lived Assets Held and Used

The Company assesses the potential for impairment of identifiable intangible assets and long-lived assets, primarily real estate properties, whenever events occur or a change in circumstances indicates that the carrying value might not be recoverable. Important factors that could cause management to review for impairment include significant underperformance of an asset relative to historical or expected operating results; significant changes in the Company's use of assets or the strategy for its overall business; plans to sell an asset before its depreciable life has ended; the expiration of a significant portion of leases in a property; or significant negative economic trends or negative industry trends for the Company or its operators. In addition, the Company reviews for possible impairment those assets subject to purchase options and those impacted by casualties, such as tornadoes and hurricanes.

The Company may, from time to time, be approached by a third party with interest in purchasing one or more of the Company's operating real estate properties that was otherwise not for sale. Alternatively, the Company may explore disposing of an operating real estate property but without specific intent to sell the property and without the property meeting the criteria to be classified as held for sale (see discussion below). In such cases, the Company and a potential buyer typically negotiate a letter of intent followed by a purchase and sale agreement that includes a due diligence time line for completion of customary due diligence procedures. Anytime throughout this period the transaction could be terminated by the parties. The Company views the execution of a purchase and sale agreement as a circumstance that warrants an impairment assessment and must include its best estimates of the impact of a potential sale in the recoverability test discussed in more detail below.

A property value is considered impaired only if management's estimate of current and projected (undiscounted and unleveraged) operating cash flows of the property is less than the net carrying value of the property. These estimates of future cash flows include only those that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the property based on its estimated remaining useful life. These estimates, including the useful life determination which can be affected by any potential sale of the property, are based on management's assumptions about its use of the property. Therefore, significant judgment is involved in estimating the current and projected cash flows.

When the Company executes a purchase and sale agreement for a held and used property, the Company performs the cash flow estimation described above. This assessment gives consideration to all available information, including an assessment of the likelihood the potential transaction will be consummated under the terms and conditions set forth in the purchase and sale agreement. Management will re-evaluate the recoverability of the property if and when

significant changes occur as the transaction proceeds toward closing. Normally sale transactions will close within 15 to 30 days after the due diligence period expires. Upon expiration of the due diligence period, management will again re-evaluate the recoverability of the property, updating its assessment based on the status of the potential sale. Whenever management determines that the carrying value of an asset that has been tested may not be recoverable, then an impairment charge would be recognized to the extent the current carrying value exceeds the current fair value of the asset. Significant judgment is also involved in making a determination of the estimated fair value of the asset.

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The Company also performs an annual goodwill impairment review. The Company's reviews are performed as of December 31 of each year. The Company's 2018 and 2017 reviews indicated that no impairment had occurred with respect to the Company's $3.5 million goodwill asset.

Long-Lived Assets to be Disposed of by Planned Sale

From time to time management affirmatively decides to sell certain real estate properties under a plan of sale. The Company reclassifies the property or disposal group as held for sale when all the following criteria for a qualifying plan of sale are met:

- Management, having the authority to approve the action, commits to a plan to sell the property or disposal group;
- The property or disposal group is available for immediate sale (i.e., a seller currently has the intent and ability to transfer the property or disposal group to a buyer) in its present condition, subject only to conditions that are usual and customary for sales of such properties or disposal groups;
- An active program to locate a buyer and other actions required to complete the plan to sell have been initiated;
- The sale of the property or disposal group is probable (i.e., likely to occur) and the transfer is expected to qualify for recognition as a completed sale within one year, with certain exceptions;
- The property or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- Actions necessary to complete the plan indicate that it is unlikely significant changes to the plan will be made or that the plan will be withdrawn.

A property or disposal group classified as held for sale is initially measured at the lower of its carrying amount or fair value less estimated costs to sell. An impairment charge is recognized for any initial adjustment of the property's or disposal group's carrying amount to its fair value less estimated costs to sell in the period the held for sale criteria are met. The fair value less estimated costs to sell the property (disposal group) should be assessed each reporting period it remains classified as held for sale. Depreciation ceases as long as a property is classified as held for sale.

If circumstances arise that were previously considered unlikely and a subsequent decision not to sell a property classified as held for sale were to occur, the property is reclassified as held and used. The property is measured at the time of reclassification at the lower of its (a) carrying amount before it was classified as held for sale, adjusted for any depreciation expense or impairment losses that would have been recognized had the property been continuously classified as held and used or (b) fair value at the date of the subsequent decision not to sell. The effect of any required adjustment is reflected in income from continuing operations at the date of the decision not to sell.

The Company did not record any impairment charges in 2018. The Company recorded impairment charges totaling $5.4 million and $0.1 million, respectively, for the years ended December 31, 2017, and 2016 related to real estate properties and other long-lived assets. The impairment charges in 2017 related to two properties sold. The impairment charges in 2016 related to one property classified as held for sale, reducing the Company's carrying value on the property to the estimated fair value of the property less estimated costs to sell.

Depreciation of Real Estate Assets and Amortization of Related Intangible Assets

As of December 31, 2018, the Company had gross investments of approximately $3.7 billion in depreciable real estate assets and related intangible assets. When real estate assets and related intangible assets are acquired or placed in service, they must be depreciated or amortized. Management’s judgment involves determining which depreciation method to use, estimating the economic life of the building and improvement components of real estate assets, and estimating the value of intangible assets acquired when real estate assets are purchased that have in-place leases.

As described in more detail in Note 1 to the Consolidated Financial Statements, when the Company acquires real estate properties with in-place leases, the cost of the acquisition must be allocated between the acquired tangible real estate assets “as if vacant” and any acquired intangible assets. Such intangible assets could include above- (or below-) market in-place leases and at-market in-place leases, which could include the opportunity costs associated with absorption period rentals, direct costs associated with obtaining new leases such as tenant improvements, and customer relationship assets. With regard to the elements of estimating the “as if vacant” values of the property and the intangible assets, including the absorption period, occupancy increases during the absorption period, and tenant improvement amounts, the Company uses the same absorption period and occupancy assumptions for similar property types. Any remaining excess purchase price is then allocated to the tangible and intangible assets based on their

relative fair values. The identifiable tangible and intangible assets are then subject to depreciation and amortization.

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With respect to the building components, there are several depreciation methods available under GAAP. Some methods record relatively more depreciation expense on an asset in the early years of the asset's economic life, and relatively less depreciation expense on the asset in the later years of its economic life. The straight-line method of depreciating real estate assets is the method the Company follows because, in the opinion of management, it is the method that most accurately and consistently allocates the cost of the asset over its estimated life. The Company assigns a useful life to its owned properties based on many factors, including the age and condition of the property when acquired.

Allowance for Doubtful Accounts and Credit Losses

Many of the Company's investments are subject to long-term leases or other financial support arrangements with hospital systems and healthcare providers affiliated with the properties. Due to the nature of the Company's agreements, the Company's accounts receivable, notes receivable and interest receivables result mainly from monthly billings of contractual tenant rents, lease guaranty amounts, principal and interest payments due on notes and mortgage notes receivable, late fees and additional rent.

Payments on the Company's accounts receivable are normally collected within 30 days of billing. When receivables remain uncollected, management must decide whether it believes the receivable is collectible and whether to provide an allowance for all or a portion of these receivables. Unlike a financial institution with a large volume of homogeneous retail receivables such as credit card loans or automobile loans that have a predictable loss pattern over time, the Company's receivable losses have historically been infrequent, and are tied to a unique or specific event. The Company's allowance for doubtful accounts is generally based on specific identification and is recorded for a specific receivable amount once determined that such an allowance is needed.

Management monitors the age and collectability of receivables on an ongoing basis. At least monthly, a report is produced whereby all receivables are "aged" or placed into groups based on the number of days that have elapsed since the receivable was billed. Management reviews the aging report for evidence of deterioration in the timeliness of payments from tenants, sponsoring health systems or borrowers. Whenever deterioration is noted, management investigates and determines the reason or reasons for the delay, which may include discussions with the delinquent tenant, sponsoring health system or borrower. Considering all information gathered, management's judgment must be exercised in determining whether a receivable is potentially uncollectible and, if so, how much or what percentage may be uncollectible. Among the factors management considers in determining uncollectibility are the following:

- type of contractual arrangement under which the receivable was recorded, e.g., a mortgage note, a triple net lease, a gross lease, a property operating agreement or some other type of agreement;
- tenant's or debtor's reason for slow payment;
- industry influences and healthcare segment under which the tenant or debtor operates;
- evidence of willingness and ability of the tenant or debtor to pay the receivable;
- credit-worthiness of the tenant or debtor;
- collateral, security deposit, letters of credit or other monies held as security;
- tenant's or debtor's historical payment pattern;
- other contractual agreements between the tenant or debtor and the Company;
- relationship between the tenant or debtor and the Company;
- state in which the tenant or debtor operates; and
- existence of a guarantor and the willingness and ability of the guarantor to pay the receivable.

Considering these factors and others, management must conclude whether all or some of the aged receivable balance is likely uncollectible. If management determines that some portion of a receivable, including straight-line rent receivables, is likely uncollectible, the Company records a provision for bad debt expense, or a reduction to straight-line rent revenue, for the amount expected to be uncollectible. There is a risk that management's estimate is over- or under-stated. However, management believes that this risk is mitigated by the fact that it re-evaluates the allowance at least once each quarter and bases its estimates on the most current information available. As such, any over- or under-stated estimates in the allowance should be adjusted as soon as new and better information becomes available.

Derivative Instruments

Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the derivative instrument with the recognition of the changes in the fair-value of the hedged asset or liability that are attributable to the hedged risk in a

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fair value hedge or the earnings effect of the hedged forecasted transaction in a cash flow hedge. The accounting for a derivative requires that the Company make judgments in determining the nature of the derivatives and their effectiveness, including ones regarding the likelihood that a forecasted transaction will take place. These judgments could materially affect our consolidated financial statements.

The Company may enter into a derivative instrument to manage interest rate risk from time to time. When a derivative instrument is initiated, the Company will assess its intended use of the derivative instrument and may elect a hedging relationship and apply hedge accounting. As required by the accounting literature, the Company will formally document the hedging relationship for all derivative instruments prior to or contemporaneous with entering into the derivative instrument.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk in the form of changing interest rates on its debt. Management uses regular monitoring of market conditions and analysis techniques to manage this risk.

As of December 31, 2018, $0.9 billion of the Company's $1.3 billion of outstanding debt bore interest at fixed rates, excluding the Company's interest rate swaps which convert a portion of the Unsecured Term Loan due 2022 from variable interest to a fixed interest rate.

The following table provides information regarding the sensitivity of certain of the Company's financial instruments, as described above, to market conditions and changes resulting from changes in interest rates. For purposes of this analysis, sensitivity is demonstrated based on hypothetical 10% changes in the underlying market interest rates.

			Impact on Earnings and Cash Flows	
(Dollars in thousands)	Outstanding Principal Balance as of December 31, 2018	Calculated Annual Interest	Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates
Variable Rate Debt:				
Unsecured Credit Facility	$ 262,000	$ 9,177	$ (656)	$ 656
Unsecured Term Loan due 2022 [1]	150,000	5,295	(530)	530
	$ 412,000	$ 14,472	$ (1,186)	$ 1,186

(1) As of December 31, 2018 the Company had interest rate swaps that fix the interest rate of $75.0 million of the Unsecured Term Loan due 2022.

		Fair Value			
(Dollars in thousands)	Carrying Value as of December 31, 2018	December 31, 2018	Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates	December 31, 2017 (1)
Fixed Rate Debt:					
Senior Notes due 2023 [2]	248,117	239,377	235,028	243,842	240,281
Senior Notes due 2025 [2]	248,278	238,811	232,836	245,147	241,324
Senior Notes due 2028 [2]	295,198	294,662	286,180	303,545	294,848
Mortgage Notes Payable [2]	143,208	142,474	140,649	144,349	155,301
	$ 934,801	$ 915,324	$ 894,693	$ 936,883	$ 931,754

(1) Fair values as of December 31, 2017 represent fair values of obligations that were outstanding as of that date, and do not reflect the effect of any subsequent changes in principal balances and/or additions or extinguishments of instruments.

(2) Balances are presented net of discounts and debt issuance costs and including premiums. The fair value presented

is based on Level 2 inputs defined as model-derived valuations in which significant inputs and significant value drivers are observable in active markets.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Healthcare Realty Trust Incorporated
Nashville, Tennessee

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Healthcare Realty Trust Incorporated (the "Company") and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 13, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2005.

Nashville, Tennessee
February 13, 2019

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Healthcare Realty Trust Incorporated
Consolidated Balance Sheets
(Amounts in thousands, except per share data)

	December 31, 2018	2017
ASSETS		
Real estate properties:		
Land	$230,206	$201,283
Buildings, improvements and lease intangibles	3,675,415	3,601,460
Personal property	10,696	10,314
Construction in progress	33,107	5,458
Land held for development	24,647	20,123
	3,974,071	3,838,638
Less accumulated depreciation	(1,015,174)	(897,430)
Total real estate properties, net	2,958,897	2,941,208
Cash and cash equivalents	8,381	6,215
Assets held for sale, net	9,272	33,147
Other assets, net	214,697	213,015
Total assets	$3,191,247	$3,193,585
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes and bonds payable	$1,345,984	$1,283,880
Accounts payable and accrued liabilities	80,411	70,995
Liabilities of properties held for sale	587	93
Other liabilities	47,623	48,734
Total liabilities	1,474,605	1,403,702
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $.01 par value; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 300,000 shares authorized; 125,279 and 125,132 shares issued and outstanding at December 31, 2018 and 2017, respectively.	1,253	1,251
Additional paid-in capital	3,180,284	3,173,429
Accumulated other comprehensive loss	(902)	(1,299)
Cumulative net income attributable to common stockholders	1,088,119	1,018,348
Cumulative dividends	(2,552,112)	(2,401,846)
Total stockholders’ equity	1,716,642	1,789,883
Total liabilities and stockholders' equity	$3,191,247	$3,193,585

See accompanying notes.

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Healthcare Realty Trust Incorporated

Consolidated Statements of Income

(Amounts in thousands, except per share data)

	Year Ended December 31,		
	2018	**2017**	**2016**
REVENUES			
Rental income	$442,397	$416,978	$402,205
Other operating	7,992	7,759	9,750
	450,389	424,737	411,955
EXPENSES			
Property operating	170,506	157,252	146,529
General and administrative	34,511	32,992	31,309
Acquisition and pursuit costs	738	2,180	4,496
Depreciation and amortization	164,201	142,472	127,690
Bad debt, net of recoveries	60	159	(21)
	370,016	335,055	310,003
OTHER INCOME (EXPENSE)			
Gain on sales of real estate assets	41,665	39,524	41,044
Interest expense	(52,804)	(56,402)	(57,351)
Loss on extinguishment of debt	—	(44,985)	—
Pension termination	—	—	(4)
Impairment of real estate assets	—	(5,385)	(121)
Interest and other income, net	537	658	51
	(10,602)	(66,590)	(16,381)
NET INCOME	$69,771	$23,092	$85,571
Basic earnings per common share	$0.55	$0.18	$0.79
Diluted earnings per common share	$0.55	$0.18	$0.78
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	123,292	117,926	108,572
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	123,351	118,017	109,387

See accompanying notes.

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Healthcare Realty Trust Incorporated

Consolidated Statements of Comprehensive Income

(Amounts in thousands)

	Year Ended December 31,		
	2018	**2017**	**2016**
NET INCOME	$69,771	$23,092	$85,571
Other comprehensive income (loss):			
Interest rate swaps:			
Reclassification adjustment for losses included in net income (Interest expense)	424	176	168
Losses arising during the period	(27)	(74)	—
Other comprehensive income	397	102	168
COMPREHENSIVE INCOME	$70,168	$23,194	$85,739

See accompanying notes.

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Healthcare Realty Trust Incorporated

Consolidated Statements of Equity

(Amounts in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Net Income	Cumulative Dividends	Total Stockholders' Equity
Balance at December 31, 2015	$ —	$ 1,015	$ 2,461,376	$ (1,569)	$ 909,685	$ (2,127,760)	$ 1,242,747
Issuance of stock, net of costs	—	140	450,409	—	—	—	450,549
Common stock redemption	—	—	(1,460)	—	—	—	(1,460)
Stock-based compensation	—	9	7,589	—	—	—	7,598
Net income	—	—	—	—	85,571	—	85,571
Loss on forward starting interest rate swaps	—	—	—	168	—	—	168
Dividends to common stockholders ($1.20 per share)	—	—	—	—	—	(131,759)	(131,759)
Balance at December 31, 2016	—	1,164	2,917,914	(1,401)	995,256	(2,259,519)	1,653,414
Issuance of stock, net of costs	—	84	248,508	—	—	—	248,592
Common stock redemption	—	(1)	(3,017)	—	—	—	(3,018)
Stock-based compensation	—	4	10,024	—	—	—	10,028
Net income	—	—	—	—	23,092	—	23,092
Loss on forward starting interest rate swaps	—	—	—	102	—	—	102
Dividends to common stockholders ($1.20 per share)	—	—	—	—	—	(142,327)	(142,327)
Balance at December 31, 2017	—	1,251	3,173,429	(1,299)	1,018,348	(2,401,846)	1,789,883
Issuance of stock, net of costs	—	—	616	—	—	—	616
Common stock redemption	—	(1)	(4,449)	—	—	—	(4,450)
Stock-based compensation	—	3	10,688	—	—	—	10,691
Net income	—	—	—	—	69,771	—	69,771
Loss on interest rate swaps	—	—	—	397	—	—	397
Dividends to common stockholders ($1.20 per share)	—	—	—	—	—	(150,266)	(150,266)
Balance at December 31, 2018	$ —	$ 1,253	$ 3,180,284	$ (902)	$ 1,088,119	$ (2,552,112)	$ 1,716,642

See accompanying notes.

