

2019

Annual Report to Shareholders







## Letter to Shareholders

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Healthcare Realty's steady progress in 2019 marked another successful year for the Company, centered on the growth of our medical office and outpatient facilities. This growth has been cultivated over three decades of a firm commitment to owning a distinct portfolio of hospital-centric outpatient facilities that are affiliated with respected healthcare providers in strong demographic markets. Our relationships are driving increased acquisition and development opportunities as health systems evolve to meet greater demand from an aging population. Our strategy remains on point, differentiated by our selective investment criteria, low business risk profile and conservative balance sheet.

Healthcare Realty remains committed to building on the foundation and vision of our founder David R. Emery, Chairman Emeritus and Director, who passed away on September 30, 2019. Over the past few years, Mr. Emery adeptly managed the transition of the Company's leadership, including executive management and the board of directors. Mr. Emery's contribution to the sector and to Healthcare Realty will not be forgotten. An expression of our gratitude is included herein.

2019 was defined by the continued strong performance of the Company's same store properties, complemented by an increased acquisition pace. Combined, these factors contributed to a normalized FFO per share increase of 1.7%. FFO per share gained momentum in the second half of the year, with fourth quarter FFO per share increasing 4.0% year-over-year to \$0.41, built on solid fundamentals and sustainable internal and external growth.

Healthcare Realty's operations continued to generate positive same store NOI growth of approximately 3%, led by the reliably strong leasing fundamentals of our multi-tenant properties, including steady contractual rent increases, solid tenant retention, and robust cash leasing

spreads. We also contained expenses well below revenue growth which magnified the pace of NOI improvement. The steady internal growth of our multi-tenant medical office buildings, year to year, demonstrates our commitment to the pursuit of consistent, long-term cash flows and increasing shareholder value.

External growth in 2019 was led by robust acquisition volume of \$381 million. The Company's new investments focused on our well-established network of health system and industry relationships and growing our presence in existing markets. As part of this effort, we also made considerable progress on development, funding \$29 million during the year, including two redevelopments. With fewer dispositions than in recent years, our net investment activity totaled \$355 million, more than double our historic pace.

Healthcare Realty is well-positioned to fund its capital needs with a conservative balance sheet and access to multiple forms of capital. Debt to EBITDA at the end of the year was healthy at 4.9 times. The FAD payout ratio for 2019 was 95%, an improvement of 500 basis points over 2018. With ample liquidity, a solid outlook for internal and external growth, disciplined capital spending and fewer dispositions, we expect to generate positive FFO per share growth and improved dividend coverage in 2020. While the environment for medical office investments is competitive, our established relationships, financial strength and access to capital give us confidence that we can invest in attractive outpatient properties at a steady pace.

Health systems continue to shift care to lower-cost outpatient settings and enhance their physician networks to benefit from favorable demographic shifts and capture market demand. On average, hospitals generate 49% of their revenue from outpatient care, compared to 38%



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ten years ago. Demand for healthcare services is evident in healthcare employment trends, which added approximately 399,000 jobs to the sector in 2019, more than two-thirds of which were jobs in ambulatory-outpatient settings. Healthcare comprises an increasing percentage of the nation's total overall employment – nearly 19% of all nonfarm job growth last year.

Healthcare spending accounted for 17.7% of the nation's gross domestic product (GDP) in 2018 and is projected to reach 19.4% of GDP by 2027. The composition of the nation's healthcare spending reflects the growing importance of hospital and physician services, comprising approximately 53% of the \$3.6 trillion in annual US healthcare expenditures. Healthcare Realty's portfolio will benefit from rising outpatient demand, especially the expanding number of elderly patients who require more frequent care. The population cohort over the age of 65 is expected to surge from 15.4% of the population in 2017 to 19.3% by 2027; and those over 65 years of age visit physician offices 5 times on average each year, compared to 2 times for those under 45 years old.

Healthcare Realty remains committed to investing in medical office and outpatient facilities aligned with top health systems. Hospitals and physicians are increasingly providing outpatient services across a range of settings to achieve market share and revenue growth, while balancing value and efficiency – critical in today's healthcare environment. Health systems are focusing their hospital campuses on higher-acuity inpatient and outpatient care. At the same time, providers value having a symbiotic relationship with, and close proximity to, leading health systems in their markets. These factors attract hospital-based outpatient services and physician specialists, which differentiates our portfolio and drives the stable occupancy and steady growth of our properties.

We see investment opportunities correlate to positive outpatient expansion trends; and, what is most gratifying, it is being initiated widely across our well-established network of health system relationships. These new investments play an important role in delivering value over time, especially when they are additive to internal growth and reinforce the safety investors expect from medical office buildings.

In 2019, the Board of Directors and management collaborated to establish Healthcare Realty's Corporate Sustainability Principles and Policies and published its inaugural Corporate Responsibility Report, both of which are available on the Company's website, [www.healthcarerealty.com/sustainability](http://www.healthcarerealty.com/sustainability). Sustainability practices are fundamental to the Company's long-term success and are incorporated in the Company's high-level strategic planning, as well as day-to-day operations.

In 2020, Healthcare Realty's efforts will remain focused on the key buildings blocks of robust investment volume, strong same store growth and disciplined capital management that provide a foundation for reliable performance and increasing value to shareholders in the years ahead.

Sincerely yours,



Todd J. Meredith  
President and Chief Executive Officer





## David R. Emery

1944 - 2019

Founding CEO and Chairman Emeritus  
Healthcare Realty Trust

David R. Emery, Chairman Emeritus and Director, passed away on September 30, 2019 at the age of 75. David led the team that founded Healthcare Realty in 1992 and oversaw its initial public offering on the New York Stock Exchange in 1993, raising \$117 million to fund an initial portfolio of 21 properties. As Chairman and CEO, and later, Executive Chairman, David guided the Company's steady growth for 25 years, from the first MOB-focused REIT in the early 1990s, to a leader among its strong peer group today, with 297 employees and 204 properties, valued at over \$5.9 billion at year-end.

David was truly a visionary. He inspired everyone around him with his intellectual curiosity, intuition, infectious charm and perpetual optimism. He confidently, yet humbly, pursued knowledge and excellence in many interests, both personal and professional – from building well-crafted structures, to mindfully selecting the trees that surrounded them; from sailing in Maine, to traveling the world with his beloved wife, Glenda, and family.

David had a particular passion for the built environment – for great architecture and proper construction methods. David was never quite satisfied unless he was in the middle of a major design and construction project – including office buildings, houses, botanical gardens, or boats. He immersed himself in every detail, tirelessly researching and revising, eliminating the “detritus,” as he would call

it – paring it down to the simplest, most elegant form. Whatever the pursuit, when David set his mind to undertake something, he marshaled every resource and engaged every person to make it happen. He shared his achievements generously with family, friends and colleagues. He set high expectations for those around him, and, in return, he was fiercely loyal and supportive.

David was a student of naval history and especially fond of British naval officer Vice Admiral Horatio Nelson, who valiantly fought Napoleon. Traveling abroad, David came across a commemorative plaque celebrating the 200th anniversary of the Battle of Waterloo in 1815, where Nelson's successors finally defeated Napoleon. Honoring the victory and those who fought, the plaque cited “four great virtues that draw forth the best in Man.” David truly embodied these four virtues on a daily basis, from which he, and Healthcare Realty, derived much success.

Leadership - To set such an example that others in freedom follow.

Respect - To recognize all that is noblest and best in another, and aspire to emulate it by example.

Enterprise - Imagination in vision, inspiration in thought, and intuition in deed.

Cooperation - To commit oneself to the needs of the other in recognition of a common purpose.

David's legacy of leadership, courageous enterprise, extraordinary character and dear friendship will not be forgotten. In recognition of his founding of Healthcare Realty and meritorious leadership since its inception, the board of directors bestowed on Mr. Emery the title of Chairman Emeritus.



# Management Team



## BOARD OF DIRECTORS

### LEFT TO RIGHT, STANDING

**John V. Abbott** Retired Chief Executive Officer, Aviation Asset Management Group, General Electric Company **Edward H. Braman** Retired Audit Partner, Ernst & Young LLP **Todd J. Meredith** President and Chief Executive Officer, Healthcare Realty Trust Incorporated **David R. Emery** (1944-2019) Chairman Emeritus, Healthcare Realty Trust Incorporated **John Knox Singleton** Chairman, Healthcare Realty Trust Incorporated, Retired Chief Executive Officer, Inova Health System

### LEFT TO RIGHT, SEATED

**Christann M. Vasquez** Executive Vice President and Chief Operating Officer, Ascension Texas **Peter F. Lyle** Executive Vice President, Medical Management Associates, Inc. **Bruce D. Sullivan** Retired Audit Partner, Ernst & Young LLP **Nancy H. Agee** President and Chief Executive Officer, Carilion Clinic



## EXECUTIVE OFFICERS

### LEFT TO RIGHT, STANDING

**Robert E. Hull** Executive Vice President, Investments **Todd J. Meredith** President and Chief Executive Officer **David R. Emery** (1944-2019) Chairman Emeritus

### LEFT TO RIGHT, SEATED

**J. Christopher Douglas** Executive Vice President and Chief Financial Officer **John M. Bryant, Jr.** Executive Vice President and General Counsel



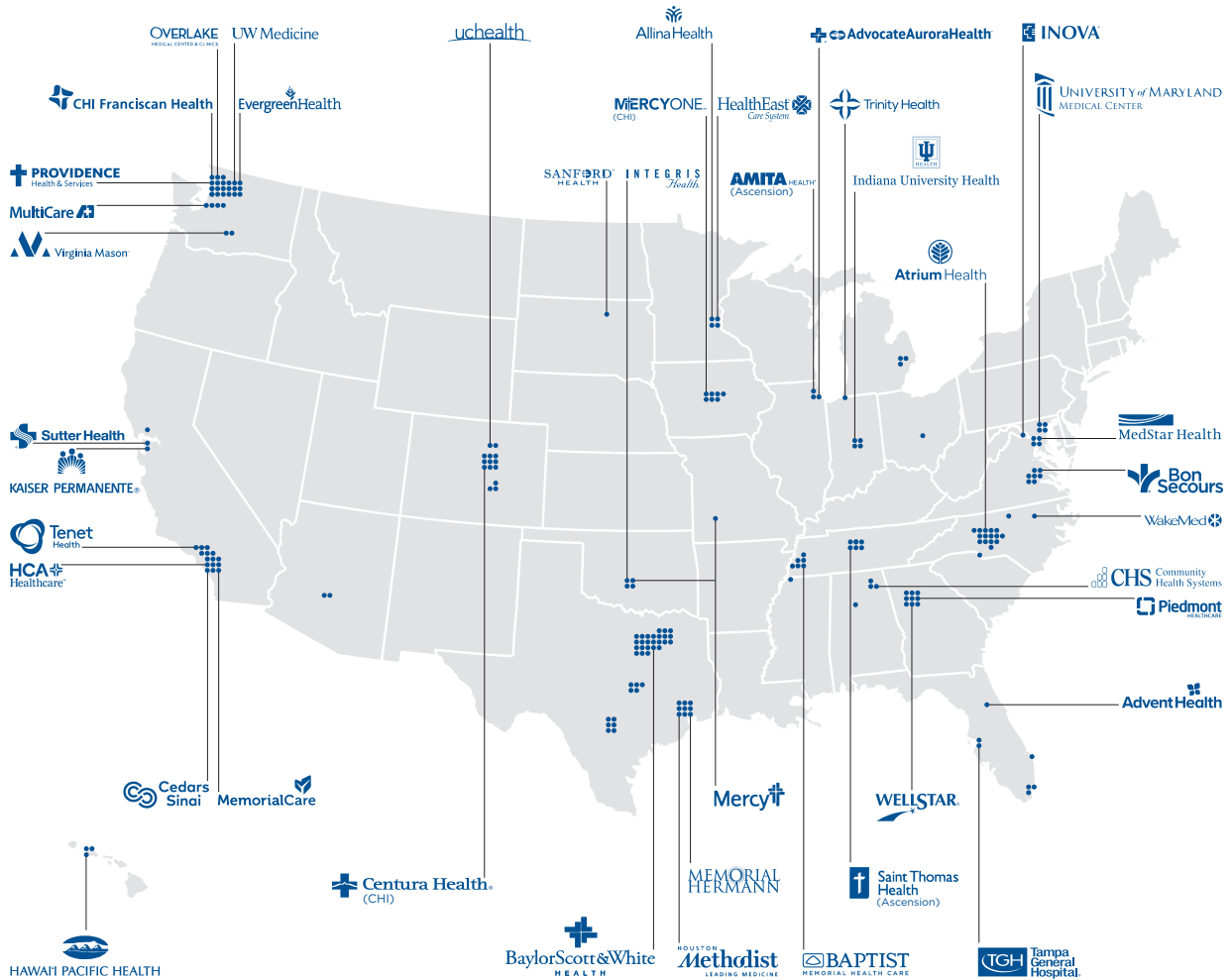


# Company Overview

As of December 31, 2019, Healthcare Realty owned 204 properties in 25 states totaling 15.4 million square feet and was valued at \$5.9 billion. The Company’s portfolio is comprised primarily of multi-tenanted medical office buildings located on the campuses of leading health systems in sizable markets.

## SELECTED PROPERTIES





**TOP MARKETS**

	SF	%
1 Dallas	2,374,808	15.5%
2 Seattle	1,373,199	8.9%
3 Nashville	875,214	5.7%
4 Charlotte	860,735	5.6%
5 Los Angeles	772,797	5.0%
Other (32 markets)	9,099,664	59.3%
<b>Total</b>	<b>15,356,417</b>	<b>100.0%</b>

**TOP HEALTH SYSTEMS**

	ASSOCIATED MOB SF	%
1 Baylor Scott & White Health	2,278,385	15.8%
2 Ascension Health	1,237,009	8.6%
3 CommonSpirit Health	1,213,978	8.4%
4 Atrium Health	805,394	5.7%
5 Tenet Healthcare	638,054	4.4%
Other (39 credit rated systems)	7,757,755	53.9%
Non-credit rated	462,847	3.2%
<b>Total</b>	<b>14,393,422</b>	<b>100.0%</b>



#### CORPORATE ADDRESS

**Healthcare Realty Trust Incorporated**  
 3310 West End Avenue, Suite 700  
 Nashville, Tennessee 37203  
 Phone: 615.269.8175 Fax: 615.269.8461  
[www.healthcarerealty.com](http://www.healthcarerealty.com)  
[communications@healthcarerealty.com](mailto:communications@healthcarerealty.com)

#### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**BDO USA, LLP**  
 414 Union Street, Suite 1800  
 Nashville, Tennessee 37219

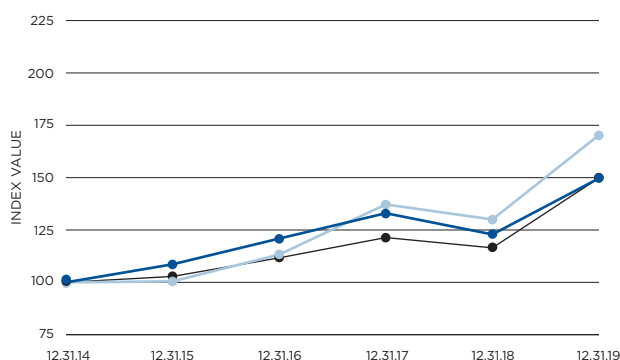
#### TRANSFER AGENT

**EQ Shareowner Services**  
 1110 Centre Pointe Curve, Suite 101  
 Mendota Heights, Minnesota 55120-4100  
 1.800.468.9716  
[www.equiniti.com](http://www.equiniti.com)

#### CUSIP NUMBERS

Common Shares: 421946104  
 Senior Notes Due 2023: 421946AH7  
 Senior Notes Due 2025: 421946AJ3  
 Senior Notes Due 2028: 421946AK0

#### COMPARATIVE PERFORMANCE GRAPH



#### TOTAL RETURN PERFORMANCE

- Healthcare Realty Trust Incorporated
- Russell 3000
- NAREIT All Equity REIT Index

INDEX	PERIOD ENDING					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Healthcare Realty Trust Incorporated	100.00	108.62	120.91	133.02	122.89	149.69
Russell 3000	100.00	100.48	113.27	137.21	130.02	170.35
NAREIT All Equity REIT Index	100.00	102.83	111.70	121.39	116.48	149.86

#### DIVIDEND REINVESTMENT PLAN

A Dividend Reinvestment Plan is offered as a convenience to shareholders of record who wish to increase their holdings in the Company. Additional shares may be purchased, without service or sales charge, through automatic reinvestment of quarterly cash dividends. For information write EQ Shareowner Services, P.O. Box 64856, St. Paul, Minnesota 55164-0856, or call 1.800.468.9716. Information may also be obtained at the transfer agent's website, [www.shareowneronline.com](http://www.shareowneronline.com).

#### DIRECT DEPOSIT OF DIVIDENDS

Direct deposit of dividends is offered as a convenience to shareholders of record. For information, write EQ Shareowner Services, P.O. Box 64856, St. Paul, Minnesota 55164-0856, or call 1.800.468.9716. Information may also be obtained at the transfer agent's website, [www.shareowneronline.com](http://www.shareowneronline.com).

#### FORM 10-K

The Company has filed an Annual Report on Form 10-K for the year ended December 31, 2019, with the Securities and Exchange Commission. Shareholders may obtain a copy of this report, without charge, by writing: Investor Relations, Healthcare Realty Trust Incorporated, 3310 West End Avenue, Suite 700, Nashville, Tennessee 37203. Or, via e-mail: [communications@healthcarerealty.com](mailto:communications@healthcarerealty.com).

#### CERTIFICATIONS

The Company's chief executive officer and chief financial officer have filed the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 with the Securities and Exchange Commission as exhibits to the Company's Annual Report on Form 10-K. In addition, the Company's chief executive officer certified to the New York Stock Exchange in 2019 that he was not aware of any violation by the Company of the New York Stock Exchange's corporate governance listing standards.

#### ANNUAL SHAREHOLDERS MEETING

The annual meeting of shareholders will be held on May 12, 2020, at 10:00 a.m. Central Time at 3310 West End Avenue, Suite 700, Nashville, Tennessee.