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Healthcare Realty Trust Incorporated
Consolidated Statements of Cash Flows
(Amounts in thousands)

	Year Ended December 31,		
	2018	2017	2016
OPERATING ACTIVITIES			
Net income	$69,771	$23,092	$85,571
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	164,201	142,472	127,690
Other amortization	3,000	3,879	3,351
Share-based compensation	10,691	10,028	7,598
Amortization of straight-line rent receivable	(4,281)	(6,072)	(7,201)
Amortization of straight-line rent liability	1,519	1,497	67
Gain on sales of real estate assets	(41,665)	(39,524)	(41,044)
Loss on extinguishment of debt	—	44,985	—
Impairment of real estate assets	—	5,385	121
Equity from unconsolidated joint ventures (income)	(4)	(7)	—
Distributions from unconsolidated joint ventures	182	—	—
Provision for bad debts, net	60	159	(21)
Changes in operating assets and liabilities:			
Other assets	(3,998)	(2,156)	(1,332)
Accounts payable and accrued liabilities	4,731	(7,307)	449
Other liabilities	4,148	3,335	(23,977)
Net cash provided by operating activities	208,355	179,766	151,272
INVESTING ACTIVITIES			
Acquisitions of real estate	(104,312)	(274,668)	(224,944)
Development of real estate	(26,728)	(14,911)	(34,719)
Additional long-lived assets	(70,807)	(80,613)	(71,433)
Investment in unconsolidated joint ventures	—	(8,701)	—
Proceeds from sales of real estate	96,812	119,426	93,253
Proceeds from notes receivable repayments	8	19	19
Net cash used in investing activities	(105,027)	(259,448)	(237,824)
FINANCING ACTIVITIES			
Net borrowings (repayments) on unsecured credit facility	73,000	82,000	(99,000)
Repayment on term loan	—	—	(50,000)
Borrowings of notes and bonds payable	—	297,459	11,500
Repayments of notes and bonds payable	(19,850)	(5,829)	(37,910)
Redemption of notes and bonds payable	—	(442,774)	—
Dividends paid	(150,266)	(142,327)	(131,759)
Net proceeds from issuance of common stock	611	248,554	450,503
Common stock redemptions	(4,532)	(1,686)	(1,756)
Debt issuance and assumption costs	(125)	(4,007)	(4,621)
Net cash (used in) provided by financing activities	(101,162)	31,390	136,957
Increase (decrease) in cash, cash equivalents and restricted cash	2,166	(48,292)	50,405
Cash, cash equivalents and restricted cash at beginning of period	6,215	54,507	4,102
Cash, cash equivalents and restricted cash at end of period	$8,381	$6,215	$54,507
Supplemental Cash Flow Information:			
Interest paid	$45,752	$64,395	$55,878
Mortgage notes payable assumed upon acquisition (adjusted to fair value)	$7,995	$43,674	$13,951

Invoices accrued for construction, tenant improvements and other capitalized costs	$12,682	$8,303	$11,734
Capitalized interest	$951	$871	$1,258

See accompanying notes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated (the “Company”) is a real estate investment trust ("REIT") that owns, leases, manages, acquires, finances, develops and redevelops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States of America. The Company had gross investments of approximately $4.0 billion in 199 real estate properties, construction in progress, land held for development and corporate property as of December 31, 2018. The Company’s 199 owned real estate properties are located in 27 states and total approximately 14.8 million square feet. The Company provided property management services to approximately 11.2 million square feet nationwide. Square footage and property count disclosures in this Annual Report on Form 10-K are unaudited.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries, joint ventures, partnerships and consolidated variable interest entities (“VIE”) where the Company controls the operating activities of the VIE.

In accordance with the consolidation accounting standards, the Company must evaluate each contractual relationship it has with its lessees, borrowers, or others to determine whether or not the contractual arrangement creates a variable interest in those entities. If the Company determines that it has a variable interest and the entity is a VIE, then management must determine whether or not the Company is the primary beneficiary of the VIE, resulting in consolidation of the VIE if the Company is the primary beneficiary. A primary beneficiary has the power to direct those activities of the VIE that most significantly impact its economic performance and has the obligation to absorb the losses of, or receive the benefits from, the VIE. The Company had no interests in VIEs as of December 31, 2018 and 2017.

The Company's investments in its unconsolidated joint ventures are included in other assets and the related equity income is recognized within interest and other income, net in other income (expense) on the Company's Consolidated Financial Statements. See Note 7 for additional information.

All significant intercompany accounts, transactions and balances have been eliminated upon consolidation in the Consolidated Financial Statements.

Use of Estimates in the Consolidated Financial Statements

Preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

Segment Reporting

The Company owns, leases, acquires, manages, finances, develops and redevelops outpatient and other healthcare-related properties. The Company is managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision-making. Therefore, the Company discloses its operating results in a single reportable segment.

Real Estate Properties

Real estate properties are recorded at cost or at fair value if acquired in a transaction that is a business combination under Accounting Standards Codification Topic 805, *Business Combinations*. Cost or fair value at the time of acquisition is allocated among land, buildings, tenant improvements, lease and other intangibles, and personal property as applicable. The Company’s gross real estate assets, on a financial reporting basis, totaled approximately $4.0 billion as of December 31, 2018 and $3.8 billion as of December 31, 2017.

During 2018 and 2017, the Company eliminated against accumulated depreciation approximately $9.9 million and $10.2 million, respectively, of fully amortized real estate intangibles that were initially recorded as a component of certain real estate acquisitions. Also during 2018 and 2017, approximately $0.5 million and $2.6 million of fully depreciated tenant and capital improvements that were no longer in service were eliminated against accumulated depreciation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Depreciation expense of real estate properties for the three years ended December 31, 2018, 2017 and 2016 was $143.8 million, $129.4 million and $116.5 million, respectively. Depreciation and amortization of real estate assets and liabilities in place as of December 31, 2018, is provided for on a straight-line basis over the asset's estimated useful life:

Land improvements	5.0 to 39.0 years
Buildings and improvements	3.3 to 39.0 years
Lease intangibles (including ground lease intangibles)	2.1 to 99.0 years
Personal property	2.8 to 20.0 years

The Company capitalizes direct costs, including costs such as construction costs and professional services, and indirect costs, including capitalized interest and overhead costs, associated with the development and construction of real estate assets while substantive activities are ongoing to prepare the assets for their intended use. Capitalized interest cost is calculated using the weighted average interest rate of the Company's unsecured debt or the interest rate on project specific debt, if applicable. The Company continues to capitalize interest on the unoccupied portion of the properties in stabilization for up to one year after the buildings have been placed into service, at which time the capitalization of interest must cease.

Land Held for Development

Land held for development includes parcels of land owned by the Company, upon which the Company intends to develop and own outpatient healthcare facilities. The Company's investment in seven parcels of land held for development located adjacent to certain of the Company's existing medical office buildings in Texas, Iowa, Tennessee and Colorado totaled approximately $24.6 million as of December 31, 2018. The Company's investment in six parcels of land held in Texas, Iowa, and Tennessee totaled approximately $20.1 million as of December 31, 2017.

Asset Impairment

The Company assesses the potential for impairment of identifiable, definite-lived, intangible assets and long-lived assets, including real estate properties, whenever events occur or a change in circumstances indicates that the carrying value might not be fully recoverable. Indicators of impairment may include significant underperformance of an asset relative to historical or expected operating results; significant changes in the Company's use of assets or the strategy for its overall business; plans to sell an asset before its depreciable life has ended; the expiration of a significant portion of leases in a property; or significant negative economic trends or negative industry trends for the Company or its operators. In addition, the Company reviews for possible impairment, those assets subject to purchase options and those impacted by casualties, such as tornadoes and hurricanes. If management determines that the carrying value of the Company's assets may not be fully recoverable based on the existence of any of the factors above, or others, management would measure and record an impairment charge based on the estimated fair value of the property or the estimated fair value less costs to sell the property.

Acquisitions of Real Estate Properties with In-Place Leases

The Company's acquisitions of real estate properties typically do not meet the definition of a business and are accounted for as asset acquisitions. Acquisitions of real estate properties with in-place leases are accounted for at relative fair value. When a building with in-place leases is acquired, the cost of the acquisition must be allocated between the tangible real estate assets "as-if-vacant" and the intangible real estate assets related to in-place leases based on their estimated fair values. The values related to above- or below-market in-place lease intangibles are amortized over the remaining term of the leases upon acquisition to rental income where the Company is the lessor and to property operating expense where the Company is the lessee, and are amortized over the remaining term of the leases upon acquisition.

The Company considers whether any of the in-place lease rental rates are above- or below-market. An asset (if the actual rental rate is above-market) or a liability (if the actual rental rate is below-market) is calculated and recorded in an amount equal to the present value of the future cash flows that represent the difference between the actual lease rate and the average market rate. If an in-place lease is identified as a below-market rental rate, the Company would also evaluate any renewal options associated with that lease to determine if the intangible should include those periods.

The Company also estimates an absorption period, which can vary by property, assuming the building is vacant and must be leased up to the actual level of occupancy when acquired. During that absorption period, the owner would incur direct costs, such as tenant improvements, and would suffer lost rental income. Likewise, the owner would have acquired a measurable asset in that, assuming the building was vacant, certain fixed costs would be avoided because the actual in-place lessees would reimburse a certain portion of fixed costs through expense reimbursements during the absorption period.

All of these intangible assets (above- or below-market lease, tenant improvement costs avoided, leasing costs avoided, rental income lost, and expenses recovered through in-place lessee reimbursements) are estimated and recorded in amounts equal to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the present value of estimated future cash flows. The actual purchase price is allocated based on the various asset fair values described above.

The building and tenant improvement components of the purchase price are depreciated over the estimated useful life of the building or the weighted average remaining term of the in-places leases. The at-market, in-place lease intangibles are amortized to amortization expense over the weighted average remaining term of the leases, customer relationship assets are amortized to amortization expense over terms applicable to each acquisition. Any goodwill recorded through a business combination would be reviewed for impairment at least annually and is not amortized. See Note 8 for more details on the Company's intangible assets.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. In calculating fair value, a company must maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose in the form of an outlined hierarchy the details of such fair value measurements.

A hierarchy of valuation techniques is defined to determine whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

- *Level 1* – quoted prices for identical instruments in active markets;
- *Level 2* – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- *Level 3* – fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Executed purchase and sale agreements, that are binding agreements, are categorized as level one inputs. Brokerage estimates, letters of intent, or unexecuted purchase and sale agreements are considered to be level three as they are nonbinding in nature.

Fair Value of Derivative Financial Instruments

Derivative financial instruments are recorded at fair value on the Company's Consolidated Balance Sheets as other assets or other liabilities. The valuation of derivative instruments requires the Company to make estimates and judgments that affect the fair value of the instruments. Fair values of derivatives are estimated by pricing models that consider the forward yield curves and discount rates. The fair value of the Company's forward starting interest rate swap contracts are estimated by pricing models that consider foreign trade rates and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates that may change in the future. For derivatives designated in qualifying cash flow hedging relationships, the change in fair value of the effective portion of the derivatives is recognized in accumulated other comprehensive income (loss). Gains and losses are reclassified from accumulated other comprehensive income (loss) into earnings once the underlying hedged transaction is recognized in earnings. As of December 31, 2018 and 2017, the Company had $0.9 million and $1.3 million, respectively recorded in accumulated other comprehensive loss related to forward starting interest rate swaps entered into and settled during 2015 and a hedge of the Company's variable rate debt. See Note 10 for additional information.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents includes short-term investments with original maturities of three months or less when purchased. Restricted cash includes cash held in escrow in connection with proceeds from the sales of certain real estate properties. The Company had restricted cash during the years ended December 31, 2018 and 2017. However, the Company reinvested the restricted cash for real estate acquisitions prior to the ending balance sheet date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Allowance for Doubtful Accounts and Credit Losses

Accounts Receivable

Management monitors the aging and collectibility of its accounts receivable balances on an ongoing basis. Whenever deterioration in the timeliness of payment from a tenant or sponsoring health system is noted, management investigates and determines the reason or reasons for the delay. Considering all information gathered, management's judgment is exercised in determining whether a receivable is potentially uncollectible and, if so, how much or what percentage may be uncollectible. Among the factors management considers in determining collectibility are: the type of contractual arrangement under which the receivable was recorded (e.g., a triple net lease, a gross lease, a property operating agreement, or some other type of agreement); the tenant's reason for slow payment; industry influences under which the tenant operates; evidence of willingness and ability of the tenant to pay the receivable; credit-worthiness of the tenant; collateral, security deposit, letters of credit or other monies held as security; tenant's historical payment pattern; other contractual agreements between the tenant and the Company; relationship between the tenant and the Company; the state in which the tenant operates; and the existence of a guarantor and the willingness and ability of the guarantor to pay the receivable. Considering these factors and others, management concludes whether all or some of the aged receivable balance is likely uncollectible. Upon determining that some portion of the receivable is likely uncollectible, the Company records a provision for bad debts for the amount it expects will be uncollectible. When efforts to collect a receivable are exhausted, the receivable amount is charged off against the allowance. The Company does not hold any accounts receivable for sale.

Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized, but are tested at least annually for impairment. Intangible assets with finite lives are amortized over their respective lives to their estimated residual values and are reviewed for impairment only when impairment indicators are present.

Identifiable intangible assets of the Company are comprised of enterprise goodwill, in-place lease intangible assets, customer relationship intangible assets, and debt issuance costs. In-place lease and customer relationship intangible assets are amortized on a straight-line basis over the applicable lives of the assets. Debt issuance costs are amortized over the term of the debt instrument on the effective interest method or the straight-line method when the effective interest method is not applicable. Goodwill is not amortized but is evaluated annually as of December 31 for impairment. Both the 2018 and 2017 impairment evaluations indicated that no impairment had occurred with respect to the $3.5 million goodwill asset. See Note 8 for more detail on the Company's intangible assets.

Contingent Liabilities

From time to time, the Company may be subject to loss contingencies arising from legal proceedings and similar matters. Additionally, while the Company maintains comprehensive liability and property insurance with respect to each of its properties, the Company may be exposed to unforeseen losses related to uninsured or underinsured damages.

The Company continually monitors any matters that may present a contingent liability, and, on a quarterly basis, management reviews the Company's reserves and accruals in relation to each of them, adjusting provisions as necessary in view of changes in available information. Liabilities for contingencies are first recorded when a loss is determined to be both probable and can be reasonably estimated. Changes in estimates regarding the exposure to a contingent loss are reflected as adjustments to the related liability in the periods when they occur.

Because of uncertainties inherent in the estimation of contingent liabilities, it is possible that the Company's provision for contingent losses could change materially in the near term. To the extent that any significant losses, in addition to amounts recognized, are at least reasonably possible, such amounts will be disclosed in the notes to the Consolidated Financial Statements.

Stock-Based Compensation

The Company has various employee and director stock-based awards outstanding. These awards include non-vested common stock and options to purchase common stock granted to employees pursuant to the 2015 Stock Incentive Plan and its predecessor plans (the "2015 Incentive Plan") and the 2000 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan"). The Company recognizes share-based payments to employees and directors in the Consolidated

Statements of Income on a straight-line basis over the requisite service period based on the fair value of the award on the measurement date.

The Employee Stock Purchase Plan features a “look-back” provision which enables the employee to purchase a fixed number of common shares at the lesser of 85% of the market price on the date of grant or 85% of the market price on the date of exercise, with optional purchase dates occurring once each quarter for 27 months. The Company accounts for awards to its employees under the Employee Stock Purchase Plan based on fair value, using the Black-Scholes model, and generally recognizes expense over the award’s vesting period, net of estimated forfeitures. Since the options granted under the Employee Stock Purchase Plan immediately vest, the Company records compensation expense for those options when they are granted in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the first quarter of each year and then may record additional compensation expense in subsequent quarters as warranted. During the years ended December 31, 2018, 2017 and 2016, the Company recognized in general and administrative expenses approximately $0.3 million, $0.2 million, and $0.2 million, respectively, of compensation expense related to the annual grant of options to its employees to purchase shares under the Employee Stock Purchase Plan.

See Note 12 for details on the Company's stock-based awards.

Accumulated Other Comprehensive Income (Loss)

Certain items must be included in comprehensive income, including items such as foreign currency translation adjustments, minimum pension liability adjustments, derivative instruments and unrealized gains or losses on available-for-sale securities. As of December 31, 2018, the Company's accumulated other comprehensive income (loss) consists of the loss for changes in the fair value of active derivatives designated as cash flow hedges and the loss on the unamortized settlement of four forward starting swaps. See Note 10 for more details on the Company's derivative financial instruments.

Revenue from Contracts with Customers (Topic 606)

The Company recognizes certain revenue under the core principle of Topic 606. This requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Lease revenue is not within the scope of Topic 606. To achieve the core principle, the Company applies the five step model specified in the guidance. See the New Accounting Pronouncements section below for additional information.

Revenue that is accounted for under Topic 606 is segregated on the Company's Consolidated Statements of Income in the Other operating line item. This line item includes parking income, property lease guaranty income, management fee income and other miscellaneous income. Below is a detail of the amounts by category:

(in thousands)	Year Ended December 31,		
Type of Revenue	**2018**	**2017**	**2016**
Parking income	$6,930	$6,611	$6,121
Property lease guaranty income	675	726	3,058
Management fee income	273	308	402
Miscellaneous	114	114	169
	$7,992	$7,759	$9,750

The Company's three major types of revenue that are accounted for under Topic 606 that are listed above are all accounted for as the performance obligation is satisfied. The performance obligations that are identified for each of these items are satisfied over time and the Company recognizes revenue monthly based on this principle.

One, one and two of the Company's owned real estate properties as of December 31, 2018, 2017 and 2016, respectively, were covered under property operating agreements between the Company and a sponsoring health system, which contractually obligate the sponsoring health system to provide to the Company a minimum return on the Company's investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the Company calculates and accrues to property lease guaranty revenue, each quarter, any shortfalls due from the sponsoring health systems under the terms of the property operating agreement.