# 2019 Form 10-K

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HEALTHCARE REALTY TRUST

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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2019

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  
(State or other jurisdiction of  
Incorporation or organization)

62-1507028  
(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	Trading Symbol	Name of Each Exchange on Which Registered
Common stock, \$0.01 par value per share	HR	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  No

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  No

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

Indicate by check mark whether the Registrant has submitted electronically 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  No

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   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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.

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

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 28, 2019) held by non-affiliates on June 28, 2019 was \$3,953,733,413.

As of February 7, 2020, there were 134,703,119 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 12, 2020 are incorporated by reference into Part III of this Report.



# Table of Contents

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<b>PART I</b>		
<b>Item 1</b>	Business	1
<b>Item 1A</b>	Risk Factors	7
<b>Item 1B</b>	Unresolved Staff Comments	19
<b>Item 2</b>	Properties	19
<b>Item 3</b>	Legal Proceedings	19
<b>Item 4</b>	Mine Safety Disclosures	19
<b>PART II</b>		
<b>Item 5</b>	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	20
<b>Item 6</b>	Selected Financial Data	21
<b>Item 7</b>	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
<b>Item 7A</b>	Quantitative and Qualitative Disclosures About Market Risk	45
<b>Item 8</b>	Financial Statements and Supplementary Data	46
<b>Item 9</b>	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	87
<b>Item 9A</b>	Controls and Procedures	87
<b>PART III</b>		
<b>Item 10</b>	Directors, Executive Officers and Corporate Governance	89
<b>Item 11</b>	Executive Compensation	90
<b>Item 12</b>	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	90
<b>Item 13</b>	Certain Relationships and Related Transactions, and Director Independence	90
<b>Item 14</b>	Principal Accountant Fees and Services	90
<b>Item 15</b>	Exhibits and Financial Statement Schedules	91
<b>Item 16</b>	Form 10-K Summary	93
<b>SIGNATURES AND SCHEDULES</b>		94

## PART I

### Item 1. Business

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 \$4.4 billion in 204 real estate properties, construction in progress, a redevelopment in Memphis, Tennessee (the "Memphis Redevelopment"), land held for development and corporate property as of December 31, 2019. The Company provided property management services for 155 healthcare-related properties nationwide, totaling approximately 11.4 million square feet as of December 31, 2019. 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, 2019:

<i>Dollars and square feet in thousands</i>	GROSS INVESTMENT	SQUARE FEET	PERCENTAGE OF SQUARE FEET	DECEMBER 31, 2019	
				NUMBER OF PROPERTIES	OCCUPANCY <sup>1</sup>
Medical office/outpatient	\$ 3,913,649	14,393	93.8%	196	87.1%
Inpatient	221,478	405	2.6%	3	100.0%
Office	136,956	558	3.6%	5	92.8%
	<b>4,272,083</b>	<b>15,356</b>	<b>100.0%</b>	<b>204</b>	<b>87.7%</b>
Construction in progress	48,731				
Land held for development	24,647				
Memphis Redevelopment	9,032				
Corporate property	5,500				
<b>Total</b>	<b>\$ 4,359,993</b>				

<sup>1</sup> The occupancy column represents the percentage of total rentable square feet leased (including month-to-month and holdover leases). The Company had no properties classified as held for sale as of December 31, 2019.

#### **Financial Concentrations**

The Company's real estate portfolio is leased to a diverse tenant base. For the year ended December 31, 2019, the Company did not have any tenants that accounted for 10% or more of the Company's consolidated revenues. See Note 2 to the Consolidated Financial Statements for additional information regarding the Company's gross investments by geographic market.



### **Expiring Leases**

As of December 31, 2019, the weighted average remaining years to expiration pursuant to the Company's leases was approximately 3.9 years, with expirations through 2035. The table below details the Company's lease expirations as of December 31, 2019.

EXPIRATION YEAR	NUMBER OF LEASES	LEASED SQUARE FEET	PERCENTAGE OF LEASED SQUARE FEET
2020 <sup>1</sup>	736	2,685,057	19.9%
2021	481	1,707,938	12.7%
2022	473	1,725,329	12.8%
2023	334	1,478,025	11.0%
2024	404	1,932,217	14.4%
2025	129	827,185	6.1%
2026	113	427,655	3.2%
2027	91	735,677	5.5%
2028	90	748,753	5.6%
2029	97	755,856	5.6%
Thereafter	67	438,750	3.2%
	<b>3,015</b>	<b>13,462,442</b>	<b>100.0%</b>

<sup>1</sup> Includes 59 leases totaling 142,705 square feet that expired prior to December 31, 2019 and were 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, 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 primarily 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 high-growth markets with a broad tenant mix that includes over 30 physician specialties, as well as surgery, imaging, cancer, and diagnostic centers.

### **2019 Investment Activity**

During 2019, the Company acquired 18 medical office buildings for purchase prices totaling \$381.3 million, including the Memphis Redevelopment. The weighted average capitalization rate for these investments, excluding the Memphis Redevelopment, was 5.5%. The Company calculates the capitalization rate for an acquisition as the forecasted first year cash net operating income divided by the purchase price.

The Company disposed of 13 properties during 2019 for sales prices totaling \$54.9 million. The weighted average capitalization rate for these properties was 7.6%. The Company calculates the capitalization rate for dispositions as the in-place cash net operating income divided by the sales price.

In 2019, the Company funded \$28.6 million toward development and redevelopment of properties. The Company had the Memphis Redevelopment and one development under construction at December 31, 2019.

See the Company's discussion regarding the 2019 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 and legislation at the federal, state and local levels, including, but not limited to, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively the "Affordable Care Act"), the Bipartisan Budget 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 and covers a significant percentage of the U.S. population's health insurance benefits. 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. 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. In 2019, a federal appeals court ruled the exclusion of the individual mandate did not invalidate the Affordable Care Act in its entirety, and remanded the case back to the lower district court in Texas to reconsider the mandate's severability from the remainder of the law. The appeals process will ultimately determine the standing of the Affordable Care Act and its impact on



healthcare providers, insurers and 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.

The Centers for Medicare and Medicaid Services ("CMS") continued to adjust Medicare payment rates in 2019 for reimbursement "site-neutrality," or the equalization of 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 provided in off-campus, provider-based outpatient departments to the same level of Medicare rates for physician-office settings. While certain of these payments specific to 2019 Medicare claims were ruled by the courts to be outside the regulatory purview of CMS and, subsequently, refunded to hospitals, CMS continues to implement site-neutral policies in 2020. These changes are expected to lower Medicare payments for services delivered in off-campus hospital outpatient departments in an effort to lessen reimbursement disparity in 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 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.

Since 2018, physicians have been required to report patient data on quality and performance measures that will affect their Medicare payments beginning in 2020. Implementation of the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"), 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 proposed and 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 proposed, 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 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, many assisted by federal subsidies that are subject to ongoing legal and legislative challenges;

- various state legislature proposals for state-funded single-payer health insurance and a limit on allowable rates of reimbursement to healthcare providers;
- the implementation of 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, comparative effectiveness research, and lower payments for hospital readmissions;
- MACRA, which requires quality reporting and a transition toward value-based reimbursement models for Medicare payments to physicians;
- equalization of Medicare payment rates across different facility-type settings, according to Section 603 of the Bipartisan Budget Act of 2015, which 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 CMS rule for hospital outpatient department Medicare payments in 2020 expanded site-neutral payments for clinic visits in previously-grandfathered off-campus facilities, although this regulation is subject to ongoing legal challenges;
- the continued adoption by providers of federal standards for the meaningful-use of electronic health records;
- reforms to the physician self-referral laws, commonly referred to as the Stark Law, that prohibit physician referral of a Medicare or Medicaid patient to an entity with which the physician has a financial relationship; without reform, both the laws and the regulations stemming from them could impede the transition toward value-based, coordinated care among providers;
- consideration of broad reforms to 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 a significant expansion of Medicare coverage to the greater U.S. population;
- regulation requiring the publication of hospital prices for certain services, as well as hospitals' negotiated rates with insurers for these services, beginning 2021, although this regulation is subject to ongoing legal challenges;
- limits on price increases in pharmaceutical drugs and the cost to Medicare beneficiaries; and
- legislation to prohibit "surprise billing," or high payment rates charged to consumers for out-of-network physician services.

#### ***California - Proposition 13 Reform***

In California, pursuant to an existing state law commonly referred to as Proposition 13, all or portions of a property are reassessed to market value only at the time of "change in ownership" or completion of "new construction," and thereafter, annual property tax increases are limited to 2% of previously assessed values. As a result, Proposition 13 generally results in significant below-market assessed values over time. From time to time, lawmakers and political coalitions have initiated efforts to repeal or amend Proposition 13. One such proposal is included in a proposed ballot measure for 2020 that would, if passed, eliminate the applicability of Proposition 13 to commercial properties. If successful, these proposals could substantially increase the assessed values and property taxes for some of the Company's properties in California. Some tenant leases permit the Company to pass through such tax increases to tenants for payment. However, there can be no assurance that the Company will be able to maintain such provisions in future leases or renewals. Tax increases that are not passed through to tenants could have a material adverse effect on the Company's business, financial condition, results of operations, cash flow, or ability to maintain current levels of distributions. As of December 31, 2019, 8.6% of the Company's total portfolio NOI was generated by properties located in California and approximately half of that is from properties acquired in the last five years.