Management fee income for property management services provided to third parties are generally calculated, accrued and billed monthly based on a percentage of cash collections of tenant receivables for the month or a stated amount per square foot. Internal management fee income, where the Company manages its owned properties, is eliminated in consolidation.

Rental Income

Rental income related to non-cancelable operating leases is recognized as earned over the life of the lease agreements on a straight-line basis. The Company's lease agreements generally include provisions for stated annual increases or increases based on a Consumer Price Index ("CPI"). Rental income from properties under multi-tenant office lease arrangements and rental income from properties with single-tenant lease arrangements are included in rental income on the Company's Consolidated

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Statements of Income. The components of rental income are as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2018**	**2017**	**2016**
Property operating income	$390,256	$358,009	$331,109
Single-tenant net lease	47,860	52,897	63,895
Straight-line rent	4,281	6,072	7,201
Rental income	$442,397	$416,978	$402,205

Operating expense recoveries, included in property operating income, were approximately $81.1 million, $73.4 million and $66.0 million, respectively, for the years ended December 31, 2018, 2017 and 2016.

Federal Income Taxes

No provision has been made for federal income taxes. The Company intends at all times to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code. The Company must distribute at least 90% per annum of its real estate investment trust taxable income to its stockholders and meet other requirements to continue to qualify as a real estate investment trust. See Note 15 for further discussion.

The Company classifies interest and penalties related to uncertain tax positions, if any, in the Consolidated Financial Statements as a component of general and administrative expenses. No such amounts were recognized during the three years ended December 31, 2018.

Federal tax returns for the years 2015, 2016, 2017 and 2018 are currently subject to examination by taxing authorities.

State Income Taxes

The Company must pay certain state income taxes and the provisions for such taxes are generally included in general and administrative expense on the Company’s Consolidated Statements of Income. See Note 15 for further discussion.

Sales and Use Taxes

The Company must pay sales and use taxes to certain state tax authorities based on rents collected from tenants in properties located in those states. The Company is generally reimbursed for these taxes by the tenant. The Company accounts for the payments to the taxing authority and subsequent reimbursement from the tenant on a net basis in revenues in the Company’s Consolidated Statements of Income.

Discontinued Operations

The Company sells properties from time to time due to a variety of factors, including among other things, market conditions or the exercise of purchase options by tenants. The Company does not expect these dispositions to meet the amended definition of a discontinued operation as defined in Accounting Standards Update ("ASU") No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The Company adopted ASU No. 2014-08 on a prospective basis beginning January 1, 2015 which excluded properties previously in discontinued operations prior to adoption. However, if a sale were to meet the amended definition representing a strategic shift that has or will have a major effect on the Company's operations and financial results, the operating results of the properties that have been sold or are held for sale will be reported as discontinued operations in the Company’s Consolidated Statements of Income for all periods presented.

Assets Held for Sale

Long-lived assets held for sale are reported at the lower of their carrying amount or their fair value less estimated cost to sell. Further, depreciation of these assets ceases at the time the assets are classified as held for sale. Losses resulting from the sale of such properties are characterized as impairment losses in the Consolidated Statements of Income. See Note 5 for more detail on assets held for sale.

Earnings per Share

The Company uses the two-class method of computing net earnings per common share. Earnings per common share is calculated by considering share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents as participating securities. Undistributed earnings (excess net income over dividend payments) are allocated on a prorata basis to common shareholders and restricted shareholders. Undistributed losses (dividends in excess of net income) do not get allocated to restricted stockholders as they do not have the contractual obligation to

share in losses. The amount of undistributed losses that applies to the restricted stockholders is allocated to the common stockholder.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Basic earnings per common share is calculated using weighted average shares outstanding less issued and outstanding non-vested shares of common stock. Diluted earnings per common share is calculated using weighted average shares outstanding plus the dilutive effect of the outstanding stock options from the Employee Stock Purchase Plan using the treasury stock method and the average stock price during the period. See Note 13 for the calculations of earnings per share.

Reclassifications

Consolidated Statements of Income

Certain reclassifications have been made on the Company's Consolidated Statements of Income. After the adoption of ASU 2014-08, the Company's dispositions have not met the updated definition to be reported as discontinued operations. The Company had some residual impact from properties that were identified as discontinued operations prior to the adoption of ASU 2014-08. These amounts are considered immaterial and have been reclassified for the prior year presentations on the Company's Consolidated Statements of Income.

	Year Ended December 31,			
	2017		2016	
(in thousands)	As Previously Reported	As Reclassified	As Previously Reported	As Reclassified
EXPENSES				
Property operating expense	$157,233	$ 157,252	$146,458	$ 146,529
Bad debt, net	169	159	(21)	(21)
OTHER INCOME (EXPENSE)				
Gain on sales of properties	$39,519	$ 39,524	$41,038	$ 41,044
Impairments	(5,385)	(5,385)	—	(121)
INCOME FROM CONTINUING OPERATIONS	$23,096	$ 23,092	$85,756	$ 85,571
DISCONTINUED OPERATIONS				
Loss from discontinued operations	$(9)	$ —	$(71)	$ —
Impairments of real estate assets	—	—	(121)	—
Gain on sales of properties	5	—	7	—
LOSS FROM DISCONTINUED OPERATIONS	$(4)	$—	$(185)	$—

New Accounting Pronouncements

Accounting Standards Update No. 2014-09 and No. 2015-14

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers," a comprehensive new revenue recognition standard that supersedes most existing revenue recognition guidance, including sales of real estate. This standard's core principle is that a company will recognize revenue when it transfers goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods and services. However, leasing contracts, representing the major source of the Company's revenues, are not within the scope of the new standard and will continue to be accounted for under other standards.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606); Deferral of the Effective Date." This standard is effective for the Company for annual and interim periods beginning after December 15, 2017.

The Company adopted this standard by using the full retrospective adoption method beginning on January 1, 2018. The Company's revenue-producing contracts are primarily leases that are not within the scope of this standard. As a result, the adoption of this standard did not have a material impact on the timing and measurement of the Company's leasing revenues. The Company has identified that parking income, property lease guaranty income and management fee income are within the scope of Topic 606. However, these items were determined to have the same pattern of revenue recognition that the Company had historically recognized. The Company reclassified these amounts along with all other items that are accounted for within

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the scope of Topic 606 into the Other operating line item on the Company's Consolidated Statements of Income. This line item historically contained the revenue associated with property lease guaranty income, management fee income and other non-lease revenue. The Company reclassified parking income from rental income to other operating.

The following table represents the impact of the adoption of this standard on the Company's Consolidated Statements of Income for the years ended December 31, 2017 and 2016:

	Year Ended December 31,			
	2017		2016	
(in thousands)	As Previously Reported	As Reclassified	As Previously Reported	As Reclassified
REVENUES				
Rental income	$422,852	$ 416,978	$407,481	$ 402,205
Other operating	1,647	7,759	4,149	9,750
	$424,499	$ 424,737	$411,630	$ 411,955
OTHER INCOME (EXPENSE)				
Interest and other income, net	$896	$ 658	$375	$ 51
NET INCOME	$23,092	$ 23,092	$85,571	$ 85,571

Accounting Standards Update No. 2016-02, No. 2018-01 and No. 2018-11

In February 2016, the FASB issued ASU 2016-02, "Leases." In January 2018, the FASB issued ASU 2018-01, "Leases - Land Easement Practical Expedient for Transition to Topic 842," in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases" and ASU 2018-11, "Leases - Targeted Improvements," and in December 2018, the FASB issued ASU 2018-20, “Narrow-Scope Improvements for Lessors.” These accounting standard updates are collectively referred to as "Topic 842."

Topic 842 provides several practical expedients that the Company expects to elect. These are (a) the package of practical expedients offered that allows an entity not to reassess upon adoption (i) whether an expired or existing contract contains a lease, (ii) lease classification related to expired or existing lease arrangements, and (iii) whether costs incurred on expired or existing leases qualify as initial direct costs, and (b) the practical expedient not to separate certain non-lease components, such as common area maintenance, from the lease component if (i) the timing and pattern of transfer are the same for the non-lease component and associated lease component, and (ii) the lease component would be classified as an operating lease if accounted for separately.

For lessees, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the income statement. The Company expects that most of the leases where the Company is the lessee will be recorded on the Company's balance sheet as operating leases. These leases are primarily ground leases, but also include management office leases in third party buildings and certain copier and postage machine leases. The Company utilized a third party to assist in determining the discount rate for its ground leases. The terms of the ground leases generally range from 40 to 99 years with a weighted average remaining lease term remaining of 53.9 years, excluding renewal options. The Company's discount rates ranged from 2.9% for leases expiring in 2019 to 6.2% for leases expiring in 2115. The Company expects to recognize as of January 1, 2019 the present value of its lease payments of $90.0 million to $100.0

million with a corresponding lease liability of $90.0 million to $100.0 million.

For lessors, the new standard requires a lessor to classify leases as either sales-type, direct-financing or operating. A lease will be treated as a sale if it is considered to transfer control of the underlying asset to the lessee. A lease will be classified as direct-financing if risks and rewards are conveyed without the transfer of control. Otherwise, the lease is treated as an operating lease. Lessor accounting remains largely unchanged with some exceptions including the concept of separating lease and nonlease components. Nonlease components, such as common area maintenance, will be accounted for under Topic 606 and separated

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

from the lease payments. However, the Company will elect the lessor practical expedient allowing the Company to not separate these components when certain conditions are met. The Company does not expect a material impact from the adoption of Topic 842 related to leases where the Company is the lessor.
The new standard is effective for the Company on January 1, 2019. Topic 842 provides two transition alternatives. The Company elected to choose the prospective optional transition method available to apply the guidance in Accounting Standards Codification Topic 840 in the comparative periods presented in the year Topic 842 is adopted. Topic 842 includes extensive quantitative and qualitative disclosures as compared to Topic 840, Leases, for both lessees and lessors.

Accounting Standards Update No. 2016-13

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This update is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other such commitments. This update requires that financial statement assets measured at an amortized cost and certain other financial instruments be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. This standard is effective for annual and interim periods beginning after December 15, 2019 with early adoption permitted. The Company is in the initial stages of evaluating the impact from the adoption of this new standard on the Consolidated Financial Statements and related notes. However, operating lease receivables, representing the majority of the Company's receivables, are not within the scope of the new standard.

Accounting Standards Update No. 2016-15

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments." This update clarifies whether the following items should be classified as operating, investing or financing in the statement of cash flows: (i) debt prepayments and extinguishment costs, (ii) settlement of zero-coupon debt, (iii) settlement of contingent consideration, (iv) insurance proceeds, (v) settlement of corporate-owned life insurance and bank-owned life insurance policies, (vi) distributions from equity method investees, (vii) beneficial interest in securitization transactions and (viii) receipts and payments with aspects of more than one class of cash flows.

This standard was effective for the Company for annual and interim periods beginning on January 1, 2018 with early adoption permitted on a retrospective transition method to each period presented. The Company adopted this standard effective January 1, 2017. In connection with the adoption of this update, the Company elected to use the cumulative earnings approach to classify distributions when received related to the Company's equity method investments. There was not a material impact on the Company's Consolidated Financial Statements and related notes resulting from the adoption of this standard.

Accounting Standards Update No. 2017-01

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations: Clarifying the Definition of a Business." This update modifies the requirements to meet the definition of a business under Topic 805, "Business Combinations." The amendments provide a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. The Company believes that this amendment will result in most of its real estate acquisitions being accounted for as asset acquisitions rather than business combinations. This standard was effective for the Company for annual and interim periods beginning after December 15, 2017 with early adoption permitted. The Company adopted this standard effective January 1, 2017 and has accounted for acquisitions that occurred during the year as asset acquisitions. The impact to the Consolidated Financial Statements and related notes as a result of the adoption of this standard is

primarily related to the difference in the accounting of acquisition costs. When accounting for these costs as a part of an asset acquisition, the Company is permitted to capitalize the costs. The adoption of this standard did not have a material impact on the Consolidated Financial Statements and related notes.

Accounting Standards Update No. 2017-04

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment." This update eliminates Step 2 of the goodwill impairment test. As such, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the reporting unit's carrying amount exceeds its fair value. This standard is effective for the Company for annual and interim periods beginning after December 15, 2019. The Company does not expect a material impact on the Consolidated Financial Statements and related notes from the adoption of this standard.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Accounting Standards Update No. 2017-05

In February 2017, the FASB issued ASU 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets." This update defines an in-substance nonfinancial asset, unifies guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing the sales of real estate, removes exception to the financial asset derecognition model and clarifies the accounting for contributions of nonfinancial assets to joint ventures. This standard is effective for the Company for annual and interim periods beginning after December 15, 2017 with early adoption permitted. The Company adopted this standard as of January 1, 2018 using the full retrospective adoption method. However, there was no impact to the Company's Consolidated Financial Statements from the adoption of this standard.

Accounting Standards Update No. 2017-09

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation - Scope of Modification Accounting." This update provides guidance about which changes to the terms and conditions of share-based awards require an entity to apply modification accounting in Topic 718. This standard is effective for the Company for the annual and interim periods beginning after December 15, 2017 with early adoption permitted. The Company adopted this standard on January 1, 2018. There was not a material impact to the Consolidated Financial Statements from the adoption of this standard.

Accounting Standards Update No. 2018-07

In June 2018, the FASB issued ASU 2018-07, "Compensation - Stock Compensation - Improvements to Nonemployee Share-Based Payment Accounting." This update supersedes most of the prior accounting guidance on nonemployee share-based payments, and instead aligns it with existing guidance on employee share-based payments in Topic 718. As a result, nonemployee share-based payment transactions will be measured by estimating the fair value of the equity instrument that an entity is obligated to issue and the measurement date will be consistent with the measurement date for employee share-based payment awards. Probability is to be considered on nonemployee awards with performance conditions. The classification will continue to be subject to the requirements of Topic 718, although cost recognition of nonemployee awards will remain unchanged. The amendments become effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company adopted this standard as of January 1, 2019. The adoption of this standard did not have a material impact to the Company's Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2. Property Investments

The Company invests in healthcare-related properties located throughout the United States. The Company provides management, leasing, development and redevelopment services, and capital for the construction of new facilities as well as for the acquisition of existing properties. The Company had gross investments of approximately $4.0 billion in 199 real estate properties, construction in progress, land held for development and corporate property as of December 31, 2018. The following table summarizes the Company's investments at December 31, 2018.

(Dollars in thousands)	Number of Facilities	Land	Buildings, Improvements,and Lease Intangibles	Personal Property	Total	Accumulated Depreciation
Dallas, TX	25	$16,911	$ 464,077	$430	$481,418	$(166,980)
Seattle, WA	19	28,867	438,880	419	468,166	(69,148)
Nashville, TN	6	20,053	176,257	1,041	197,351	(53,052)
Atlanta, GA	8	1,015	189,167	37	190,219	(11,547)
Los Angeles, CA	12	27,709	157,496	316	185,521	(87,678)
Charlotte, NC	16	4,200	162,922	99	167,221	(60,389)
Denver, CO	9	16,514	131,760	273	148,547	(20,315)
Richmond, VA	7	—	147,809	106	147,915	(38,288)
Honolulu, HI	3	8,327	134,037	159	142,523	(34,703)
Des Moines, IA	7	12,665	127,063	99	139,827	(30,376)
Houston, TX	8	13,672	118,918	77	132,667	(39,195)
Oklahoma City, OK	3	9,427	111,452	10	120,889	(14,751)
San Francisco, CA	3	14,054	105,611	43	119,708	(15,539)
Springfield, MO	1	1,989	109,304	—	111,293	(14,893)
Austin, TX	5	14,236	91,816	119	106,171	(20,766)
Washington, DC	4	—	101,186	8	101,194	(20,701)
Memphis, TN	7	5,241	90,966	191	96,398	(35,109)
San Antonio, TX	7	6,647	88,954	378	95,979	(37,877)
Chicago, IL	3	5,859	86,068	201	92,128	(19,372)
Indianapolis, IN	3	3,299	72,360	—	75,659	(21,299)
Minneapolis, MN	4	2,090	61,761	—	63,851	(7,750)
Other (20 markets)	39	17,431	507,551	1,190	526,172	(190,586)
	199	230,206	3,675,415	5,196	3,910,817	(1,010,314)
Land held for development	—	24,647	—	—	24,647	(393)
Construction in progress		—	33,107	—	33,107	—
Corporate property	—	—		5,500	5,500	(4,467)
Total real estate investments	199	$254,853	$ 3,708,522	$10,696	$3,974,071	$(1,015,174)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

3. Real Estate Leases

Real Estate Leases

The Company’s properties are generally leased pursuant to non-cancelable, fixed-term operating leases with expiration dates through 2036. Some leases and financial arrangements provide for fixed rent renewal terms in addition to market rent renewal terms. Some leases provide the lessee, during the term of the lease and for a short period thereafter, with an option or a right of first refusal to purchase the leased property. The Company’s portfolio of single-tenant net leases generally requires the lessee to pay minimum rent and all taxes (including property tax), insurance, maintenance and other operating costs associated with the leased property.

Future minimum lease payments under the non-cancelable operating leases, excluding any reimbursements, as of December 31, 2018 are as follows (in thousands):

2019	$326,441
2020	279,211
2021	235,660
2022	201,072
2023	163,978
2024 and thereafter	476,673
	$1,683,035

Revenue Concentrations

The Company’s real estate portfolio is leased to a diverse tenant base. The Company did not have any customers that account for 10% or more of the Company's revenues for the years ended December 31, 2018, 2017 and 2016.