The Company cannot predict whether any proposals, rulings, or legislation will be fully implemented, adopted, repealed, or amended, or what effect, whether positive or negative, such developments 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 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, 2019, the Company employed 297 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](http://www.healthcarerealty.com).

### **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](http://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](http://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.

### **Sustainability Reporting**

Information regarding the Company's sustainability principles and policies and the 2019 Corporate Responsibility Report are posted on the Company's website ([www.healthcarerealty.com](http://www.healthcarerealty.com)).

## 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 relating to government regulations.

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; 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 is an active seller of properties and 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 \$96.0 million, or 2.2% of the Company's real estate property investments, that were subject to purchase options held by lessees that were exercisable as of December 31, 2019. The Company does not have any additional purchase options that will become exercisable in 2020. Other properties have purchase options that will become exercisable after 2020. Properties with purchase options that are currently exercisable produced aggregate net operating income of approximately \$8.6 million in 2019. 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.

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 Discussion 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.

***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. Ninety percent of leases have increases that are based upon fixed percentages, nine 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.

***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, 2019, the Company had investment concentrations of greater than 5% of its total investments in the Seattle, Washington (13.6%), Dallas, Texas (11.8%) and Los Angeles, California (5.7%) markets. These concentrations increase the exposure to adverse conditions that 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 8.6% of the Company's consolidated revenues in 2019.

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, 2019, the Company had 108 properties that were held under ground leases, including one property with construction in progress, representing an aggregate gross investment of approximately \$2.2 billion. The weighted average remaining term of the Company's ground leases is approximately 71.1 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.

***Damage from catastrophic weather and other natural events, whether caused by climate change or otherwise, could result in losses to the Company.***

Many of our properties are located in areas susceptible to revenue loss, cost increase, or damage caused by severe weather conditions or natural disasters such as wildfires, hurricanes, earthquakes, tornadoes and floods. The Company could experience losses to the extent that such damages exceed insurance coverage, cause an increase in insurance premiums, and/or a decrease in demand for properties located in such areas. In the event that climate change causes such catastrophic weather or other natural events to increase broadly or in localized areas, such costs and damages could increase above historic expectations. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve energy efficiency of our existing properties and could require the Company to spend more on development and redevelopment properties without a corresponding increase in revenue.

***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 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.

***Government tenants may not receive annual budget appropriations, which could adversely affect their ability to pay the Company.***

The Company may lease to federal, state, and/or local government tenants from time to time. Such tenants may be subject to annual budget appropriations. If a 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 government tenants typically provide that the government tenant may terminate the lease under certain circumstances.

#### **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, 2019, 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 2024" and "Unsecured Term Loan due 2026") 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:

- 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;
- 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 mortgage financing 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 2024 and the Unsecured Term Loan due 2026, 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 or 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.

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's credit ratings could 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, Unsecured Term Loan due 2024 and the Unsecured Term Loan due 2026.

***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.***

A significant portion of the Company's debt is 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. The Unsecured Credit Facility, the Unsecured Term Loan due 2024, and the Unsecured Term Loan due 2026 contain provisions addressing the transition away from LIBOR that are intended to provide a mechanism for determining an alternate benchmark rate in the event that LIBOR becomes unavailable during the term of these loans. However, as there is yet to be a widely accepted alternate benchmark, these transitional provisions provide that the alternate benchmark will be selected by the parties in the future, subject to a determinative framework. There can be no certainty as of the date of this report as to the specific alternate benchmark that would be used.

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, the Unsecured Term Loan due 2024, and the Unsecured Term Loan due 2026, 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.

***The Company may enter into joint venture agreements that would limit its flexibility with respect to jointly owned properties.***

The Company may from time to time acquire, develop, or redevelop properties in joint ventures with unrelated third parties. In such event, the Company would be subject to risks that may not be present in its other forms of ownership, including:

- potential joint venture partners could have financing and investment goals or strategies that are different than those of the Company, including terms and strategies for such investment and what levels of debt place on the venture;
- the parties to a joint venture could reach an impasse on certain decisions, which could result in unexpected costs, including costs associated with litigation or arbitration;
- joint venture partners could have investments that are competitive with the Company's properties in certain markets;
- interests in joint ventures are often illiquid and the Company may have difficulty exiting such in investment, or may have to exit at less than fair market value;
- joint venture partners may be structured differently than the Company for tax purposes and their could be conflicts relating to the Company's REIT status; and
- joint venture partners could become insolvent, fail to fund capital contributions, or otherwise fail to fulfill their obligations as a partner, which could require the Company to invest more capital into such ventures than anticipated.

**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 a 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.

***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;
- transition to value-based care and reimbursement of providers;
- competition among healthcare providers;
- consolidation among healthcare providers, health insurers, hospitals and health systems;

- a rise in government-funded health insurance coverage;
- pressure on providers' operating profit margins from lower reimbursement rates, lower admissions growth, and higher expense growth;
- availability of capital;
- credit downgrades;
- liability insurance expense;
- rising pharmaceutical drug expense;
- regulatory and government reimbursement uncertainty related to the Medicare and Medicaid programs;
- a trend toward government regulation of hospital, physician and pharmaceutical pricing;
- federal court decisions on cases challenging the legality of the Affordable Care Act, in whole or in part;
- site-neutral rate-setting for Medicare services across different care 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 trends, among others, can adversely affect the economic performance of some or all of the tenants 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. For example, proposed legislation to address climate change could increase utility and other costs of operating the Company's properties. 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. 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.

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. 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's 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 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. 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 following the most recent date on which the interested stockholder became an interested stockholder, 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, there can be no assurance that the Company can comply in all cases 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.

***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 owns its corporate headquarters located at 3310 West End Avenue in Nashville, Tennessee.

## 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.

## 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, 2019, there were 954 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, 2019 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 <sup>1</sup>	WEIGHTED AVERAGE EXERCISE PRICE of outstanding options, warrants, and rights <sup>1</sup>	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	332,659	—	1,511,921
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>332,659</b>	<b>—</b>	<b>1,511,921</b>

<sup>1</sup> 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.

#### Issuer Purchases of Equity Securities

During the year ended December 31, 2019, 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	10,947	\$ 28.28	—	—
February 1 - February 28	7,649	31.69	—	—
March 1 - March 31	950	31.60	—	—
April 1 - April 30	—	—	—	—
May 1 - May 31	—	—	—	—
June 1 - June 30	—	—	—	—
July 1 - July 31	—	—	—	—
August 1 - August 31	—	—	—	—
September 1 - September 30	80,490	33.50	—	—
October 1 - October 31	—	—	—	—
November 1 - November 30	—	—	—	—
December 1 - December 31	1,544	33.37	—	—
<b>Total</b>	<b>101,580</b>			

### **Authorization to Repurchase Common Stock**

On April 30, 2019, the Company's Board of Directors authorized the repurchase of up to \$50 million of outstanding shares of the Company's common stock either in the open market or through privately negotiated transactions, subject to market conditions, regulatory constraints, and other customary conditions. The Company is not obligated under this authorization to repurchase any specific number of shares. This authorization supersedes all previous stock repurchase authorizations. As of the date of this report, the Company has not repurchased any shares of its common stock under this authorization.

## Item 6. Selected Financial Data

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

<i>Amounts in thousands except per share data</i>	YEAR ENDED DECEMBER 31,				
	2019	2018	2017	2016	2015
<b>Statement of Income Data</b>					
Total revenues	\$ 470,298	\$ 450,389	\$ 424,737	\$ 411,955	\$ 388,471
Total expenses	394,432	370,016	335,055	310,003	283,541
Other income (expense)	(36,681)	(10,602)	(66,590)	(16,381)	(46,094)
Income from continuing operations	\$ 39,185	\$ 69,771	\$ 23,092	\$ 85,571	\$ 58,836
Income from discontinued operations	—	—	—	—	10,600
<b>Net income attributable to common stockholders</b>	<b>\$ 39,185</b>	<b>\$ 69,771</b>	<b>\$ 23,092</b>	<b>\$ 85,571</b>	<b>\$ 69,436</b>
<b>Diluted earnings per common share</b>					
Income from continuing operations	\$ 0.29	\$ 0.55	\$ 0.18	\$ 0.78	\$ 0.59
Income from discontinued operations	—	—	—	—	0.11
<b>Net income attributable to common stockholders</b>	<b>\$ 0.29</b>	<b>\$ 0.55</b>	<b>\$ 0.18</b>	<b>\$ 0.78</b>	<b>\$ 0.70</b>
Weighted average common shares outstanding - diluted	128,084	123,351	118,017	109,387	99,880
<b>Balance Sheet Data as of the end of the period</b>					
Real estate properties, gross	\$ 4,359,993	\$ 3,974,071	\$ 3,838,638	\$ 3,628,221	\$ 3,380,908
Real estate properties, net	\$ 3,238,891	\$ 2,958,897	\$ 2,941,208	\$ 2,787,382	\$ 2,618,982
Assets held for sale, net	\$ 37	\$ 9,272	\$ 33,147	\$ 3,092	\$ 724
Total assets	\$ 3,563,855	\$ 3,191,247	\$ 3,193,585	\$ 3,040,647	\$ 2,810,224
Notes and bonds payable, net	\$ 1,414,069	\$ 1,345,984	\$ 1,283,880	\$ 1,264,370	\$ 1,424,992
Total stockholders' equity	\$ 1,900,009	\$ 1,716,642	\$ 1,789,883	\$ 1,653,414	\$ 1,242,747
<b>Other Data</b>					
Funds from operations <sup>1</sup>	\$ 200,737	\$ 194,960	\$ 134,274	\$ 174,420	\$ 124,571
Funds from operations per common share - diluted <sup>1</sup>	\$ 1.56	\$ 1.57	\$ 1.13	\$ 1.59	\$ 1.25
Cash flows from operations	\$ 213,138	\$ 208,355	\$ 179,766	\$ 151,272	\$ 153,983
Dividends paid	\$ 155,358	\$ 150,266	\$ 142,327	\$ 131,759	\$ 120,266
Dividends declared and paid per common share	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20

<sup>1</sup> 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.

## 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 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'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 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;
- Certain of the Company's properties are special purpose healthcare facilities and may not be easily adaptable to other uses;
- 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'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 and redevelopments 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;
- Damage from catastrophic weather and other natural events, whether caused by climate change or otherwise, could result in losses to the Company;
- 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;
- 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;
- 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. 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;
- The Company may enter into joint venture agreements that would limit its flexibility with respect to jointly owned properties;

#### ***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;
- 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.

#### **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 high-growth markets with a broad tenant mix that includes over 30 physician specialties, as well as surgery, imaging, cancer, and diagnostic centers.

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:

- 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

### **Liquidity and Capital Resources**

The Company monitors its liquidity and capital resources and considers several indicators in its assessment of capital markets for financing acquisitions and other operating activities. The Company considers, among other factors, its leverage ratios and lending covenants, dividend payout percentages, interest rates, underlying treasury rate, debt market spreads and cost of equity capital 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. 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 with a gross book value of approximately \$4.0 billion at December 31, 2019, 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, 2019, 2018 and 2017 were \$213.1 million, \$208.4 million and \$179.8 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.

### **Investing Activities**

A summary of the significant transactions impacting investing activities for the year ended December 31, 2019 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, 2019:

<i>Dollars in millions</i>	HEALTH SYSTEM AFFILIATION	MILES TO CAMPUS	DATE ACQUIRED	PURCHASE PRICE	SQUARE FOOTAGE	CAP RATE <sup>1</sup>
Washington, D.C. <sup>2</sup>	Inova Health	0.00	3/28/19	\$ 46.0	158,338	5.2%
Indianapolis, IN	Indiana University Health	0.00	3/28/2019	47.0	143,499	5.1%
Atlanta, GA	Piedmont Healthcare	0.14	4/2/2019	28.0	47,963	5.7%
Dallas, TX	Baylor Scott & White Health	0.01	6/10/2019	17.0	89,990	6.2%
Seattle, WA	MultiCare Health System	0.20	6/11/2019	7.7	29,870	6.9%
Seattle, WA	UW Medicine	0.27	6/14/2019	19.0	47,255	5.8%
Seattle, WA	UW Medicine	0.35	6/28/2019	30.5	78,288	5.7%
Houston, TX	Houston Methodist	0.00	8/1/2019	13.5	29,903	5.7%
Oklahoma City, OK	Integrus Health	0.02	9/26/2019	4.1	28,542	6.3%
Los Angeles, CA <sup>2</sup>	Huntington Hospital	0.05	9/30/2019	61.1	115,634	5.2%
Raleigh, NC	WakeMed Health	0.11	10/31/2019	21.6	57,730	5.5%
Dallas, TX <sup>3</sup>	Baylor Scott & White Health	0.04	10/31/2019	20.1	48,192	5.3%
Seattle, WA	EvergreenHealth	0.30	11/18/2019	22.8	36,350	5.5%
Seattle, WA	UW Medicine	3.50	12/10/2019	24.2	44,166	6.1%
Memphis, TN <sup>4</sup>	Baptist Memorial Health Care	0.26	12/13/2019	8.7	110,883	NA
Seattle, WA	CommonSpirit Health	0.15	12/18/2019	10.0	20,109	6.3%
<b>Total acquisitions</b>				<b>\$ 381.3</b>	<b>1,086,712</b>	<b>5.5%</b>

1 The cap rate represents the forecasted first year net operating income ("NOI") divided by purchase price.

2 Includes two properties.

3 Represents the cap rate when tenant build out for existing leases is complete and all tenants are occupying and paying full rent.

4 The Company acquired this property as part of a redevelopment project. During the construction period, the property is expected to be 44% occupied and NOI is expected to break-even.

In 2019, the Company funded the following tenant improvements and capital expenditures:

- \$28.6 million toward development and redevelopment of properties;
- \$19.8 million toward first generation tenant improvements and planned capital expenditures for acquisitions;
- \$28.7 million toward second generation tenant improvements; and
- \$17.2 million toward capital expenditures. See the Trends and Matters Impacting Operating Results - Capital Expenditures for more detail.

### **Subsequent Acquisition**

On January 3, 2020, the Company acquired an 86,986 square foot medical office building in Los Angeles, California for a purchase price of \$42.0 million, including assumed debt of \$19.3 million.

## Inflows

The following table details the dispositions for the year ended December 31, 2019:

<i>Dollars in millions</i>	DATE DISPOSED	PROPERTY TYPE <sup>1</sup>	SALES PRICE	SQUARE FOOTAGE	DISPOSITION CAP RATE <sup>2</sup>
Tucson, AZ <sup>3</sup>	4/9/19	MOB	\$ 13.0	67,345	6.2 %
Virginia Beach, VA	8/1/19	MOB	1.3	10,000	12.2 %
San Antonio, TX	8/28/19	MOB	0.9	10,138	3.0 %
Erie, PA <sup>4</sup>	10/25/19	IRF	14.0	90,123	15.6 %
New Orleans, LA <sup>5</sup>	11/25/19	MOB	3.7	136,155	3.3 %
Kingsport, TN	11/27/19	SNF	9.5	75,000	8.7 %
Pittsburgh, PA <sup>4</sup>	12/18/19	IRF	3.8	78,731	(9.0)%
Dallas, TX <sup>5</sup>	12/30/19	MOB	8.7	69,558	4.5 %
<b>Total dispositions</b>			<b>\$ 54.9</b>	<b>537,050</b>	<b>7.6 %</b>
<b>Total MOB dispositions</b>			<b>\$ 27.6</b>	<b>293,196</b>	<b>5.5 %</b>

1 MOB = medical office building; SNF = skilled nursing facility; IRF = inpatient rehabilitation facility

2 Cap rate represents the in-place cash NOI divided by sales price.

3 Includes four properties sold to a single purchaser.

4 Previously classified as held for sale.

5 Includes two properties.

## Financing Activities

### Common Stock Issuances

On March 19, 2019, the Company issued 3,737,500 shares of common stock, par value \$0.01 per share, at \$31.40 per share in an underwritten public offering pursuant to the Company's existing effective registration statement. The net proceeds of the offering, after underwriting discounts and offering expenses, were approximately \$115.8 million.

The Company sold 5,470,673 shares under the Company's at-the-market equity offering program from January 1, 2019 through December 31, 2019. The sales generated \$179.1 million in net proceeds at prices to the public ranging from \$32.01 to \$33.77 per share (weighted average of \$33.22 per share). The sales occurred during the following time periods:

- During the first quarter of 2019, the Company sold 135,265 shares generating \$4.3 million in net proceeds at prices to the public ranging from \$32.01 to \$32.86 per share (weighted average of \$32.36 per share).
- No shares were sold in the second quarter of 2019.
- During the third quarter of 2019, the Company sold 2,191,522 shares generating \$71.6 million in net proceeds at prices to the public ranging from \$32.62 to \$33.77 per share (weighted average of \$33.15 per share).
- During the fourth quarter of 2019, the Company sold 3,143,886 shares generating \$103.2 million in net proceeds at prices to the public ranging from \$32.02 to \$33.74 per share (weighted average of \$33.30 per share).

On or about February 14, 2020, the Company plans to enter into equity distribution agreements with six investment banks to renew its at-the-market equity program and to introduce forward sale transactions into the program. These agreements will replace the prior sales agreements under the Company's at-the-market equity program.

### Debt Activity

On April 10, 2019, the Company repaid in full a mortgage note payable bearing interest at a rate of 5.00% per annum with an outstanding principal of \$8.9 million. The mortgage note encumbered a 52,813 square foot property in the state of Washington.

On May 31, 2019, the Company amended and restated its Unsecured Credit Facility to extend the maturity date from July 2020 to May 2023 and improved the credit spread by 10 basis points at current ratings. Amounts outstanding under the Unsecured Credit Facility bear interest at LIBOR plus an applicable margin, which depends on the

Company's credit ratings ranging from 0.775% to 1.45% (0.90% at December 31, 2019). In addition, the Company pays a facility fee per annum on the aggregate amount of commitments ranging from 0.125% to 0.30% (0.20% at December 31, 2019). In connection with the amendment, the Company paid up front fees to the lenders and other costs of approximately \$3.5 million, which were capitalized and will be amortized over the term of the Unsecured Credit Facility.