Purchase Option Provisions

Certain of the Company’s leases include purchase option provisions. The provisions vary by agreement but generally allow the lessee to purchase the property covered by the agreement at fair market value or an amount equal to the Company’s gross investment. The Company expects that the purchase price from its purchase options will be greater than its net investment in the properties at the time of potential exercise by the lessee. The Company had approximately $117.1 million in five real estate properties as of December 31, 2018 that were subject to purchase options that were exercisable or become exercisable during 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

4. Acquisitions, Dispositions and Mortgage Repayments

2018 Real Estate Acquisitions

The following table details the Company's acquisitions for the year ended December 31, 2018:

(Dollars in millions)	Type [1]	Date Acquired	Purchase Price	Mortgage Notes Payable Assumed [2]	Cash Consideration[3]	Real Estate	Other [4]	Square Footage *(Unaudited)*
Seattle, WA	MOB	5/4/18	$ 7.8	$ —	$ 7.8	$7.8	$—	13,314
Denver, CO [5]	MOB	5/18/18	12.1	(8.0)	3.8	12.1	(0.2)	93,992
Denver, CO [5]	OFC	5/18/18	12.9	—	12.8	13.0	(0.2)	93,869
Oklahoma City, OK	MOB	5/21/18	11.4	—	11.4	11.5	(0.1)	82,647
Seattle, WA	MOB	6/29/18	26.2	—	26.2	26.7	(0.5)	86,942
Denver, CO	MOB	8/24/18	4.1	—	4.2	4.2	—	17,084
Nashville, TN	OFC	12/4/18	31.9	—	32.0	32.0	—	108,691
Chicago, IL [5]	MOB	12/19/18	5.1	—	4.9	5.1	(0.2)	14,883
			$ 111.5	$ (8.0)	$ 103.1	$112.4	$(1.2)	511,422

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(1) MOB = medical office building; OFC = office

(2) The mortgage note payable assumed in the acquisition does not reflect the fair value premium totaling $0.1 million recorded by the Company upon acquisition (included in Other).

(3) Cash consideration excludes prorations of revenue and expense due to/from seller at the time of the acquisition.

(4) Includes other assets acquired, liabilities assumed, intangibles recognized at acquisition and fair value adjustments on debt assumed.

(5) The mortgage note payable assumed at acquisition encumbers both buildings.

(6) The Company acquired an additional suite in a previously acquired medical office building.

The following table summarizes the estimated relative fair values of the assets acquired and liabilities assumed in the real estate acquisitions for 2018 as of the acquisition date:

	Estimated Fair Value	Estimated Useful Life
	(In millions)	*(In years)*
Building	$ 64.0	20.0 - 30.0
Land	31.4	—
Land Improvements	2.7	5.0 - 13.5
Intangibles:		
At-market lease intangibles	14.3	1.3 - 4.2
Below-market lease intangibles	(0.1)	3.8
Total intangibles	14.2	
Mortgage notes payable assumed, including fair value adjustments	(8.0)	
Other assets acquired	0.2	
Accounts payable, accrued liabilities and other liabilities assumed	(1.4)	
Total cash paid	$ 103.1	

Non-monetary Exchange

On June 29, 2018, the Company completed the swap of a non-revenue producing garage that was built by the Company in 2012 located in Denver, Colorado for 20.5 acres of land adjacent to the Catholic Health Initiative’s St. Anthony Hospital campus. A portion of this land, approximately 4.6 acres, has been allocated to an existing medical

office building that was developed by the Company in 2017. This building is located on land previously ground leased from the hospital. The remaining land has been recorded in land held for development. The land acquired was appraised for $5.8 million. The Company had a net investment of $3.9 million in the parking garage and recognized a gain of $1.9 million in connection with this transaction.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2017 Real Estate Acquisitions

The following table details the Company's acquisitions for the year ended December 31, 2017:

(Dollars in millions)	Type [1]	Date Acquired	Purchase Price	Mortgage Notes Payable Assumed [2]	Cash Consideration[3]	Real Estate	Other [4]	Square Footage *(Unaudited)*
Real estate acquisitions								
St. Paul, MN	MOB	3/6/17	$ 13.5	$ —	$ 13.5	$13.3	$0.2	34,608
San Francisco, CA	MOB	6/12/17	26.8	—	26.8	26.8	—	75,649
Washington, D.C.	MOB	6/13/17	24.0	(12.1)	12.5	24.8	(0.2)	62,379
Los Angeles, CA	MOB	7/31/17	16.3	—	16.7	16.9	(0.2)	42,780
Atlanta, GA	MOB	11/1/17	25.5	—	25.5	26.3	(0.8)	76,944
Atlanta, GA	MOB	11/1/17	30.3	—	30.7	30.7	—	74,024
Atlanta, GA [5]	MOB	11/1/17	49.7	—	50.9	47.5	3.4	118,180
Atlanta, GA	MOB	11/1/17	6.7	—	6.7	6.7	—	19,732
Seattle, WA	MOB	11/1/17	12.7	—	12.6	12.8	(0.2)	26,345
Atlanta, GA [5]	MOB	12/13/17	25.8	(10.5)	15.3	22.0	3.8	59,427
Atlanta, GA	MOB	12/13/17	15.4	(4.7)	10.8	15.7	(0.2)	40,171
Atlanta, GA [5]	MOB	12/18/17	26.3	(11.8)	14.5	24.6	1.7	66,984
Atlanta, GA	MOB	12/18/17	14.2	(6.7)	7.6	14.5	(0.2)	40,324
Chicago, IL	MOB	12/18/17	28.7	—	27.7	28.5	(0.8)	99,526
Seattle, WA	MOB	12/18/17	8.8	—	8.8	9.0	(0.2)	32,828
Austin, TX [6]	MOB	12/21/17	2.5	—	2.5	2.5	—	7,972
			$ 327.2	$ (45.8)	$ 283.1	$322.6	$6.3	877,873

(1) MOB = medical office building

(2) The mortgage notes payable assumed in the acquisitions do not reflect the fair value adjustments totaling $0.6 million in aggregate recorded by the Company upon acquisition (included in Other).

(3) Cash consideration excludes prorations of revenue and expense due to/from seller at the time of the acquisition.

(4) Includes other assets acquired, liabilities assumed, intangibles recognized at acquisition and fair value adjustments on debt assumed.

(5) The "Other" column includes the equity investment in limited liability companies that own two parking garages.

(6) The Company acquired additional ownership interests in an existing building bringing the Company's ownership to 69.4%.

The following table summarizes the estimated relative fair values of the assets acquired and liabilities assumed in the real estate acquisitions for 2017 as of the acquisition date:

	Estimated Fair Value	Estimated Useful Life
	(In millions)	*(In years)*
Building	$ 272.1	15.0 - 37.0
Land	11.7	—
Land Improvements	1.6	5.0 - 12.0
Intangibles:		
At-market lease intangibles	37.2	2.1 - 12.6
Below-market lease intangibles	(0.9)	8.5 - 15.0
Below-market ground lease intangibles	0.4	36.8 - 99.0
Total intangibles	36.7	

Mortgage notes payable assumed, including fair value adjustments	(46.4)
Other assets acquired	0.4
Equity investment in joint ventures	8.7
Accounts payable, accrued liabilities and other liabilities assumed	(1.7)
Total cash paid	$ 283.1

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2018 Real Estate Asset Dispositions

The following table details the Company's dispositions for the year ended December 31, 2018:

(Dollars in millions)	Type [1]	Date Disposed	Sales Price	Closing Adjustments	Net Proceeds	Net Real Estate Investment	Other (including receivables) [3]	Gain/ (Impairment)	Square Footage (*Unaudited*)
Real estate dispositions									
Roanoke, VA [2] [4]	MOB, OFC	4/26/18	$46.2	$ —	$ 46.2	$ 23.9	$ —	$ 22.3	460,881
Michigan [5]	SNF	6/27/18	9.5	(0.7)	8.8	3.4	—	5.4	121,672
St. Louis, MO	MOB	8/30/18	9.8	(0.5)	9.3	7.5	0.5	1.3	70,893
Denver, CO	IRF	12/20/18	16.9	(0.3)	16.6	9.2	1.4	6.0	34,068
Cleveland, TN	MOB	12/21/18	13.3	(0.2)	13.1	8.6	0.4	4.1	81,382
Tucson, AZ	MOB	12/27/18	3.0	(0.2)	2.8	1.9	0.2	0.7	37,310
Total dispositions			$98.7	$ (1.9)	$ 96.8	$ 54.5	$ 2.5	$ 39.8	806,206

(1) MOB = medical office building; IRF = inpatient rehabilitation facility; OFC = office; SNF = skilled nursing facility
(2) Previously classified as held for sale.
(3) Includes straight-line rent receivables, leasing commissions and lease inducements.
(4) Includes seven properties and comprised of five single-tenant net lease buildings and two multi-tenant buildings. These buildings were sold pursuant to the exercise of a fixed-price purchase option.
(5) Includes five skilled nursing facilities. Sales price includes $0.5 million of forfeited earnest money from a prior terminated transaction.

2017 Real Estate Asset Dispositions

The following table details the Company's dispositions for the year ended December 31, 2017:

(Dollars in millions)	Type [1]	Date Disposed	Sales Price	Closing Adjustments	Net Proceeds	Net Real Estate Investment	Other (including receivables) [3]	Gain/ (Impairment)	Square Footage (*Unaudited*)
Real estate dispositions									
Evansville, IN	OTH	3/6/17	$6.4	$ —	$ 6.4	$ 1.1	$ —	$ 5.3	29,500
Columbus, GA [2]	MOB	3/7/17	0.6	—	0.6	0.6	—	—	12,000
Las Vegas, NV [2]	MOB	3/30/17	5.5	(0.7)	4.8	2.2	0.3	2.3	18,147
Texas (3 properties)	IRF	3/31/17	69.5	(1.6)	67.9	46.9	5.2	15.8	169,722
Chicago, IL [4]	MOB	6/16/17	0.5	(0.1)	0.4	0.4	—	—	5,100
San Antonio, TX	IRF	6/29/17	14.5	(0.2)	14.3	5.1	0.9	8.3	39,786
Roseburg, OR	MOB	6/29/17	23.2	(0.6)	22.6	14.5	0.3	7.8	62,246
St. Louis, MO	MOB	9/7/17	2.5	(0.1)	2.4	7.4	0.1	(5.1)	79,980
Total dispositions			$122.7	$ (3.3)	$ 119.4	$ 78.2	$ 6.8	$ 34.4	416,481

(1) MOB = medical office building; IRF = inpatient rehabilitation facility; OTH = other
(2) Previously classified as held for sale.
(3) Includes straight-line rent receivables, leasing commissions and lease inducements.
(4) The Company recorded an impairment of approximately $0.3 million in the first quarter of 2017 upon management's decision to sell.

5. Held for Sale

Assets and liabilities of properties sold or classified as held for sale are separately identified on the Company’s Consolidated Balance Sheets in the current period. As of December 31, 2018 and 2017, the Company had one and eight properties, respectively, classified as held for sale.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The table below reflects the assets and liabilities of the properties classified as held for sale as of December 31, 2018 and 2017.

	December 31,	
(Dollars in thousands)	**2018**	**2017**
Balance Sheet data		
Land	$1,125	$4,636
Buildings, improvements and lease intangibles	18,231	63,654
Personal property	—	82
	19,356	68,372
Accumulated depreciation	(10,657)	(35,790)
Real estate assets held for sale, net	8,699	32,582
Other assets, net	573	565
Assets held for sale, net	$9,272	$33,147
Accounts payable and accrued liabilities	$450	$38
Other liabilities	137	55
Liabilities of properties held for sale	$587	$93

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

6. Impairment Charges

An asset is impaired when undiscounted cash flows expected to be generated by the asset are less than the carrying value of the asset. The Company must assess the potential for impairment of its long-lived assets, including real estate properties, whenever events occur or there is a change in circumstances, such as the sale of a property or the decision to sell a property, that indicate that the recorded value might not be fully recoverable.

The Company did not record any impairment charges in 2018. The Company recorded impairment charges on properties sold or classified as held for sale for the years ended December 31, 2017 and 2016 totaling $5.4 million and $0.1 million, respectively. Both level 1 and level 3 fair value techniques were used to derive these impairment charges.

7. Other Assets

Other assets consist primarily of straight-line rent receivables, additional long-lived assets, prepaids, intangible assets, debt issuance costs and accounts receivable. Items included in "Other assets, net" on the Company’s Consolidated Balance Sheets as of December 31, 2018 and 2017 are detailed in the table below:

	December 31,	
(Dollars in millions)	**2018**	**2017**
Straight-line rent receivables	$69.5	$67.0
Prepaid assets	66.2	65.2
Additional long-lived assets, net	23.5	24.9
Above-market intangible assets, net	16.8	17.9
Accounts receivable	10.0	7.4
Allowance for uncollectible accounts	(0.3)	(0.3)
Ground lease modification, net	9.9	10.3
Equity investments in joint ventures	8.5	8.7
Goodwill	3.5	3.5
Project costs	2.2	2.0
Debt issuance costs, net [(1)]	2.2	3.5
Customer relationship intangible assets, net	1.7	1.7
Interest rate swap assets	0.2	—
Other	0.8	1.2
	$214.7	$213.0

(1) Includes debt issuance costs related to the Company's Unsecured credit facility due 2020.

Unconsolidated Joint Ventures

During the fourth quarter of 2017, the Company purchased a non-managing membership interest in two LLCs that own two parking garages in Atlanta, Georgia for $8.7 million which is included in the equity investments in joint ventures line in the table above. The parking garage interests were purchased in connection with three buildings that were acquired in the fourth quarter of 2017. The Company's investment in and income (loss) recognized for the years ended December 31, 2018 and 2017 related to its LLCs accounted for under the equity method are shown in the table below:

	December 31,	
(Dollars in millions)	**2018**	**2017**
Net LLC investments, beginning of period	$8.7	$—
New investments during the period	—	8.7
Equity income (loss) recognized during the period	—	—

Owner distributions	(0.2)	—
Net LLC investments, end of period	$8.5	$8.7

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

8. Intangible Assets and Liabilities

The Company has several types of intangible assets and liabilities included in its Consolidated Balance Sheets, including goodwill, debt issuance costs, above-, below-, and at-market lease intangibles, and customer relationship intangibles. The Company's intangible assets and liabilities as of December 31, 2018 and 2017 consisted of the following:

	Gross Balance at December 31,		Accumulated Amortization at December 31,		Weighted Avg. Remaining Life (Years)	Balance Sheet Classification
(Dollars in millions)	2018	2017	2018	2017		
Goodwill	$3.5	$3.5	$—	$—	N/A	Other assets, net
Credit facility debt issuance costs	5.4	5.4	3.2	1.9	1.6	Other assets, net
Above-market lease intangibles	22.3	22.9	5.5	5.0	59.6	Other assets, net
Customer relationship intangibles	2.7	2.6	1.0	0.9	24.6	Other assets, net
Below-market lease intangibles	(9.3)	(9.5)	(4.1)	(3.5)	38.0	Other liabilities
Debt issuance costs [1]	9.3	9.3	2.8	1.8	3.7	Notes and bonds payable
At-market lease intangibles	114.4	110.0	52.0	41.6	4.8	Real estate properties
	$148.3	$144.2	$60.4	$47.7	16.5	

(1) Includes debt issuance costs related to the Company's Unsecured credit facility due 2020.

For the years ended December 31, 2018 and 2017, the Company recognized approximately $23.2 million and $16.6 million of intangible amortization expense, respectively.

The following table represents expected amortization over the next five years of the Company's intangible assets and liabilities in place as of December 31, 2018:

(Dollars in millions)	Future Amortization of Intangibles, net
2019	$ 22.1
2020	15.5
2021	9.6
2022	7.3
2023	4.6

9. Notes and Bonds Payable

	December 31,		Maturity Dates	Contractual Interest Rates	Principal Payments	Interest Payments
(Dollars in thousands)	2018	2017				
Unsecured Credit Facility	$262,000	$189,000	7/20	LIBOR + 1.00%	At maturity	Monthly
Unsecured Term Loan due 2022 [1]	149,183	148,994	12/22	LIBOR + 1.10%	At maturity	Monthly
Senior Notes due 2023 [1]	248,117	247,703	4/23	3.75 %	At maturity	Semi-Annual
Senior Notes due 2025 [1]	248,278	248,044	5/25	3.88 %	At maturity	Semi-Annual
Senior Notes due 2028 [1]	295,198	294,757	1/28	3.63 %	At maturity	Semi-Annual
Mortgage notes payable [2]	143,208	155,382	7/19-5/40	3.31%-6.88%	Monthly	Monthly
	$1,345,984	$1,283,880				

(1) Balances are shown net of discounts and unamortized issuance costs.

(2) Balances are shown net of discounts and unamortized issuance costs and include premiums.

The Company's various debt agreements contain certain representations, warranties, and financial and other covenants customary in such loan agreements. Among other things, these provisions require the Company to maintain certain financial ratios and impose certain limits on the Company's ability to incur indebtedness and create liens or encumbrances. As of December 31, 2018, the Company was in compliance with its financial covenant provisions under its various debt instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Unsecured Credit Facility due 2020

On October 14, 2011, the Company entered into a $700.0 million unsecured credit facility with a syndicate of lenders (the "Unsecured Credit Facility"). On July 29, 2016, the Company entered into the third amendment to the Unsecured Credit Facility to extend the maturity date to July 2020. The credit facility agreement provides the Company with two six-month extension options that could extend the maturity date to July 2021. Each option is subject to an extension fee of 0.075% of the aggregate commitments. Amounts outstanding under the Unsecured Credit Facility bear interest at LIBOR plus an applicable margin rate. The margin rate, which depends on the Company's credit ratings, ranges from 0.83% to 1.55% (1.00% as of December 31, 2018). In addition, the Company pays a facility fee per annum on the aggregate amount of commitments ranging from 0.13% to 0.30% (0.20% as of December 31, 2018). As of December 31, 2018, the Company had $262.0 million outstanding under the Unsecured Credit Facility with an effective interest rate of approximately 3.50% and had a remaining borrowing capacity of approximately $438.0 million.

Unsecured Term Loan due 2022

In February 2014, the Company entered into a $200.0 million unsecured term loan with a syndicate of nine lenders. On July 5, 2016, the Company repaid $50.0 million of the outstanding principal. On December 18, 2017, the Company entered into an amendment to the unsecured term loan due 2022 (the "Unsecured Term Loan due 2022") with a syndicate of nine lenders to extend the maturity date to December 2022. The Unsecured Term Loan due 2022 bears interest at a rate equal to (x) LIBOR plus (y) a margin ranging from 0.90% to 1.75% (1.10% as of December 31, 2018) based upon the Company's unsecured debt ratings. Payments under the Unsecured Term Loan due 2022 are interest only, with the full amount of the principal due at maturity. The Unsecured Term Loan due 2022 may be prepaid at any time, without penalty. The Unsecured Term Loan due 2022 has various financial covenant provisions that are required to be met on a quarterly and annual basis that are equivalent to those of the Unsecured Credit Facility. On December 20, 2017, the Company entered into two interest rate swaps totaling $25.0 million to hedge the 1-month LIBOR portion of the cost of borrowing under the Unsecured Term Loan due 2022 to a fixed interest rate of 2.18% (plus the applicable margin rate) through December 2022. On January 30, 2018, the Company entered into two additional interest rate swaps totaling $50.0 million to hedge the 1-month LIBOR portion of the cost of borrowing under the Unsecured Term Loan due 2022 to a fixed interest rate of 2.46% (plus the applicable margin rate) through December 2022. The outstanding balance on the Unsecured Term Loan due 2022 was $150.0 million as of December 31, 2018 with an effective interest rate of approximately 3.53% including the impact of the interest rate swaps. For each of the years ended December 31, 2018, 2017, and 2016 the Company amortized approximately $0.2 million of the debt issuance costs which is included in interest expense on the Company's Consolidated Statements of Income. The following table reconciles the balance of the Unsecured Term Loan due 2022 on the Company’s Consolidated Balance Sheets as of December 31, 2018 and 2017:

	December 31,	
(Dollars in thousands)	**2018**	**2017**
Unsecured Term Loan due 2022 principal balance	$150,000	$150,000
Debt issuance costs	(817)	(1,006)
Unsecured Term Loan due 2022 carrying amount	$149,183	$148,994

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Senior Notes due 2023

On March 26, 2013, the Company issued $250.0 million of unsecured senior notes due 2023 (the "Senior Notes due 2023") in a registered public offering. The Senior Notes due 2023 bear interest at 3.75%, payable semi-annually on April 15 and October 15, beginning October 15, 2013, and are due on April 15, 2023, unless redeemed earlier by the Company. The notes were issued at a discount of approximately $2.1 million and the Company incurred debt issuance cost of $2.1 million, which yielded a 3.95% interest rate per annum upon issuance. For each of the years ended December 31, 2018, 2017 and 2016, the Company amortized approximately $0.2 million of the discount and $0.2 million of the debt issuance cost which are included in interest expense on the Company's Consolidated Statements of Income. The following table reconciles the balance of the Senior Notes due 2023 on the Company's Consolidated Balance Sheets as of December 31, 2018 and 2017:

	December 31,	
(Dollars in thousands)	**2018**	**2017**
Senior Notes due 2023 face value	$250,000	$250,000
Unaccreted discount	(974)	(1,178)
Debt issuance costs	(909)	(1,119)
Senior Notes due 2023 carrying amount	$248,117	$247,703

Senior Notes due 2025

On April 24, 2015, the Company issued $250.0 million of unsecured senior notes due 2025 (the "Senior Notes due 2025") in a registered public offering. The Senior Notes due 2025 bear interest at 3.875%, payable semi-annually on May 1 and November 1, beginning November 1, 2015, and are due on May 1, 2025, unless redeemed earlier by the Company. The notes were issued at a discount of approximately $0.2 million and the Company incurred approximately $2.3 million in debt issuance costs which yielded a 4.08% interest rate per annum upon issuance. For each of the years ended December 31, 2018 , 2017, and 2016 the Company amortized approximately $0.2 million of the debt issuance costs which is included in interest expense on the Company's Consolidated Statements of Income. Concurrent with this transaction, the Company settled four forward starting swap agreements for $1.7 million. The Senior Notes due 2025 have various financial covenants that are required to be met on a quarterly and annual basis. The following table reconciles the balance of the Senior Notes due 2025 on the Company's Consolidated Balance Sheets as of December 31, 2018 and 2017:

	December 31,	
(Dollars in thousands)	**2018**	**2017**
Senior Notes due 2025 face value	$250,000	$250,000
Unaccreted discount	(141)	(160)
Debt issuance costs	(1,581)	(1,796)
Senior Notes due 2028 carrying amount	$248,278	$248,044

Senior Notes due 2028

On December 11, 2017, the Company issued $300.0 million of unsecured Senior Notes due 2028 (the "Senior Notes due 2028") in a registered public offering. The Senior Notes due 2028 bear interest at 3.625%, payable semi-annually on January 15 and July 15, beginning July 15, 2018, and are due on January 15, 2028, unless redeemed earlier by the Company. The notes were issued at a discount of approximately $2.5 million and the Company incurred approximately $2.7 million in debt issuance costs which yielded a 3.84% interest rate per annum upon issuance. For the year ended December 31, 2018, the Company amortized approximately $0.2 million of the discount and $0.2 million of the debt issuance costs which are included in interest expense on the Company's Consolidated Statements of Income. The Senior Notes due 2028 have various financial covenants that are required to be met on a quarterly and annual basis. The following table reconciles the balance of the Senior Notes due 2028 on the Company's Consolidated Balance Sheets as of December 31, 2018:

	December 31,	
(Dollars in thousands)	**2018**	**2017**
Senior Notes due 2028 face value	$300,000	$300,000
Unaccreted discount	(2,319)	(2,529)
Debt issuance costs	$(2,483)	$(2,714)
Senior Notes due 2028 carrying amount	$295,198	$294,757

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Mortgage Notes Payable

The following table reconciles the Company's aggregate mortgage notes principal balance with the Company's Consolidated Balance Sheets as of December 31, 2018 and 2017. For the years ended December 31, 2018, 2017 and 2016, the Company amortized approximately $0.4 million, $0.3 million and $0.3 million of the discount and $0.8 million, $0.7 million, and $0.9 million of the premium. For the years ended December 31, 2018, 2017 and 2016, the Company also amortized approximately $0.1 million, $0.1 million, and $0.2 million of the debt issuance costs, respectively, on the mortgage notes payable which is included in interest expense on the Company's Consolidated Statements of Income.

	December 31,	
(Dollars in thousands)	**2018**	**2017**
Mortgage notes payable principal balance	$143,115	$154,916
Unamortized premium	1,805	2,651
Unaccreted discount	(968)	(1,332)
Debt issuance costs	(744)	(853)
Mortgage notes payable carrying amount	$143,208	$155,382

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table details the Company's mortgage notes payable, with related collateral.

(Dollars in millions)	Original Balance	Effective Interest Rate [22]	Maturity Date	Collateral [23]	Principal and Interest Payments [21]	Investment in Collateral at December 31, 2018	Balance at December 31, 2018	Balance at December 31, 2017
Insurance Co. [1]	7.3	5.54 %	12/18	MOB	Monthly/25-yr amort.	—	—	6.0
Commercial Bank [2]	9.5	5.07 %	3/19	MOB	Monthly/5-yr amort.	—	—	9.3
Commercial Bank [3]	9.4	4.55 %	7/19	MOB	Monthly/8-yr amort	27.8	9.0	9.2
Commercial Bank [4]	15.2	7.65 %	7/20	MOB	(20)	20.2	12.5	12.7
Life Insurance Co. [5]	7.9	4.00 %	8/20	MOB	Monthly/15-yr amort.	20.7	1.3	2.0
Life Insurance Co. [6]	7.3	5.25 %	8/20	MOB	Monthly/27-yr amort.	18.0	6.2	6.5
Life Insurance Co. [7]	5.6	4.30 %	1/21	MOB	Monthly/10-yr amort.	15.7	4.6	4.8
Commercial Bank [8]	12.9	6.43 %	2/21	MOB	Monthly/12-yr amort.	55.1	10.3	10.5
Life Insurance Co. [9]	11.0	3.87 %	11/22	MOB	Monthly/7-yr amort.	22.0	10.2	10.4
Life Insurance Co. [10]	12.3	3.86 %	8/23	MOB	Monthly/7-yr amort.	25.4	11.2	11.5
Financial Services [11]	12.4	4.27 %	10/23	MOB	Monthly/10-yr amort.	24.9	12.0	12.2
Life Insurance Co. [12]	9.0	4.84 %	12/23	MOB,OFC	Monthly/10-yr amort.	25.3	7.8	—
Life Insurance Co. [13]	13.3	4.13 %	1/24	MOB	Monthly/10-yr amort.	21.2	13.0	13.3
Life Insurance Co. [14]	6.8	3.96 %	2/24	MOB	Monthly/7-yr amort.	14.5	6.6	6.7
Financial Services [15]	9.7	4.32 %	9/24	MOB	Monthly/10-yr amort.	16.5	8.6	8.8
Commercial Bank	11.5	3.71 %	1/26	MOB	Monthly/10-yr amort.	38.4	10.1	10.5
Commercial Bank [16]	15.0	5.25 %	4/27	MOB	Monthly/20-yr amort.	33.5	8.8	9.6
Municipal Government [17] [18]	11.0	4.79 %	[19]	MOB	Semi-Annual [19]	21.0	11.0	11.4
						$ 400.2	$143.2	$155.4

(1) The Company repaid this mortgage note in October 2018. The Company's unencumbered gross investment was $14.4 million at December 31, 2018.

(2) The Company repaid this mortgage note in December 2018. The Company's unencumbered gross investment was $14.1 million at December 31, 2018.

(3) The unamortized portion of the $0.3 million premium recorded on this note upon acquisition is included in the balance above.

(4) The unaccreted portion of the $2.4 million discount recorded on this note upon acquisition is included in the balance above.

(5) The unamortized portion of the $0.3 million premium recorded on this note upon acquisition is included in the balance above.

(6) The unamortized portion of the $0.4 million premium recorded on this note upon acquisition is included in the balance above.

(7) The unamortized portion of the $0.2 million premium recorded on this note upon acquisition is included in the balance above.

(8) The unaccreted portion of the $1.0 million discount recorded on this note upon acquisition is included in the balance above.

(9) The unaccreted portion of the $0.1 million discount recorded on this note upon acquisition is included in the balance above.

(10) The unaccreted portion of the $0.2 million discount recorded on this note upon acquisition is included in the balance above.

(11) The unamortized portion of the $0.4 million premium recorded on this note upon acquisition is included in the balance above.

(12) The unamortized portion of the $0.1 million premium recorded on this note upon acquisition is included in the balance above.

(13) The unamortized portion of the $0.8 million premium recorded on this note upon acquisition is included in the balance above.

(14) The unamortized portion of the $0.2 million premium recorded on this note upon acquisition is included in the balance above.

(15) The unamortized portion of the $0.1 million premium recorded on this note upon acquisition is included in the balance above.

(16) The unamortized portion of the $0.7 million premium recorded on this note upon acquisition is included in the balance above.

(17) Balance consists of three notes secured by the same building.

(18) The unamortized portion of the $1.0 million premium recorded on the three notes upon acquisition is included in the balance above.

(19) These three mortgage notes payable are series municipal bonds that have maturity dates ranging from from May 2022 to May 2040. One of the four original notes payable was repaid upon maturity in May 2017. The remaining three require interest only payments and have future maturity dates but allow repayment after May 2020 without penalty. The Company intends on repaying all three notes payable at that time.

(20) Payable in monthly installments of interest only for 24 months and then installments of principal and interest based on an 11-year amortization with the final payment due at maturity.

(21) Payable in monthly installments of principal and interest with the final payment due at maturity (unless otherwise noted).

(22) The contractual interest rates for the 18 outstanding mortgage notes ranged from 3.3% to 6.9% as of December 31, 2018.

(23) MOB-Medical office building. OFC-Office

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Other Long-Term Debt Information

Future maturities of the Company's notes and bonds payable as of December 31, 2018 were as follows:

(Dollars in thousands)	Principal Maturities	Net Accretion/ Amortization (1)	Debt Issuance Costs (2)	Notes and Bonds Payable	%
2019	$13,857	$ (250)	$ (1,067)	$ 12,540	0.9 %
2020	285,064	(392)	(1,061)	283,611	21.1 %
2021	17,593	(326)	(1,046)	16,221	1.2 %
2022	162,977	(336)	(1,058)	161,583	12.0 %
2023	280,230	(183)	(697)	279,350	20.8 %
2024 and thereafter	595,394	(1,110)	(1,605)	592,679	44.0 %
	$1,355,115	$ (2,597)	$ (6,534)	$ 1,345,984	100.0%

(1) Includes discount accretion and premium amortization related to the Company's Senior Notes due 2023, Senior Notes due 2025, Senior Notes due 2028 and 17 mortgage notes payable.

(2) Excludes approximately $2.2 million in debt issuance costs related to the Company's Unsecured Credit Facility included in other assets, net.

Note 10. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During 2018 and 2017, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in Accumulated other comprehensive income (loss) and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt.

During each of the years ended December 31, 2018 and 2017 the Company entered into two outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional (in millions)

Interest rate swaps - 2017	2	$25.0
Interest rate swaps - 2018	2	50.0
Total interest rate swaps	4	$75.0

During the year ended December 31, 2015, the Company entered into four forward starting interest rate swaps with a total notional value of $225.0 million to hedge the risk of changes in the interest-related cash flows associated with the potential issuance of long-term debt. That debt was issued in April 2015, as discussed in Note 9, and the forward starting interest rate

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

swaps were terminated. As a result, the Company realized a loss at the termination date which was deferred and is being amortized over the term of the Senior Notes due 2025.

Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments, as well as, their classification on the Consolidated Balance Sheets as of December 31, 2018 and 2017.

	As of December 31, 2018		As of December 31, 2017	
(Dollars in thousands)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments				
Interest rate swaps 2017	Other assets, net	$229	Other liabilities	$(67)
Interest rate swaps 2018	Other liabilities	(68)		—
Total derivatives designated as hedging instruments		$161		$(67)

Tabular Disclosure of the Effect of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income (Loss)

The table below presents the effect of cash flow hedge accounting on Accumulated other comprehensive income (loss) as of December 31, 2018 related to the Company's outstanding interest rate swaps.

	Amount of Gain/(Loss) Recognized in OCI on Derivatives		**Amount of Loss Reclassified from OCI into Income for the Twelve Months Ended December 31,**	
(Dollars in thousands)	**2018**		**2018**	**2017**
Interest rate swaps 2017	$ 246	Interest expense	$51	$7
Interest rate swaps 2018	(273)	Interest expense	204	—
Settled interest rate swaps	—	Interest expense	169	169
	$ (27)	Total interest expense	$424	$176

Tabular Disclosure Offsetting Derivatives

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of December 31, 2018. The net amounts of derivative assets and liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the Company's Consolidated Balance Sheets.

Offsetting of Derivative Assets
As of December 31, 2018

			Gross Amounts Not Offset in the Consolidated Balance Sheets		
Gross Amounts of Recognized Assets	**Gross Amounts Offset in the Consolidated Balance**	**Net Amounts of Assets presented in the Consolidated**	**Financial Instruments**	**Cash Collateral**	**Net Amount**

		Sheets	**Balance Sheets**			
Derivatives	$ 229	$ —	$ 229	$(68)	$ —	$ 161

Offsetting of Derivative Liabilities

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Assets	**Gross Amounts Offset in the Consolidated Balance Sheets**	**Net Amounts of Assets presented in the Consolidated Balance Sheets**	**Financial Instruments**	**Cash Collateral**	**Net Amount**
Derivatives	$ (68)	$ —	$ (68)	$68	$ —	$ —

Credit-risk-related Contingent Features

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

The Company estimates that an additional $40 thousand will be reclassified from accumulated other comprehensive loss as an increase to interest expense over the next 12 months.

11. Stockholders' Equity

Common Stock

The Company had no preferred shares outstanding and had common shares outstanding for the three years ended December 31, 2018 as follows:

	Year Ended December 31,		
	2018	2017	2016
Balance, beginning of year	125,131,593	116,416,900	101,517,009
Issuance of common stock	26,203	8,395,607	14,063,100
Non-vested stock-based awards, net of withheld shares and forfeitures	121,659	319,086	836,791
Balance, end of year	125,279,455	125,131,593	116,416,900

At-The-Market Equity Offering Program

The Company has in place an at-the-market equity offering program to sell shares of the Company's common stock from time to time in at-the-market sales transactions. The following table details the shares sold under this program.

	Shares Sold	Sales Price Per Share	Net Proceeds *(in millions)*
2018	—	NA	$ —
2017	—	NA	$ —
2016	4,795,601	$28.31 - $33.66	$ 144.6

On February 19, 2016, the Company entered into sales agreements with five investment banks to allow sales under its at-the-market equity offering program of up to 10,000,000 shares of common stock. A previous sales agreement with one investment bank was terminated effective February 17, 2016. No shares were sold related to this program during 2017 or 2018. On May 5, 2017, the Company entered into a sales agreement with a sixth investment bank in connection with the same allotment of shares. The Company has 5,868,697 authorized shares remaining available to be sold under the current sales agreements as of February 13, 2019.

Dividends Declared

During 2018, the Company declared and paid common stock dividends aggregating $1.20 per share ($0.30 per share per quarter).

On February 12, 2019, the Company declared a quarterly common stock dividend in the amount of $0.30 per share payable on March 8, 2019 to stockholders of record on February 22, 2019.