Also, on May 31, 2019, the Company amended and restated its Term Loan with a syndicate of lenders and improved the credit spread on the Unsecured Term Loan due 2024 by 10 basis points at current ratings. The amended agreement extended the maturity date of the Company's unsecured term loan due 2022 to May 2024 and increased the loan amount from \$150.0 million to \$200.0 million. In addition, the amended agreement added a \$150.0 million seven-year term loan facility due June 2026. The Term Loan due 2024 bears interest at LIBOR plus an applicable margin ranging from 0.85% to 1.65% (1.00% at December 31, 2019) based upon the Company's unsecured debt ratings. The Term Loan due 2026 has a delayed draw feature that allows the Company up to nine months to draw against the commitments. As of December 31, 2019, no loans were outstanding under the Term Loan due 2026. Loans outstanding under the Term Loan due 2026 will bear interest at a rate equal to LIBOR plus a margin ranging from 1.45% to 2.40% (1.60% at December 31, 2019). Committed amounts that remain undrawn are subject to a ticking fee ranging from 0.125% to 0.30% per annum (0.20% at December 31, 2019). In connection with the amendment, the Company paid up front fees to the lenders of approximately \$1.8 million, of which \$1.0 million were capitalized and will be amortized over the respective term of the Term Loans and \$0.8 million were expensed during the second quarter of 2019.

As of December 31, 2019, the Company has outstanding interest rate swaps totaling \$175.0 million to hedge one-month LIBOR. The Company pays the rate in the table below and receives one-month LIBOR from the counterparty. The following details the amount and rate of each swap (dollars in thousands):

EFFECTIVE DATE	AMOUNT	WEIGHTED AVERAGE RATE	EXPIRATION DATE
December 18, 2017	\$ 25,000	2.18%	December 16, 2022
February 1, 2018	50,000	2.46%	December 16, 2022
May 1, 2019	50,000	2.33%	May 1, 2026
June 3, 2019	50,000	2.13%	May 1, 2026
	<b>\$ 175,000</b>	<b>2.29%</b>	

The following table details the Company's debt balances as of December 31, 2019:

	PRINCIPAL BALANCE	CARRYING BALANCE <sup>1</sup>	WEIGHTED YEARS TO MATURITY	CONTRACTUAL RATE	EFFECTIVE RATE
Senior Notes due 2023	\$ 250,000	\$ 248,540	3.3	3.75%	3.95%
Senior Notes due 2025 <sup>2</sup>	250,000	248,522	5.3	3.88%	4.08%
Senior Notes due 2028	300,000	295,651	8.0	3.63%	3.84%
<b>Total Senior Notes Outstanding</b>	<b>800,000</b>	<b>792,713</b>	<b>5.7</b>	<b>3.74%</b>	<b>3.95%</b>
\$700 million unsecured credit facility due 2023 <sup>3</sup>	293,000	293,000	3.4	LIBOR+0.90%	2.66%
\$200 million unsecured term loan due 2024 <sup>4</sup>	200,000	199,013	4.4	LIBOR+1.00%	3.27%
\$150 million unsecured term loan due 2026 <sup>5</sup>	—	—	6.4	LIBOR+1.60%	NA
Mortgage notes payable	129,258	129,343	4.4	4.95%	4.81%
<b>Total Outstanding Notes and Bonds Payable</b>	<b>\$ 1,422,258</b>	<b>\$ 1,414,069</b>	<b>4.9</b>	<b>3.56%</b>	<b>3.67%</b>

<sup>1</sup> Balances are reflected net of discounts and debt issuance costs and include premiums.

<sup>2</sup> The effective interest rate includes the impact of the \$1.7 million settlement of a forward-starting interest rate swap that is included in accumulated other comprehensive income on the Company's Consolidated Balance Sheets.

<sup>3</sup> As of December 31, 2019, the Company had \$293.0 million outstanding under the Unsecured Credit Facility with a weighted average interest rate of approximately 2.66% and a remaining borrowing capacity of approximately \$407.0 million. As of December 31, 2018, the Company had \$262.0 million outstanding with a weighted average interest rate of approximately 3.50%

<sup>4</sup> The effective interest rate includes the impact of interest rate swaps totaling \$175.0 million to hedge the 1-month LIBOR portion of the cost of borrowing under the Unsecured Term Loan due 2026 at a weighted average interest rate of 2.29% (plus the applicable margin rate, currently 1.00%).

<sup>5</sup> As of December 31, 2019, there are no outstanding loans under the \$150 million Unsecured Term Loan due 2026. This term loan has a delayed draw feature that allows the Company until February 28, 2020 to draw against the commitments.

#### *Subsequent Mortgage Note Payable Payoff*

On February 3, 2020, the Company repaid in full a mortgage note payable bearing interest at a rate of 6.10% per annum with an outstanding principal of \$5.9 million. The mortgage note encumbered a 68,860 square foot property in Oklahoma.

#### *Debt Covenant Information*

As of December 31, 2019, 98.4% of the Company's principal balances were due after 2020. Also, as of December 31, 2019, the Company's 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 33.5% (cannot be greater than 60%) and debt service coverage [interest expense divided by (net income plus interest expense, taxes, depreciation 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, 2019, 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.

#### **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 2019, the Company acquired 18 medical office buildings for purchase prices totaling \$381.3 million, resulting in cash consideration paid of \$378.5 million. The weighted average capitalization rate for these investments, excluding the Memphis Redevelopment, was 5.5%.

The Company disposed of 13 properties in 2019 for sales prices totaling \$54.9 million, yielding net cash proceeds of \$52.4 million net of \$2.5 million of closing costs and related adjustments. The weighted average capitalization rate for these investments was 7.6%.

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 may be purchased 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 of the 2019 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements.

### ***Development and Redevelopment Activity***

In 2019, the Company funded \$28.6 million toward development and redevelopment of properties, including the following:

- The Company completed the redevelopment of a medical office building in Charlotte, North Carolina, which included a 40,278 square foot vertical expansion. The Company funded approximately \$1.5 million during the year ended December 31, 2019. The first tenant took occupancy during the second quarter of 2019.
- The Company continued development of a 151,000 square foot medical office building in Seattle, Washington. The Company funded \$25.2 million during the year ended December 31, 2019. The Company expects initial occupancy to occur in the first quarter of 2020.
- The Company began the redevelopment of a 110,883 square foot medical office building in Memphis, Tennessee. The Company funded approximately \$0.3 million, excluding \$8.7 million for the acquisition of building and land, during the year ended December 31, 2019.
- The Company funded an additional \$1.0 million on a previously completed redevelopment in Nashville, Tennessee and \$0.6 million on a previously completed development project in Denver, Colorado.

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 2020. 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 be indicative of 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, 2019, the Company held approximately \$9.6 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 7.2 years and a weighted average remaining lease

term of 3.6 years. Demand for well-located real estate with complementary practice types and services remains consistent, and the Company's 2019 quarterly tenant retention statistics ranged from 84% to 86%. In 2020, the Company has 735 leases totaling 2.6 million square feet in its multi-tenant portfolio that are scheduled to expire. Of those leases, 85% are in on-campus buildings, which tend to have a high tenant retention rate.

Included in the 2020 lease expirations is a 111,000 square foot fitness center leased by Baylor Scott & White Health. The lease has been extended from June 30, 2019 to March 31, 2020. The fitness center is located in a 217,000 square foot on-campus medical office building. The Company is in lease negotiations with an independent fitness center operator for approximately half of the space. The Company expects to convert the remaining space for clinical use.

Also included in the 2020 lease expirations is the July 31 expiration of a 62,000 square foot office lease. A telecommunication company occupies three floors of a 145,000 square foot office building and is expected to vacate. The Company has begun marketing the space, and anticipates that releasing efforts will include subdividing the space for multiple users. The Company recognized revenue of approximately \$1.5 million related to this lease in 2019.

The Company continues to emphasize improving its multi-tenant contractual rent increases for its in-place leases. As of December 31, 2019 and 2018, the Company's contractual rental rate growth averaged 2.89% and 2.86%, respectively, for in-place leases. 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 2019, cash leasing spreads averaged 4.0%.

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 12% of its lease portfolio. Modified gross or base year leases, in which the Company and tenant both pay a share of operating expenses, comprise 31% of the Company's leased portfolio. Net leases, in which tenants pay all allowable operating expenses, total 57% of the leased portfolio.

#### ***Capital Expenditures***

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.

The Company invested \$17.2 million, or \$1.12 per square foot, in capital expenditures in 2019 and \$20.3 million, or \$1.37 per square foot, in capital expenditures in 2018. As a percentage of cash net operating income, 2019 and 2018 capital expenditures were 5.9% and 7.3%, respectively. For a reconciliation of cash net operating income, see "Same Store Cash NOI" in the "Non-GAAP Measures and Key Performance Indicators" section as part of Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report.

#### ***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 \$19.8 million and \$13.1 million for the years ended December 31, 2019 and 2018, respectively. First generation tenant

improvements include build out costs related to suite space in shell condition. 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 \$28.7 million in 2019, or 9.9% of total cash net operating income. In 2018, this spending totaled \$30.9 million, or 11.2% of total cash net operating income.

If the cost of a tenant improvement project exceeds a tenant improvement allowance, the Company generally offers the tenant the option to finance the excess over the lease term with interest or to 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 \$0.2 million in 2019, \$0.3 million in 2018, and \$0.4 million in 2017. The first and second generation tenant overage amount amortized to rent totaled approximately \$5.7 million in 2019, \$4.8 million in 2018, and \$5.0 million in 2017.

Second generation, multi-tenant tenant improvement commitments in 2019 for renewals averaged \$2.26 per square foot per lease year, ranging quarterly from \$1.75 to \$3.15. In 2018, these commitments averaged \$1.94 per square foot per lease year, ranging quarterly from \$1.50 to \$2.48. In 2017, these commitments averaged \$1.78 per square foot per lease year, ranging quarterly from \$1.38 to \$2.30.

Second generation, multi-tenant tenant improvement commitments in 2019 for new leases averaged \$5.02 per square foot per lease year, ranging quarterly from \$4.79 to \$5.18. In 2018, these commitments averaged \$4.82 per square foot per lease year, ranging quarterly from \$4.04 to \$5.42. In 2017, these commitments averaged \$3.60 per square foot per lease year, ranging quarterly from \$2.10 to \$4.78.

#### *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 addition, the Company may pay internal employees commissions when leases are executed and meet certain leasing thresholds. External leasing commissions are amortized to Rental income and internal leasing costs are amortized to General and administrative expense in the Company's Consolidated Statements of Income. In 2019, the Company paid leasing commissions of approximately \$11.3 million, or \$0.74 per square foot. In 2018, the Company paid leasing commissions of approximately \$7.1 million, or \$0.48 per square foot. As a percentage of total cash net operating income, leasing commissions paid for 2019 and 2018 were 3.9% and 2.6%, respectively. The amount of leasing commissions amortized over the term of the applicable leases totaled \$6.1 million, \$5.2 million and \$4.5 million for the years ended December 31, 2019, 2018 and 2017, 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 2019 totaled approximately \$2.1 million, or \$0.13 per square foot. 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.

#### *Single-Tenant Net Leases*

The Company has one single-tenant net leased, on-campus medical office building with a lease term scheduled to expire in the second quarter of 2020. The Company expects the tenant to renew.

As of December 31, 2019, the Company had a total of 14 single-tenant net leases, with a weighted average lease term of 13.8 years and a weighted average remaining lease term of 7.2 years.

### Operating Leases

As of December 31, 2019, the Company was obligated to make rental payments under operating lease agreements consisting primarily of ground leases related to 62 real estate investments, excluding those ground leases the Company has prepaid. At December 31, 2019, the Company had 108 properties totaling 8.9 million square feet that were held under ground leases with a remaining weighted average term of 71.1 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. The Company adopted Accounting Standards Codification 842, "Leases" as of January 1, 2019. See Note 1 and Note 3 to the Consolidated Financial Statements for additional information regarding the impact of the adoption of this accounting standard.

### Purchase Options

The Company had approximately \$96.0 million in real estate properties as of December 31, 2019 that were subject to exercisable purchase options. The Company has approximately \$455.2 million in real estate properties that are subject to purchase options that will become exercisable after 2020. Additional information about the amount and basis for determination of the purchase price is detailed in the table below (dollars in thousands):

YEAR EXERCISABLE	NUMBER OF PROPERTIES		GROSS REAL ESTATE INVESTMENT AS OF DECEMBER 31, 2019		
	MOB	INPATIENT	FAIR MARKET VALUE METHOD <sup>1</sup>	NON FAIR MARKET VALUE METHOD <sup>2</sup>	TOTAL
Current <sup>3</sup>	3	1	\$ 96,039	\$ —	\$ 96,039
2020	—	—	—	—	—
2021	1	—	—	14,984	14,984
2022	—	—	—	—	—
2023	—	—	—	—	—
2024	—	—	—	—	—
2025	5	1	48,138	221,929	270,067
2026	—	—	—	—	—
2027	—	—	—	—	—
2028	1	—	43,925	—	43,925
2029	1	—	26,413	—	26,413
2030 and thereafter	4	—	99,785	—	99,785
<b>Total</b>	<b>15</b>	<b>2</b>	<b>\$ 314,300</b>	<b>\$ 236,913</b>	<b>\$ 551,213</b>

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 11.4 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 \$129.3 million of mortgage notes payable, most of which were assumed when the Company acquired properties. In 2020, the Company has approximately \$44.3 million of mortgage notes payable that will mature or are able to be repaid without penalty. The Company will repay mortgage notes 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, 2019:

	% INCREASE	% OF BASE RENT
<b>Annual increase</b>		
CPI	2.0%	7.7%
Fixed	3.0%	84.8%
<b>Non-annual increase</b>		
CPI	1.4%	1.0%
Fixed	1.9%	5.7%
<b>No increase</b>		
Term > 1 year	—%	0.8%

### **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 2020. Approximately \$0.7 million is not expected to recur in subsequent quarters in 2020.

### **Results of Operations**

#### **Year Ended December 31, 2019 Compared to Year Ended December 31, 2018**

The Company's consolidated results of operations for 2019 compared to 2018 were significantly impacted by acquisitions, dispositions, gain on sales and impairment charges recorded on real estate properties.

### **Revenues**

Rental income increased \$19.8 million, or 4.5%, to approximately \$462.2 million compared to \$442.4 million in the prior year and is comprised of the following:

<i>Dollars in thousands</i>	2019	2018	CHANGE	
			\$	%
Property operating	\$ 415,142	\$ 390,256	\$ 24,886	6.4 %
Single-tenant net lease	44,083	47,860	(3,777)	(7.9)%
Straight-line rent	3,000	4,281	(1,281)	(29.9)%
<b>Total rental income</b>	<b>\$ 462,225</b>	<b>\$ 442,397</b>	<b>\$ 19,828</b>	<b>4.5 %</b>

Property operating income increased \$24.9 million, or 6.4%, from the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2018 and 2019 contributed \$19.7 million.
- Leasing activity, including contractual rent increases, contributed \$9.7 million.
- Dispositions in 2018 and 2019 resulted in a decrease of \$4.5 million.

Single-tenant net lease income decreased \$3.8 million, or 7.9%, from the prior year primarily as a result of the following activity:

- Dispositions in 2018 and 2019 resulted in a decrease of \$4.7 million.
- Leasing activity, including contractual rent increases, contributed \$0.9 million.

Straight-line rent income decreased \$1.3 million, or 29.9%, from the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2018 and 2019 resulted in an increase of \$1.1 million.
- Dispositions in 2018 and 2019 resulted in a decrease of \$0.2 million.
- Reduced rent abatements along with net leasing activity and contractual rent increases resulted in a decrease of \$2.2 million.

#### **Expenses**

Property operating expenses increased \$9.5 million, or 5.6%, from the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2018 and 2019 resulted in an increase of \$8.7 million.
- Increases in portfolio operating expenses as follows:
  - Property tax expense of \$1.1 million;
  - Maintenance and repair expense of \$1.6 million;
  - Leasing commission amortization of \$0.9 million;
  - Insurance expense of \$0.6 million; and
  - Janitorial expense of \$0.2 million.
- Utilities expense decreased \$0.9 million.
- Dispositions in 2018 and 2019 resulted in a decrease of \$2.7 million.

General and administrative expenses increased approximately \$0.3 million, or 0.9%, from the prior year primarily as a result of the following activity:

- The Company's former Executive Chairman, David R. Emery, died on September 30, 2019 resulting in a \$2.9 million charge for the acceleration of his outstanding nonvested share-based awards and associated taxes. This amount was partially offset by \$0.3 reduction in non-cash compensation expense.
- Non-cash compensation expense decreased \$0.8 million mainly due to an officer retirement.
- Office rent decreased \$0.8 million due to the 2018 acquisition of the Company's headquarters.
- Other net decreases, including professional fees and other administrative costs, of \$0.7 million.

Depreciation and amortization expense increased \$13.7 million, or 8.3%, from the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2018 and 2019 resulted in increases of \$13.4 million.
- Various building and tenant improvement expenditures caused increases of \$10.5 million.
- Dispositions in 2018 and 2019 resulted in decreases of \$5.4 million.
- Assets that became fully depreciated resulted in decreases of \$4.8 million.



### **Other Income (Expense)**

Other income (expense), a net expense, increased \$26.1 million, or 246.0%, from 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 \$25.1 million and \$41.7 million are associated with the sales of eleven and sixteen real estate properties during 2019 and 2018, respectively.

#### *Interest Expense*

Interest expense increased \$2.6 million for the year ended December 31, 2019 compared to the prior year. The components of interest expense are as follows:

<i>Dollars in thousands</i>	2019	2018	CHANGE	
			\$	%
Contractual interest	\$ 53,364	\$ 51,147	\$ 2,217	4.3%
Net discount/premium accretion	250	5	245	4,900.0%
Debt issuance costs amortization	2,448	2,435	13	0.5%
Amortization of interest rate swap settlement	168	168	—	—%
Interest cost capitalization	(1,411)	(951)	(460)	48.4%
Right-of-use assets financing amortization	616	—	616	—%
<b>Total interest expense</b>	<b>\$ 55,435</b>	<b>\$ 52,804</b>	<b>\$ 2,631</b>	<b>5.0%</b>

Contractual interest increased \$2.2 million, or 4.3%, primarily as a result of the following activity:

- The Unsecured Credit Facility accounted for a net increase of \$1.9 million.
- The Unsecured Term Loan due 2024 accounted for a net increase of \$1.3 million.
- The ticking fee on committed amounts that remain undrawn associated with the Unsecured Term Loan due 2026 accounted for an increase of \$0.2 million.
- Mortgage notes repayments accounted for a decrease of \$1.2 million.