Common Stock Authorization

On May 2, 2017, the Company's shareholders approved an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of common stock from 150,000,000 to 300,000,000.

Authorization to Repurchase Common Stock

The Company's Board of Directors has authorized management to repurchase up to 3,000,000 shares of the Company's common stock. As of December 31, 2018, the Company had not repurchased any shares under this authorization. The Company may elect, from time to time, to repurchase shares either when market conditions are appropriate or as a means to reinvest excess cash flows. Such purchases, if any, may be made either in the open market or through privately negotiated transactions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Accumulated Other Comprehensive Loss

During each of the two years ended December 31, 2018 and 2017, the Company entered into two interest rate swaps to hedge the variable cash flows associated with existing variable-rate debt. The Company recorded losses in accumulated other comprehensive loss of approximately $0.4 million as of December 31, 2018. The Company continues to amortize the 2015 settlement of forward-starting interest rate swaps. This amount will be reclassified out of accumulated other comprehensive loss impacting net income over the 10-year term of the associated senior note issuance. See Note 10 for more information regarding the Company's derivative instruments.

The following table represents the changes in accumulated other comprehensive loss during the years ended December 31, 2018 and 2017:

	Interest Rate Swaps	
	December 31,	
(Dollars in thousands)	2018	2017
Beginning balance	$(1,299)	$(1,401)
Other comprehensive loss before reclassifications	424	176
Amounts reclassified from accumulated other comprehensive income (loss)	(27)	(74)
Net current-period other comprehensive income	397	102
Ending balance	$(902)	$(1,299)

The following table represents the details regarding the reclassifications from Accumulated other comprehensive income (loss) during the year ended December 31, 2018:

Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive income (loss)	Affected line item in the statement where net income is presented
(Dollars in thousands)		
Amounts reclassified from accumulated other comprehensive income (loss) related to settled interest rate swaps	$ 169	Interest Expense
Amounts reclassified from accumulated other comprehensive income (loss) related to current interest rate swaps	255	Interest Expense
	$ 424	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

12. Stock and Other Incentive Plans

Stock Incentive Plan

In May 2015, the Company's stockholders approved the 2015 Stock Incentive Plan (the "2015 Incentive Plan") which authorizes the Company to issue 3,500,000 shares of common stock to its employees and directors. The 2015 Incentive Plan, which superseded the 2007 Employee Stock Incentive Plan (the "Predecessor Plan"), will continue until terminated by the Company's Board of Directors. As of December 31, 2018 and 2017, the Company had issued a total of 1,711,240 and 1,438,228 restricted shares, respectively, under the 2015 Incentive Plan for compensation-related awards to employees and directors, with a total of 1,788,760 and 2,061,772, respectively, remaining which had not been issued. Under the Predecessor Plan for compensation-related awards to employees and directors, the Company had issued, net of forfeitures, a total of 1,878,637 restricted shares for the year ended December 31, 2015. Non-vested shares issued under the 2015 Incentive Plan are generally subject to fixed vesting periods varying from three to eight years beginning on the date of issue. If a recipient voluntarily terminates his or her relationship with the Company or is terminated for cause before the end of the vesting period, the shares are forfeited, at no cost to the Company. The Company recognizes the impact of forfeitures as they occur. Once the shares have been issued, the recipient has the right to receive dividends and the right to vote the shares. Compensation expense, included in general and administrative expense, recognized during the years ended December 31, 2018, 2017 and 2016 from the amortization of the value of shares over the vesting period issued to employees and directors was $10.4 million, $9.8 million and $7.4 million, respectively. The following table represents expected amortization of the Company's non-vested shares issued:

(Dollars in millions)	**Future Amortization of Non-Vested Shares**
2019	$ 8.6
2020	8.1
2021	7.0
2022	4.5
2023	2.3
2024 and thereafter	2.8
Total	$ 33.3

Executive Incentive Plan

On July 31, 2012, the Company adopted an Executive Incentive Plan, which was amended and restated on February 16, 2016 ("Executive Incentive Plan"), to provide specific award criteria with respect to incentive awards made under the 2015 Incentive Plan subject to the discretion of the Compensation Committee. No new shares of common stock were authorized in connection with the Executive Incentive Plan. Under the terms of the Executive Incentive Plan, the Company's named executive officers, and certain other members of senior management, may earn incentive awards in the form of cash and non-vested stock. Cash incentive awards are based on individual and Company performance. Company performance is measured over a four-quarter period against targeted financial and operational metrics set in advance by the Compensation Committee. Non-vested stock awards are based on the Company's relative total shareholder return ("TSR") performance over one-year and three-year periods, measured against the Company's peer group. For 2018, 2017 and 2016, compensation expense, included in general and administrative expense, resulting from the amortization of non-vested share grants to officers was approximately $5.7 million, $5.0 million, and $4.0 million, respectively. Details of the awards that have been earned from this plan are as follows:

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On December 12, 2018, the Company granted non-vested stock awards for TSR performance to its four named executive officers and five senior vice presidents with a grant date fair value totaling $5.0 million, which were granted in the form of 165,261 non-vested shares, with a five-year vesting period, which will result in annual compensation expense of $1.0 million for the each of 2019, 2020, 2021, and 2022, and $0.9 million for 2023, respectively.

On December 11, 2017, the Company granted non-vested stock awards for TSR performance to its five named executive officers and four senior vice presidents with a grant date fair value totaling $10.1 million, which were granted in the form of 309,874 non-vested shares, with a five-year vesting period, which will result in annual compensation expense of $2.0 million for the each of 2019, 2020, and 2021, and $1.9 million for 2022, respectively.

On December 16, 2016, the Company granted non-vested stock awards for TSR performance to its five named executive officers and five senior vice presidents with a grant date fair value totaling $6.3 million, which were granted

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

in the form of 213,639 non-vested shares, with a five-year vesting period, which will result in annual compensation expense of $1.3 million each of 2019, and 2020, and $1.2 million for 2021, respectively.

- On February 16, 2016, the Company granted cash incentive and non-vested performance-based awards totaling $5.8 million to its five named executive officers and five senior vice presidents. The officers could elect cash based awards or non-vested stock awards. Cash awards totaled $1.1 million. The non-vested awards, which the officers elected to receive in lieu of cash, had a grant date fair value totaling $4.7 million, which were granted in the form of 163,788 non-vested shares, with either a three- or five-year vesting period, resulting in annual compensation expense of $1.1 million for the year 2018 and $0.7 million for each of 2019 and 2020, respectively.

Long-Term Incentive Program

In the first quarter of 2018 and 2017, the Company granted a performance-based award to officers, excluding the four named executive officers and five senior vice presidents, under the Long-term Incentive Program adopted under the 2015 Incentive Plan (the "LTIP") totaling approximately $1.2 million and $1.3 million, which was granted in the form of 43,414 non-vested shares and 41,368 non-vested shares, respectively. The shares have vesting periods ranging from three to eight years with a weighted average vesting period of approximately six years.

For 2018, 2017 and 2016, compensation expense resulting from the amortization of non-vested share grants to officers was approximately $1.2 million, $1.1 million, and $1.1 million, respectively.

Salary Deferral Plan

The Company's salary deferral plan allows certain of its officers to elect to defer up to 50% of their base salary in the form of non-vested shares issued under the 2015 Incentive Plan subject to long-term vesting. The number of shares will be increased through a Company match depending on the length of the vesting period selected by the officer. The officer's vesting period choices are: three years for a 30% match; five years for a 50% match; and eight years for a 100% match. During 2018, 2017 and 2016, the Company issued 33,348 shares, 39,016 shares and 42,256 shares, respectively, to its officers through the salary deferral plan. For 2018, 2017 and 2016, compensation expense resulting from the amortization of non-vested share grants to officers was approximately $1.0 million, $1.2 million, and $1.2 million, respectively.

Non-employee Directors Incentive Plan

The Company issues non-vested shares to its non-employee directors under the 2015 Incentive Plan. The directors' shares issued have a one-year vesting period beginning with the May 2015 grant (previously a three-year vesting period) and are subject to forfeiture prior to such date upon termination of the director's service, at no cost to the Company. During 2018, 2017 and 2016, the Company issued 30,989 shares, 23,231 shares, and 21,374 shares, respectively, to its non-employee directors through the 2015 Incentive Plan. For 2018, 2017 and 2016, compensation expense resulting from the amortization of non-vested share grants to directors was approximately $0.8 million, $0.8 million, and $1.0 million, respectively.

Other Grants

The Company issued three one-time non-vested share grants related to executive management transition in 2016. For 2018, 2017 and 2016 compensation expense resulting from the amortization of these non-vested share grants to officers was approximately $1.7 million, $1.7 million, and $0.1 million, respectively. The following information provides information about each grant:

- On March 1, 2016, the Company issued 50,000 shares to the Chief Financial Officer with a 10-year vesting period, resulting in compensation expense of $0.2 million per year.

- On December 30, 2016, the Company issued 200,000 shares to the President and Chief Executive Officer with a 10-year vesting period, resulting in compensation expense of $0.6 million per year.

- On December 30, 2016, the Company issued 150,000 shares to the Executive Chairman with a 5-year vesting period, resulting in compensation expense of $0.9 million per year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A summary of the activity under the 2015 Incentive Plan and related information for the three years in the period ended December 31, 2018 follows:

	Year Ended December 31,		
(Dollars in thousands, except per share data)	**2018**	**2017**	**2016**
Stock-based awards, beginning of year	1,907,645	1,786,497	1,092,262
Granted	273,012	413,489	885,219
Vested	(410,794)	(292,341)	(190,984)
Stock-based awards, end of year	1,769,863	1,907,645	1,786,497
Weighted-average grant date fair value of:			
Stock-based awards, beginning of year	$28.44	$27.18	$24.72
Stock-based awards granted during the year	$29.72	$32.05	$29.60
Stock-based awards vested during the year	$25.32	$25.88	$24.34
Stock-based awards, end of year	$29.36	$28.44	$27.18
Grant date fair value of shares granted during the year	$8,114	$13,254	$26,204

The vesting periods for the non-vested shares granted during 2018 ranged from one to eight years with a weighted-average amortization period remaining as of December 31, 2018 of approximately 5.1 years.
During 2018, 2017 and 2016, the Company withheld 151,353 shares, 94,403 shares and 48,248 shares, respectively, of common stock from its officers to pay estimated withholding taxes related to the vesting of shares.

401(k) Plan

The Company maintains a 401(k) plan that allows eligible employees to defer salary, subject to certain limitations imposed by the Internal Revenue Code. The Company provides a matching contribution of up to 3% of each eligible employee's salary, subject to certain limitations. The Company's matching contributions were approximately $0.4 million for each year during 2018, 2017 and 2016.

Dividend Reinvestment Plan

The Company is authorized to issue 1,000,000 shares of common stock to stockholders under the Dividend Reinvestment Plan. As of December 31, 2018, the Company had issued 591,114 shares under the plan of which 9,487 shares were issued in 2018, 26,031 shares were issued in 2017 and 9,575 shares were issued in 2016.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan, pursuant to which the Company is authorized to issue shares of common stock. Under the Employee Stock Purchase Plan, each eligible employee in January of each year is able to purchase up to $25,000 of common stock at the lesser of 85% of the market price on the date of grant or 85% of the market price on the date of exercise of such option. The number of shares subject to each year's option becomes fixed on the date of grant. Options granted under the Employee Stock Purchase Plan expire if not exercised 27 months after each such option's date of grant. Cash received from employees upon exercising options under the Employee Stock Purchase Plan was approximately $0.4 million for the year ended December 31, 2018, $0.8 million for the year ended December 31, 2017, and $1.2 million for the year ended December 31, 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A summary of the Employee Stock Purchase Plan activity and related information for the three years in the period ended December 31, 2018 is as follows:

	Year Ended December 31,		
(Dollars in thousands, except per share data)	**2018**	**2017**	**2016**
Options outstanding, beginning of year	318,100	316,321	340,958
Granted	203,836	206,824	198,450
Exercised	(16,716)	(32,076)	(57,924)
Forfeited	(40,897)	(40,659)	(22,081)
Expired	(135,790)	(132,310)	(143,082)
Options outstanding and exercisable, end of year	328,533	318,100	316,321
Weighted-average exercise price of:			
Options outstanding, beginning of year	$25.00	$23.69	$20.70
Options granted during the year	$27.30	$25.77	$24.07
Options exercised during the year	$24.01	$24.31	$21.40
Options forfeited during the year	$24.06	$25.01	$23.16
Options expired during the year	$23.55	$23.22	$18.11
Options outstanding, end of year	$24.17	$25.00	$23.69
Weighted-average fair value of options granted during the year (calculated as of the grant date)	$7.81	$6.31	$5.37
Intrinsic value of options exercised during the year	$71	$271	$634
Intrinsic value of options outstanding and exercisable (calculated as of December 31)	$1,402	$2,683	$2,098
Exercise prices of options outstanding (calculated as of December 31)	$24.17	$25.00	$23.69
Weighted-average contractual life of outstanding options (calculated as of December 31, in years)	0.8	0.8	0.8

The fair values for these options were estimated at the date of grant using a Black-Scholes options pricing model with the weighted-average assumptions for the options granted during the period noted in the following table. The risk-free interest rate was based on the U.S. Treasury constant maturity-nominal two-year rate whose maturity is nearest to the date of the expiration of the latest option outstanding and exercisable; the expected dividend yield was based on the expected dividends of the current year as a percentage of the average stock price of the prior year; the expected life of each option was estimated using the historical exercise behavior of employees; expected volatility was based on historical volatility of the Company's common stock; and expected forfeitures were based on historical forfeiture rates within the look-back period.

	2018	**2017**	**2016**
Risk-free interest rates	1.89%	1.20%	1.06%
Expected dividend yields	3.66%	3.70%	4.64%
Expected life (in years)	1.45	1.45	1.42
Expected volatility	28.4%	20.4%	17.6%
Expected forfeiture rates	85 %	85 %	85 %

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13. Earnings Per Share

The Company uses the two-class method of computing net earnings per common share. Non-vested share-based awards containing non-forfeitable rights to dividends are considered participating securities pursuant to the two-class method. The table below sets forth the computation of basic and diluted earnings per common share for the three years in the period ended December 31, 2018.

	Year Ended December 31,		
(Dollars in thousands, except per share data)	**2018**	**2017**	**2016**
Weighted Average Common Shares			
Weighted average Common Shares outstanding	125,219,773	119,739,216	109,861,580
Non-vested shares	(1,927,648)	(1,813,058)	(1,289,478)
Weighted average Common Shares - Basic	123,292,125	117,926,158	108,572,102
Weighted average Common Shares - Basic	123,292,125	117,926,158	108,572,102
Dilutive effect of non-vested shares	—	—	709,559
Dilutive effect of employee stock purchase plan	58,808	91,007	105,336
Weighted average Common Shares - Diluted	123,350,933	118,017,165	109,386,997
Net Income	$69,771	$ 23,092	$ 85,571
Dividends paid on nonvested share-based awards	(2,320)	(2,149)	—
Net income applicable to common stockholders	$67,451	$ 20,943	$ 85,571
Basic Earnings Per Common Share	$0.55	$ 0.18	$ 0.79
Diluted Earnings Per Common Share	$0.55	$ 0.18	$ 0.78

14. Commitments and Contingencies

Redevelopment Activity

The Company completed the redevelopment and expansion of one of its medical office buildings in Nashville, Tennessee in 2017. The Company spent approximately $6.1 million during the year ended December 31, 2018, including approximately $1.9 million related to overages on tenant improvement projects that have been or will be reimbursed by the tenant.

The Company continued the redevelopment of a medical office building in Charlotte, North Carolina, which includes a 38,000 square foot vertical expansion. The Company funded approximately $6.1 million during the year ended December 31, 2018. The Company expects initial occupancy to occur in the second quarter of 2019.

Development Activity

December 31, 2018, including approximately $0.1 million related to overages on tenant improvement projects that have been or will be reimbursed by the tenant. The Company anticipates funding additional tenant improvements throughout 2019.

The Company continued the development of a 151,000 square foot medical office building in Seattle, Washington. The Company spent approximately $21.5 million on the development during the year ended December 31, 2018. The Company expects initial occupancy to occur in the fourth quarter of 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The table below details the Company's construction activity as of December 31, 2018. The information included in the table below represents management's estimates and expectations at December 31, 2018, which are subject to change. The Company's disclosures regarding certain projections or estimates of completion dates may not reflect actual results.

			December 31, 2018					
(Dollars in thousands)	Number of Properties	Initial Occupancy	Construction in Progress Balance	Total Funded During the Year	Total Amount Funded	Estimated Remaining Fundings (unaudited)	Estimated Total Investment (unaudited)	Approximate Square Feet (unaudited)
Construction Activity								
Charlotte, NC	1	Q2 2019	$9,586	$6,099	$9,586	2,414	$ 12,000	38,000
Seattle, WA	1	Q4 2019	23,521	21,549	23,821	40,299	64,120	151,000
Total			$33,107	$27,648	$33,407	$ 42,713	$ 76,120	189,000

Tenant Improvements

The Company may provide a tenant improvement allowance in new or renewal leases for the purpose of refurbishing or renovating tenant space. As of December 31, 2018, the Company had commitments of approximately $29.2 million that are expected to be spent on tenant improvements throughout the portfolio, excluding development properties currently under construction.

Land Held for Development

Land held for development includes parcels of land owned by the Company, upon which the Company intends to develop and own outpatient healthcare facilities. The Company's investment in seven parcels of land held for development located adjacent to certain of the Company's existing medical office buildings in Texas, Iowa, Tennessee and Colorado totaled approximately $24.6 million as of December 31, 2018. The Company's investment in six parcels of land held in Texas, Iowa, and Tennessee totaled approximately $20.1 million as of 2017.

Operating Leases

As of December 31, 2018, the Company was obligated under operating lease agreements consisting primarily of the Company's ground leases. At December 31, 2018, the Company had 107 properties totaling 8.8 million square feet that were held under ground leases with a remaining weighted average term of 53.9 years, excluding renewal options. These ground leases typically have initial terms of 50 to 75 years with one or more renewal options extending the terms to 75 to 100 years, with expiration dates through 2117.

Any increases related to the Company's ground leases are generally either stated or based on the Consumer Price Index. Rental expense relating to the operating leases for the years ended December 31, 2018, 2017 and 2016 was $6.9 million, $6.5 million and $5.8 million, respectively. The Company prepaid 47 ground leases. The amortization of the prepaid rent represented approximately $0.5 million of the Company's rental expense for the years ended December 31, 2018, 2017, and 2016.

The Company's future minimum lease payments primarily for its 60 non-prepaid ground leases as of December 31, 2018 were as follows (in thousands):

2019	$5,288
2020	5,260
2021	5,238
2022	5,207
2023	5,224
2024 and thereafter	323,533
	$349,750

15. Other Data

Taxable Income (unaudited)

The Company has elected to be taxed as a REIT, as defined under the Internal Revenue Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its taxable income to its stockholders.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As a REIT, the Company generally will not be subject to federal income tax on taxable income it distributes currently to its stockholders. Accordingly, no provision for federal income taxes has been made in the accompanying Consolidated Financial Statements. If the Company fails to qualify as a REIT for any taxable year, then it will be subject to federal income taxes at regular corporate rates, including any applicable alternative minimum tax, and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise tax on its undistributed taxable income.

Earnings and profits (as defined under the Internal Revenue Code), the current and accumulated amounts of which determine the taxability of distributions to stockholders, vary from net income attributable to common stockholders and taxable income because of different depreciation recovery periods, depreciation methods, and other items.

On a tax-basis, the Company's gross real estate assets totaled approximately $4.0 billion, $4.0 billion, and $3.7 billion as of December 31, 2018, 2017 and 2016, respectively.

The following table reconciles the Company's consolidated net income attributable to common stockholders to taxable income for the three years ended December 31, 2018:

	Year Ended December 31,		
(Dollars in thousands)	**2018**	**2017**	**2016**
Net income	$69,771	$23,092	$85,571
Reconciling items to taxable income:			
Depreciation and amortization	64,775	46,426	38,260
Gain or loss on disposition of depreciable assets	(27,581)	1,570	(32,103)
Impairments	—	—	121
Straight-line rent	(3,049)	(4,551)	(7,101)
Receivable allowances	2,470	1,680	2,067
Stock-based compensation	(1,699)	1,855	1,301
Other	842	6,552	2,236
	35,758	53,532	4,781
Taxable income [1]	$105,529	$76,624	$90,352
Dividends paid	$150,266	$142,327	$131,759

(1) Before REIT dividend paid deduction.

Characterization of Distributions (unaudited)

Distributions in excess of earnings and profits generally constitute a return of capital. The following table gives the characterization of the distributions on the Company's common stock for the three years ended December 31, 2018. For the three years ended December 31, 2018, there were no preferred shares outstanding. As such, no dividends were distributed related to preferred shares for those periods.

	2018		**2017**		**2016**	
	Per Share	**%**	**Per Share**	**%**	**Per Share**	**%**
Common stock:						
Ordinary income [1]	$0.75	62.2 %	$0.42	34.5 %	$0.78	65.0 %
Return of capital	0.33	27.8 %	0.50	42.0 %	0.35	29.5 %
Unrecaptured section 1250 gain	0.12	10.0 %	0.28	23.5 %	0.07	5.5 %
Common stock distributions	$1.20	100.0%	$1.20	100.0%	$1.20	100.0%

(1) For the 2018 reporting year all ordinary income is also Code Section 199A eligible per the The Tax Cut and Jobs Act of 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

State Income Taxes

The Company must pay certain state income taxes, which are typically included in general and administrative expense on the Company's Consolidated Statements of Income.

The State of Texas gross margins tax on gross receipts from operations is disclosed in the table below as an income tax because it is considered such by the Securities and Exchange Commission.

State income tax expense and state income tax payments for the three years ended December 31, 2018 are detailed in the table below:

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
State income tax expense:			
Texas gross margins tax	$586	$608	$562
Other	—	—	2
Total state income tax expense	$586	$608	$564
State income tax payments, net of refunds and collections	$637	$555	$544

16. Fair Value of Financial Instruments

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

Cash, cash equivalents and restricted cash - The carrying amount approximates fair value.

Mortgage notes receivable - The fair value of mortgage notes receivable is estimated based either on cash flow analyses at an assumed market rate of interest or at a rate consistent with the rates on mortgage notes acquired by the Company recently, if any.

Borrowings under the Unsecured Credit Facility due 2020 and Unsecured Term Loan due 2022 - The carrying amount approximates fair value because the borrowings are based on variable market interest rates.

Senior unsecured notes payable - The fair value of notes and bonds payable is estimated using cash flow analyses, based on the Company's current interest rates for similar types of borrowing arrangements.

Mortgage notes payable - The fair value is estimated using cash flow analyses, based on the Company's current interest rates for similar types of borrowing arrangements.

Interest rate swap agreements - Interest rate swap agreements are recorded in other liabilities on the Company's Consolidated Balance Sheets at fair value. Fair value is estimated by utilizing pricing models that consider forward yield curves and discount rates.

The table below details the fair value and carrying values for notes and bonds payable as of December 31, 2018 and 2017.

	December 31, 2018		December 31, 2017	
(Dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes and bonds payable [1]	$1,346.0	$1,326.5	$1,283.9	$1,269.7

(1) Level 2 – model-derived valuations in which significant inputs and significant value drivers are observable in active markets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

17. Selected Quarterly Financial Data (unaudited)

Quarterly financial information for the year ended December 31, 2018 is summarized below.

	Quarter Ended			
(Dollars in thousands, except per share data)	March 31	June 30 (1)	September 30	December 31 (2)
2018				
Revenues from continuing operations	$112,124	$111,634	$113,462	$ 113,168
Net income attributable to common stockholders	$9,180	$37,729	$6,548	$ 16,314
Net income attributable to common stockholders per share:				
Basic earnings per common share	$0.07	$0.30	$0.05	$ 0.13
Diluted earnings per common share	$0.07	$0.30	$0.05	$ 0.13

(1) The increases in net income and amounts per share for the second quarter of 2018 are primarily attributable to gains of $27.7 million on the sale of twelve properties.

(2) The increases in net income and amounts per share for the fourth quarter of 2018 are primarily attributable to gains of $10.8 million on the sale of three properties.

Quarterly financial information for the year ended December 31, 2017 is summarized below.

	Quarter Ended			
(Dollars in thousands, except per share data)	March 31 (1)	June 30 (2)	September 30 (3)	December 31 (4)
2017				
Revenues from continuing operations	$104,644	$105,318	$ 107,025	$ 107,749
Net income attributable to common stockholders	$31,845	$25,224	$ 3,173	$ (37,151)
Net income attributable to common stockholders per share:				
Basic earnings per common share	$0.28	$0.22	$ 0.02	$ (0.31)
Diluted earnings per common share	$0.28	$0.22	$ 0.02	$ (0.31)

(1) The increases in net income and amounts per share for the first quarter of 2017 are primarily attributable to gains of $23.4 million on the sale of six properties.

(2) The increases in net income and amounts per share for the second quarter of 2017 are primarily attributable to gains of $16.1 million on the sale of three properties.

(3) The decreases in net income and amounts per share for the third quarter of 2017 are primarily attributable to impairment charges of $5.1 million.

(4) The decreases in net income and amounts per share for the fourth quarter of 2017 are primarily attributable to a loss on the extinguishment of debt of $45.0 million.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosure.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act.

Changes in the Company's Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Healthcare Realty Trust Incorporated is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 using the principles and other criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018. The Company's independent registered public accounting firm, BDO USA, LLP, has also issued an attestation report on the effectiveness of the Company's internal control over financial reporting included herein.

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Report of
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Healthcare Realty Trust Incorporated
Nashville, Tennessee

Opinion on Internal Control over Financial Reporting

We have audited Healthcare Realty Trust Incorporated's (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedules and our report dated February 13, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Nashville, Tennessee
February 13, 2019

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Item 9B. Other Information

Election to Opt Out of Section 3-803 of the General Corporation Law

On February 12, 2019, the Board of Directors of the Company approved a resolution prohibiting the Company from electing to be subject to Section 3-803 of Subtitle 8 of Title 3 of the Maryland General Corporation Law ("MGCL"), commonly referred to as the "Maryland Unsolicited Takeover Act" or "MUTA." MUTA contains statutory provisions that allow a board, without stockholder approval, to elect to classify into three classes with staggered three-year terms. By adopting this resolution, the Board of Directors is prohibited from electing to classify into three classes without first obtaining stockholder approval. In accordance with Sections 3-802(c) and 3-802(d) of the MGCL, on February 12, 2019, the Company filed Articles Supplementary ("Articles Supplementary") describing the foregoing prohibition with the State Department of Assessments and Taxation of Maryland.

The foregoing summary is qualified in its entirety by reference to the full text of the Second Articles of Amendment and Restatement of the Company, as amended, a copy of which is included as Exhibit 3.1 to this Annual Report on Form 10-K and incorporated herein by reference.

Proxy Access Bylaw Amendment

On February 12, 2019, the Board of Directors adopted an amendment to the Company's bylaws to implement "proxy access" allowing eligible stockholders to include their own nominees for director in the Company's proxy materials along with the Board-nominated candidates. This amendment was immediately effective.

The amendment is set forth in the Company's Amendment No. 3 to the Amended and Restated Bylaws (the "Amendment"). The Amendment permits a shareholder, or a group of up to 20 shareholders, owning at least 3% of the Company's outstanding shares of capital stock for at least three continuous years to nominate and include in the Company's proxy materials director nominees comprising up to the greater of two individuals or 20% of the Board, provided that the shareholder(s) and the nominee(s) satisfy the procedural and eligibility requirements specified in the bylaws. The above description of the proxy access provisions of the bylaws is qualified in its entirety by reference to the full text of the Amended and Restated Bylaws of the Company, as amended, a copy of which is included as Exhibit 3.2 to this Annual Report on Form 10-K and incorporated herein by reference.

Anti-Hedging Policy

On February 12, 2019, the Board of Directors adopted an anti-hedging policy applicable to employees, officers, and directors of the Company. The policy prohibits the purchase of financial instruments, including prepaid variable forward contracts, instruments for the short sale or purchase or sale of call or put options, equity swaps, collars, or units of exchangeable funds, that are designed to or that may reasonably be expected to have the effect of hedging or offsetting a decrease in the market value of any securities of the Company.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

Information with respect to the Company's directors, set forth in the Company's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 under the caption "Election of Directors," is incorporated herein by reference.

Executive Officers

The executive officers of the Company are:

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Name	Age	Position
David R. Emery	74	Executive Chairman of the Board
Todd J. Meredith	44	President & Chief Executive Officer
J. Christopher Douglas	43	Executive Vice President & Chief Financial Officer
John M. Bryant, Jr.	52	Executive Vice President & General Counsel
Robert E. Hull	46	Executive Vice President - Investments

Mr. Emery was appointed Executive Chairman of the Board on December 30, 2016. Mr. Emery founded the Company and served as President and Chief Executive Officer from its founding in May 1992 until December 30, 2016. Prior to 1992, Mr. Emery was engaged in the development and management of commercial real estate in Nashville, Tennessee. Mr. Emery has been active in the real estate industry for over 45 years.

Mr. Meredith was appointed President and Chief Executive Officer effective December 30, 2016. He served as the Company's Executive Vice President – Investments from February 2011 until December 30, 2016 and was responsible for overseeing the Company’s investment activities, including the acquisition, financing and development of medical office and other primarily outpatient medical facilities. Prior to February 2011, he led the Company’s development activities as a Senior Vice President. Before joining the Company in 2001, Mr. Meredith worked in investment banking.

Mr. Douglas was appointed the Company's Chief Financial Officer effective March 1, 2016 and has been employed by the Company since 2003. He served as the Company’s Senior Vice President, Acquisitions and Dispositions managing the Company’s acquisition and disposition team from 2011 until March 1, 2016. Prior to that, Mr. Douglas served as Senior Vice President, Asset Administration, administering the Company’s master lease portfolio and led a major disposition strategy in 2007. Mr. Douglas has a background in commercial and investment banking.

Mr. Bryant became the Company’s General Counsel in November 2003. From April 2002 until November 2003, Mr. Bryant was Vice President and Assistant General Counsel. Prior to joining the Company, Mr. Bryant was a shareholder with the law firm of Baker Donelson Bearman & Caldwell in Nashville, Tennessee.

Mr. Hull was appointed Executive Vice President - Investments effective January 1, 2017 and has been employed by the Company since 2004. He served as Senior Vice President - Investments from March 2011 until January 2017, managing the Company's development and acquisition activity. Prior to that, Mr. Hull served in various capacities on the Company's investments team. Before joining the Company, Mr. Hull worked in the senior living and commercial banking industries.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics (the “Code of Ethics”) that applies to its principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions, as well as all directors, officers and employees of the Company. The Code of Ethics is posted on the Company’s website (www.healthcarerealty.com) and is available in print free of charge to any stockholder who requests a copy. Interested parties may address a written request for a printed copy of the Code of Ethics to: Investor Relations: Healthcare Realty Trust Incorporated, 3310 West End Avenue, Suite 700, Nashville, Tennessee 37203. The Company intends to satisfy the disclosure requirement regarding any amendment to, or a waiver of, a provision of the Code of Ethics for the Company’s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions by posting such information on the Company’s website.

Section 16(a) Compliance

Information with respect to compliance with Section 16(a) of the Securities Exchange Act set forth in the Company’s Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 under the caption “Security Ownership of Certain Beneficial Owners and Management – Section 16(a) Beneficial Ownership Reporting Compliance,” is incorporated herein by reference.

Stockholder Recommendation of Director Candidates

There have been no material changes with respect to the Company’s policy relating to stockholder recommendations of director candidates. Such information is set forth in the Company’s Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 under the caption “Shareholder Recommendation or Nomination of Director

Candidates," and is incorporated herein by reference.

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Audit Committee

Information relating to the Company's Audit Committee, its members and the Audit Committee's financial experts, set forth in the Company's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 under the caption "Committee Membership," is incorporated herein by reference.

Item 11. Executive Compensation

Information relating to executive compensation, set forth in the Company's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 under the captions "Compensation Discussion and Analysis," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Compensation Committee Report" and "Director Compensation," is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information relating to the security ownership of management and certain beneficial owners, set forth in the Company's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 under the caption "Security Ownership of Certain Beneficial Owners and Management," is incorporated herein by reference.

Information relating to securities authorized for issuance under the Company's equity compensation plans, set forth in Item 5 of this report under the caption "Equity Compensation Plan Information," is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information relating to certain relationships and related transactions, and director independence, set forth in the Company's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 under the captions "Certain Relationships and Related Transactions" and "Corporate Governance – Independence of Directors," is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information relating to the fees paid to the Company's accountants, set forth in the Company's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2019 under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm," is incorporated herein by reference.

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Item 15. Exhibits and Financial Statement Schedules

(a) *Index to Historical Financial Statements, Financial Statement Schedules and Exhibits*

(1) *Financial Statements:*

The following financial statements of Healthcare Realty Trust Incorporated are included in Item 8 of this Annual Report on Form 10-K.

- Consolidated Balance Sheets – December 31, 2018 and December 31, 2017.
- Consolidated Statements of Income for the years ended December 31, 2018, December 31, 2017 and December 31, 2016.
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, December 31, 2017 and December 31, 2016.
- Consolidated Statements of Equity for the years ended December 31, 2018, December 31, 2017 and December 31, 2016.
- Consolidated Statements of Cash Flows for the years ended December 31, 2018, December 31, 2017 and December 31, 2016.
- Notes to Consolidated Financial Statements.

(2) *Financial Statement Schedules:*

Schedule II	– Valuation and Qualifying Accounts for the years ended December 31, 2018, 2017, and 2016	97
Schedule III	– Real Estate and Accumulated Depreciation as of December 31, 2018	98
Schedule IV	– Mortgage Loans on Real Estate as of December 31, 2018	99

All other schedules are omitted because they are either not applicable, not required or because the information is included in the consolidated financial statements or notes thereto.

(3) *Exhibits:*

Exhibit Number	Description of Exhibits
1.1	Sales Agreement, dated February 19, 2016, between the Company and Barclays Capital Inc. (1)
1.2	Amendment to Sales Agreement, dated May 5, 2017, by and between the Company and Barclays Capital Inc. (2)
1.3	Equity Distribution Agreement, dated February 19, 2016, between the Company and BB&T Capital Markets, a division of BB&T Securities, LLC (1)
1.4	Amendment to Equity Distribution Agreement, dated May 5, 2017, by and between the Company and BB&T Capital Markets, a division of BB&T Securities, LLC(2)
1.5	Sales Agreement, dated February 19, 2016, between the Company and BMO Capital Markets Corp. (1)
1.6	Amendment to Sales Agreement, dated May 5, 2017, by and between the Company and BMO Capital Markets Corp. (2)
1.7	Controlled Equity Offering Sales Agreement, dated February 19, 2016, between the Company and Cantor Fitzgerald & Co. (1)
1.8	Amendment to Controlled Equity Offering Sales Agreement, dated May 5, 2017, by and between the Company and Cantor Fitzgerald & Co. (2)
1.9	Sales Agreement, dated February 19, 2016, between the Company and Credit Agricole Securities (USA) Inc. (1)
1.10	Amendment to Sales Agreement, dated May 5, 2017, by and between the Company and Credit Agricole Securities (USA) Inc. (2)
1.11	Sales Agreement, dated May 5, 2017, by and between the Company and Fifth Third Securities, Inc. (2)

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3.1	—	Second Articles of Amendment and Restatement of the Company, as amended. (filed herewith)
3.2	—	Amended and Restated Bylaws of the Company, as amended. (filed herewith)
4.1	—	Specimen stock certificate. (3)
4.2	—	Indenture, dated as of May 15, 2001 by and between the Company and Branch Banking and Trust Company, as Trustee (as successor to the trustee named therein). (4)
4.3	—	Third Supplemental Indenture, dated December 4, 2009, by and between the Company and Branch Banking and Trust Company, as Trustee (as successor to the trustee named therein). (5)
4.4	—	Form of 6.50% Senior Note due 2017 (set forth in Exhibit B to the Third Supplemental Indenture filed as Exhibit 4.2 thereto). (5)
4.5	—	Fourth Supplemental Indenture, dated December 13, 2010, by and between the Company and Branch Banking and Trust Company, as Trustee (as successor to the trustee named therein). (6)
4.6	—	Form of 5.750% Senior Note due 2021 (set forth in Exhibit B to the Fourth Supplemental Indenture filed as Exhibit 4.2 thereto). (6)
4.7	—	Fifth Supplemental Indenture, dated March 26, 2013, by and between the Company and Branch Banking and Trust Company, as Trustee (as successor to the trustee named therein). (7)
4.8	—	Form of 3.75% Senior Note due 2023 (set forth in Exhibit B to the Fifth Supplemental Indenture filed as Exhibit (4.8) hereto). (7)
4.9	—	Sixth Supplemental Indenture, dated April 24, 2015, by and between the Company and Branch Banking and Trust Company, as Trustee (as successor to the trustee named therein). (8)
4.10	—	Form of 3.875% Senior Notes due 2025 (set forth in Exhibit B to the Sixth Supplemental Indenture filed as Exhibit 4.9 hereto). (8)
4.11	—	Seventh Supplemental Indenture, dated December 11, 2017, by and between the Company and Branch Banking and Trust Company, as Trustee. (9)
4.12	—	Form of 3.625% Senior Note due 2028 (set forth in Exhibit B to the Seventh Supplemental Indenture filed as Exhibit 4.11 hereto). (9)
10.1	—	2000 Employee Stock Purchase Plan. (10)
10.2	—	Amendment No. 1 to 2000 Employee Stock Purchase Plan, dated February 13, 2018. (11)
10.3	—	Dividend Reinvestment Plan, as Amended. (12)
10.4	—	Third Amended and Restated Employment Agreement, dated February 16, 2016, between David R. Emery and the Company. (13)
10.5	—	Third Amended and Restated Employment Agreement, dated February 16, 2016, between Todd J. Meredith and the Company. (13)
10.6	—	Third Amended and Restated Employment Agreement, dated February 15, 2017, between John M. Bryant, Jr. and the Company. (14)
10.7	—	Amended and Restated Employment Agreement, dated January 1, 2017, between Robert E. Hull and the Company. (14)
10.8	—	Amended and Restated Employment Agreement, dated February 2, 2016, between J. Christopher Douglas and the Company. (15)
10.9	—	Healthcare Realty Trust Incorporated Amended and Restated Executive Incentive Plan. (13)
10.10	—	2010 Restricted Stock Implementation for Non-Employee Directors, dated May 4, 2010. (16)
10.11	—	Amendment No. 1 to 2010 Restricted Stock Implementation for Non-Employee Directors, dated December 11, 2013. (17)
10.12	—	Amendment No. 2 to 2010 Restricted Stock Implementation for Non-Employee Directors, dated August 4, 2015. (18)
10.13	—	Healthcare Realty Trust Incorporated Form of Restricted Stock Agreement for Non-Employee Directors. (19)
10.14	—	Healthcare Realty Trust Incorporated Form of Restricted Stock Agreement for Officers. (19)
10.15	—	Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan. (20)
10.16	—	Amendment No. 1 to Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan. (18)

10.17	—	Credit Agreement, dated as of October 14, 2011, by and among the Company, as Borrower, Wells Fargo Bank National Association, as Administrative Agent, JP Morgan Chase Bank, N.A., as Syndication Agent, Barclays Bank PLC, Credit Agricole Corporate and Investment Bank and Bank of America, N.A., as Co-Documentation Agents, and the other Lenders named therein. (21)

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10.18	Amendment to Credit Agreement, dated as of February 15, 2013, by and among the Company, as Borrower, Wells Fargo Bank National Association, as Administrative Agent, JP Morgan Chase Bank, N.A., as Syndication Agent, Barclays Bank PLC, Credit Agricole Corporate and Investment Bank and Bank of American, N.A., as Co-Documentation Agents, and the other Lenders named therein. (22)
10.19	Amendment No. 2 to Credit Agreement, dated as of February 27, 2014, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto. (23)
10.20	Third Amendment to Credit Agreement, dated as of July 29, 2016, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto. (24)
10.21	Term Loan Agreement, dated as of February 27, 2014, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto. (23)
10.22	First Amendment to Term Loan, dated July 29, 2016, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto. (24)
10.23	Second Amendment to Term Loan, dated as of December 18, 2017, by and among the Company, as Borrower, Wells Fargo Bank, National Association, as Administrative Agent, and the other Lenders named therein. (25)
21	Subsidiaries of the Registrant. (filed herewith)
23	Consent of BDO USA, LLP, independent registered public accounting firm. (filed herewith)
31.1	Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
31.2	Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (filed herewith)
101.INS	This instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document. (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. (filed herewith)
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document. (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. (filed herewith)

(1) Filed as an exhibit to the Company’s Form 8-K filed February 19, 2016 and hereby incorporated by reference.
(2) Filed as an exhibit to the Company's Form 8-K filed May 5, 2017 and hereby incorporated by reference.
(3) Filed as an exhibit to the Company's Registration Statement on Form S-11 (Registration No. 33-60506) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.
(4) Filed as an exhibit to the Company's Form 8-K filed May 17, 2001 and hereby incorporated by reference.
(5) Filed as an exhibit to the Company’s Form 8-K filed December 4, 2009 and hereby incorporated by reference.
(6) Filed as an exhibit to the Company’s Form 8-K filed December 13, 2010 and hereby incorporated by reference.
(7) Filed as an exhibit to the Company's Form 8-K filed March 26, 2013 and hereby incorporated by reference.
(8) Filed as an exhibit to the Company’s Form 8-K filed April 24, 2015 and hereby incorporated by reference.
(9) Filed as an exhibit to the Company’s Form 8-K filed December 11, 2017 and hereby incorporated by reference.
(10) Filed as an exhibit to the Company’s Form 10-K for the year ended December 31, 1999 and hereby incorporated by reference.
(11) Filed as an exhibit to the Company's Form 10-Q for the quarter ended March 31, 2018 and hereby incorporated by reference.
(12) Filed as an exhibit to the Company’s Registration Statement on Form S-3 (Registration No. 33-79452) previously filed on September 26, 2003 pursuant to the Securities Act of 1933 and hereby incorporated by reference.

(13) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2015 and hereby incorporated by reference.

(14) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2016 and hereby incorporated by reference.

(15) Filed as an exhibit to the Company's Form 8-K filed February 3, 2016 and hereby incorporated by reference.

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(16) Filed as an exhibit to the Company's Form 10-Q for the quarter ended March 31, 2010 and hereby incorporated by reference.
(17) Filed as an exhibit to the Company’s Form 10-K for the year ended December 31, 2013 and hereby incorporated by reference.
(18) Filed as an exhibit to the Company’s Form 10-Q for the quarter ended June 30, 2015 and hereby incorporated by reference.
(19) Filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2012 and hereby incorporated by reference.
(20) Filed as an exhibit to the Company's proxy statement filed March 30, 2015 and hereby incorporated by reference.
(21) Filed as an exhibit to the Company's Form 8-K filed October 19, 2011 and hereby incorporated by reference.
(22) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2012 and hereby incorporated by reference.
(23) Filed as an exhibit to the Company's Form 8-K filed February 28, 2014 and hereby incorporated by reference.
(24) Filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2016 and hereby incorporated by reference.
(25) Filed as an exhibit to the Company's Form 8-K filed December 22, 2017 and hereby incorporated by reference.

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Executive Compensation Plans and Arrangements

The following is a list of all executive compensation plans and arrangements filed as exhibits to this Annual Report on Form 10-K:

1. 2000 Employee Stock Purchase Plan (filed as Exhibit 10.1)
2. Amendment No. 1 to 2000 Employee Stock Purchase Plan (filed as Exhibit 10.2)
3. Third Amended and Restated Employment Agreement, dated February 16, 2016, between David R. Emery and the Company (filed as Exhibit 10.4)
4. Third Amended and Restated Employment Agreement, dated February 16, 2016, between Todd J. Meredith and the Company (filed as Exhibit 10.5)
5. Third Amended and Restated Employment Agreement, dated February 15, 2017, between John M. Bryant, Jr. and the Company (filed as Exhibit 10.6)
6. Amended and Restated Employment Agreement, dated January 1, 2017, between Robert E. Hull and the Company (filed as Exhibit 10.7)
7. Third Amended and Restated Employment Agreement, dated February 15, 2017, between B. Douglas Whitman, II and the Company (filed as Exhibit 10.8)
8. Amended and Restated Employment Agreement, dated February 2, 2016, between J. Christopher Douglas and the Company (filed as Exhibit 10.9)
9. Healthcare Realty Trust Incorporated Amended and Restated Executive Incentive Plan (filed as Exhibit 10.10)
10. 2010 Restricted Stock Implementation for Non-Employee Directors, dated May 4, 2010 (filed as Exhibit 10.11)
11. Amendment No. 1 to Restricted Stock Implementation for Non-Employee Directors (filed as Exhibit 10.12)
12. Amendment No. 2 to Restricted Stock Implementation for Non-Employee Directors (filed as Exhibit 10.13)
13. Healthcare Realty Trust Incorporated Form of Restricted Stock Agreement for Non-Employee Directors (filed as Exhibit 10.14)
14. Healthcare Realty Trust Incorporated Form of Restricted Stock Agreement for Officers (filed as Exhibit 10.15)
15. Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan (filed as Exhibit 10.16)
16. Amendment No. 1 to Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan (filed as Exhibit 10.17)

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Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Nashville, State of Tennessee, on February 13, 2019.

HEALTHCARE REALTY TRUST
INCORPORATED

By: /s/ TODD J. MEREDITH
Todd J. Meredith
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Company and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Todd J. Meredith Todd J. Meredith	President and Chief Executive Officer (Principal Executive Officer)	February 13, 2019
/s/ J. Christopher Douglas J. Christopher Douglas	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 13, 2019
/s/ Amanda L. Callaway Amanda L. Callaway	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 13, 2019
/s/ David R. Emery David R. Emery	Executive Chairman of the Board	February 13, 2019
/s/ Nancy H. Agee Nancy H. Agee	Director	February 13, 2019
/s/ Edward H. Braman Edward H. Braman	Director	February 13, 2019
/s/ Peter F. Lyle Peter F. Lyle	Director	February 13, 2019
/s/ Edwin B. Morris, III Edwin B. Morris, III	Director	February 13, 2019
/s/ John Knox Singleton John Knox Singleton	Director	February 13, 2019
/s/ Bruce D. Sullivan Bruce D. Sullivan	Director	February 13, 2019
/s/ Christann M. Vasquez Christann M. Vasquez	Director	February 13, 2019

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Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2018, 2017 and 2016

(Dollars in thousands)

Description		Balance at Beginning of Period	Additions and Deductions Charged /(Credited) to Costs and Expenses	Charged to Other Accounts	Uncollectible Accounts Written-off	Balance at End of Period
2018	Accounts and notes receivable allowance	$ 256	$ 60	$ —	$ 65	$ 251
2017	Accounts and notes receivable allowance	$ 148	$ 159	$ —	$ 51	$ 256
2016	Accounts and notes receivable allowance	$ 179	$ (21)	$ —	$ 10	$ 148

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Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2018

(Dollars in thousands)

		Land [1]			Buildings, Improvements, Lease Intangibles and CIP [1]								
Market	Number of Properties	Initial Investment	Cost Capitalized Subsequent to Acquisition	Total	Initial Investment	Cost Capitalized Subsequent to Acquisition	Total	Personal Property	(2) (3) (5) Total Property	(1) (3) Accumulated Depreciation	(4) Encumbrances	Date Acquired	Date Constructed
Dallas, TX	25	$ 16,668	$ 243	$ 16,911	$ 345,126	$ 118,951	$ 464,077	$ 430	$ 481,418	$ 166,980	$ —	2003-2010	1974-2008
Seattle, WA	19	27,050	1,817	28,867	407,491	31,389	438,880	419	468,166	69,148	31,868	2008-2018	1957-2009
Nashville, TN	6	20,004	49	20,053	115,061	61,196	176,257	1,041	197,351	53,052	—	2004-2018	1960-2015
Atlanta, GA	8	588	427	1,015	187,088	2,079	189,167	37	190,219	11,547	32,597	2017	1999-2014
Los Angela, CA	12	27,281	428	27,709	117,144	40,352	157,496	316	185,521	87,678	23,103	1993-2017	1973-1998
Charlotte, NC	16	4,163	37	4,200	150,022	12,900	162,922	99	167,221	60,389	—	2008-2013	1961-2008
Denver, CO	9	13,887	2,627	16,514	108,206	23,554	131,760	273	148,547	20,315	7,789	2010-2018	1977-2015
Richmond, VA	7	—	—	—	139,636	8,173	147,809	106	147,915	38,288	—	2011	1992-2005
Honolulu, HI	3	8,314	13	8,327	93,839	40,198	134,037	159	142,523	34,703	—	2003-2004	1975-2010
Des Moines, IA	7	12,584	81	12,665	116,647	10,416	127,063	99	139,827	30,376	1,262	2008-2014	2002-2009
Houston, TX	8	13,408	264	13,672	96,894	22,024	118,918	77	132,667	39,195	—	1993-2014	1984-2012
Oklahoma City, OK	3	9,077	350	9,427	111,043	409	111,452	10	120,889	14,751	6,225	2010-2018	1981-2014
San Francisco, CA	3	14,054	—	14,054	93,852	11,759	105,611	43	119,708	15,539	—	2015-2017	1975-2014
Springfield, MO	1	1,989	—	1,989	109,304	—	109,304	—	111,293	14,893	—	2013	2013
Austin, TX	5	14,233	3	14,236	70,976	20,840	91,816	119	106,171	20,766	—	2007-2015	1972-2015
Washington, D.C.	4	—	—	—	93,730	7,456	101,186	8	101,194	20,701	11,980	2004-2017	1967-2005
Memphis, TN	7	5,241	—	5,241	68,180	22,786	90,966	191	96,398	35,109	—	1999-2013	1993-2007
San Antonio, TX	7	6,617	30	6,647	62,760	26,194	88,954	378	95,979	37,877	—	1996-2010	1978-2011
Chicago, IL	3	5,859	—	5,859	69,964	16,104	86,068	201	92,128	19,372	—	2004-2018	1993-2009
Indianapolis, IN	3	3,299	—	3,299	68,994	3,366	72,360	—	75,659	21,299	—	2008-2010	2005-2008
Minneapolis, MN	4	2,090	—	2,090	61,078	683	61,761	—	63,851	7,750	19,576	2014-2017	1974-2010
Other (21 markets)	40	18,098	458	18,556	436,620	89,162	525,782	1,190	545,528	201,243	8,808	1993-2016	1906-2009
Total Real Estate	200	224,504	6,827	231,331	3,123,655	569,991	3,693,646	5,196	3,930,173	1,020,971	143,208		
Land Held for Develop.	—	24,647	—	24,647	—	—	—	—	24,647	393	—		
Construction in Progress	—	—	—	—	—	—	33,107	—	33,107	—	—		
Corporate Property	—	—	—	—	—	—	—	5,500	5,500	4,467	—		
Total Properties	200	$ 249,151	$ 6,827	$ 255,978	$ 3,123,655	$ 569,991	$ 3,726,753	$ 10,696	$ 3,993,427	$ 1,025,831	$ 143,208		

(1) Includes one asset held for sale as of December 31, 2018 of approximately $19.4 million (gross) and accumulated depreciation of $10.7 million.

(2) Total properties as of December 31, 2018 have an estimated aggregate total cost of $4.0 billion for federal income tax purposes.

(3) Depreciation is provided for on a straight-line basis on buildings and improvements over 3.3 to 39.0 years, lease intangibles over to 2.1 to 99.0 years, personal property over 2.8 to 20.0 years, and land improvements over 5.0 to 39.0 years.

(4) Includes unamortized premium of $1.8 million and unaccreted discount of $1.0 million and issuance costs of $0.7 million as of December 31, 2018.

(5) Rollforward of Total Property and Accumulated Depreciation, including assets held for sale, for the year ended December 31, 2018, 2017 and 2016 follows:

	Year Ended December 31, 2018		Year Ended December 31, 2017		Year Ended December 31, 2016	
(Dollars in thousands)	Total Property	Accumulated Depreciation	Total Property	Accumulated Depreciation	Total Property	Accumulated Depreciation
Beginning Balance	$ 3,907,010	$ 933,220	$ 3,633,993	$ 843,816	$ 3,382,680	$ 762,996
Additions during the period:						
Real Estate acquired	112,591	4,175	322,616	4,206	239,265	3,898

Other improvements	74,317	157,385	59,442	135,807	70,595	121,592
Land held for development	4,525	153	—	74	—	26
Construction in Progress	27,649	—	14,598	—	35,596	—
Retirement/dispositions:						
Real Estate	(132,665)	(69,102)	(123,639)	(50,683)	(94,143)	(44,696)
Land held for development	—	—	—	—	—	—
Ending Balance	$3,993,427	$1,025,831	$3,907,010	$933,220	$3,633,993	$843,816

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Schedule IV – Mortgage Loans on Real Estate as of December 31, 2018

The Company had no mortgage notes receivable outstanding as of December 31, 2018.