#### *Impairment of Real Estate Assets*

Impairment of real estate assets totaling approximately \$5.6 million is associated with the sales of two real estate properties during 2019.

#### *Interest and other income (expense), net*

In 2019, the Company expensed approximately \$0.8 million of debt issuance costs as a result of the Term Loan modification. See Note 9 to the Company's Consolidated Financial Statements for additional information regarding the Term Loan modification.

In 2018, the Company recorded \$0.5 million of other income related to the termination fee of a purchase and sale agreement.

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

The Company's discussion regarding the comparison of the year ended December 31, 2018 compared to the year ended December 31, 2017 was previously disclosed beginning on page 30 in the Company's 2018 Form 10-K filed on February 13, 2019 and is hereby incorporated by reference.

#### **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 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, share-based compensation expense and provision for bad debts, net; and subtracting straight-line rent income, net of expense, and maintenance capital expenditures, including second generation tenant improvements, capital expenditures and leasing commissions paid. 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.

The table below reconciles net income attributable to common stockholders to FFO, Normalized FFO and FAD for the years ended December 31, 2019, 2018, and 2017.

<i>Amounts in thousands, except per share data</i>	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
Net income	\$ 39,185	\$ 69,771	\$ 23,092
Gain on sales of real estate properties	(25,101)	(41,665)	(39,524)
Impairments	5,617	—	5,385
Real estate depreciation and amortization	181,036	166,854	145,321
<b>FFO</b>	<b>200,737</b>	<b>194,960</b>	<b>134,274</b>
Acquisition and pursuit costs <sup>1</sup>	1,742	738	2,180
Lease intangible amortization <sup>2</sup>	147	—	—
Accelerated stock awards <sup>3</sup>	2,854	70	—
Forfeited earnest money received	—	(466)	—
Debt financing costs	760	—	45,773
<b>Normalized FFO</b>	<b>206,240</b>	<b>195,302</b>	<b>182,227</b>
Non-real estate depreciation and amortization	3,269	3,284	2,757
Non-cash interest expense amortization <sup>4</sup>	2,866	2,608	2,832
Provision for bad debt, net	167	60	159
Straight-line rent income, net	(1,431)	(2,728)	(4,575)
Share-based compensation	9,519	10,621	10,027
Normalized FFO adjusted for non-cash items	<b>220,630</b>	<b>209,147</b>	<b>193,427</b>
2nd Generation tenant improvements	(28,690)	(30,939)	(20,367)
Leasing commissions paid	(11,329)	(7,119)	(7,099)
Capital expenditures	(17,158)	(20,347)	(18,790)
<b>FAD</b>	<b>\$ 163,453</b>	<b>\$ 150,742</b>	<b>\$ 147,171</b>
FFO per common share - diluted	\$ 1.56	\$ 1.57	\$ 1.13
<b>Normalized FFO per common share - diluted</b>	<b>\$ 1.60</b>	<b>\$ 1.57</b>	<b>\$ 1.53</b>
Weighted average common shares outstanding - diluted <sup>5</sup>	128,863	124,104	118,877

1 Acquisition and pursuit costs include third party and travel costs related to the pursuit of acquisitions and developments.

2 The Company adopted the 2018 NAREIT FFO White Paper Restatement during the first quarter of 2019. This amended definition specifically includes the impact of acquisition related market lease intangible amortization in the calculation of NAREIT FFO. The Company historically included this amortization in the real estate depreciation and amortization line item which is added back in the calculation of NAREIT FFO. Prior periods were not restated for the adoption.

3 The Company's former Executive Chairman, David R. Emery, died on September 30, 2019 resulting in a \$2.9 million charge for the acceleration of his outstanding nonvested share-based awards and associated taxes.

4 Includes the amortization of deferred financing costs, discounts and premiums.

5 The Company utilizes the treasury stock method which includes the dilutive effect of nonvested share-based awards outstanding of 779,081, 753,121 and 860,145, respectively, for the twelve months ended December 31, 2019, 2018, and 2017.

### **Same Store Cash NOI**

Cash 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. 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, and tenant improvement amortization. The Company also excludes cash lease termination fees. Same store NOI is historical and not necessarily indicative of future results.

Same Store Cash NOI compares Cash NOI for 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 of existing same store properties. Accordingly, stabilized properties exclude properties that were recently acquired or disposed of, properties classified as held for sale, reposition properties and newly developed properties. The Company utilizes the reposition classification for properties experiencing a shift in strategic direction. Such a shift can occur for a variety of reasons, including a substantial change in the use of the asset, a change in strategy or closure of a neighboring hospital, or significant property damage. Such properties may require enhanced management, leasing, capital needs or a disposition strategy that differs from the rest of the portfolio. To identify properties exhibiting these reposition characteristics, the Company applies the following Company-defined criteria:

- 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. Newly developed properties and properties acquired as a redevelopment project will be included in the same store pool eight full quarters after substantial completion or eight full quarters after 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. The following table reflects the Company's same store cash NOI for the years ended December 31, 2019 and 2018.

<i>Dollars in thousands</i>	NUMBER OF PROPERTIES <sup>1</sup>	GROSS INVESTMENT at December 31, 2019	SAME STORE CASH NOI for the year ended December 31,		PERCENTAGE GROWTH
			2019	2018	
Multi-tenant properties	157	\$ 3,240,598	\$ 229,214	\$ 222,210	3.2%
Single-tenant net lease properties	14	460,415	41,432	40,702	1.8%
<b>Total</b>	<b>171</b>	<b>\$ 3,701,013</b>	<b>\$ 270,646</b>	<b>\$ 262,912</b>	<b>2.9%</b>

<sup>1</sup> Properties are based on the same store definition included above and exclude assets classified as held for sale, if any.

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*

<i>Dollars in thousands</i>	YEAR ENDED DECEMBER 31,		PERCENTAGE GROWTH
	2019	2018	
Net income	\$ 39,185	\$ 69,771	
Other income (expense)	36,681	10,602	
General and administrative expense	34,826	34,511	
Depreciation and amortization expense	177,859	164,201	
Other expenses <sup>1</sup>	9,551	7,849	
Straight-line rent revenue	(3,000)	(4,281)	
Other revenue <sup>2</sup>	(6,070)	(5,745)	
<b>Cash NOI</b>	<b>289,032</b>	<b>276,908</b>	<b>4.4 %</b>
Cash NOI not included in same store	(17,297)	(12,378)	
<b>Same store and reposition cash NOI</b>	<b>271,735</b>	<b>264,530</b>	<b>2.7 %</b>
Reposition NOI	(1,089)	(1,618)	(32.7)%
<b>Same store cash NOI</b>	<b>\$ 270,646</b>	<b>\$ 262,912</b>	<b>2.9 %</b>

<sup>1</sup> Includes acquisition and pursuit costs, bad debt, above and below market ground lease intangible amortization, leasing commission amortization and ground lease straight-line rent.

<sup>2</sup> Includes management fee income, interest, above and below market lease intangible amortization, lease inducement amortization, lease terminations and tenant improvement overage amortization.

*Reconciliation of Same Store Property Count*

	AS OF DECEMBER 31, 2019			
	PROPERTY COUNT	GROSS INVESTMENT	SQUARE FEET	OCCUPANCY
Same store properties	171	3,701,013	13,440	89.3%
Acquisitions	24	500,063	1,487	86.1%
Reposition	9	71,007	429	41.9%
<b>Total owned real estate properties</b>	<b>204</b>	<b>4,272,083</b>	<b>15,356</b>	<b>87.7%</b>

**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.

## 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, 2019, 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, 2019, the Company had no long-term capital lease obligations.

<i>Dollars in thousands</i>	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term debt obligations, including interest <sup>1</sup>	\$ 1,645,487	\$ 62,905	\$ 106,529	\$ 854,166	\$ 621,887
Operating lease commitments <sup>2</sup>	348,186	5,483	10,715	10,671	321,317
Finance lease commitments <sup>3</sup>	87,283	745	1,516	1,566	83,456
Construction in progress <sup>4</sup>	18,683	16,088	2,595	—	—
Tenant improvements <sup>5</sup>	46,588	46,588	—	—	—
Redevelopment <sup>6</sup>	8,190	8,190	—	—	—
<b>Total contractual obligations</b>	<b>\$ 2,154,417</b>	<b>\$ 139,999</b>	<b>\$ 121,355</b>	<b>\$ 866,403</b>	<b>\$ 1,026,660</b>

- 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 2024, whose balance and interest rate may fluctuate from day to day. The fixed rate interest resulting from the Company's outstanding swaps on \$175.0 million of the Unsecured Term Loan due 2024 are reflected in the table above. As of December 31, 2019, there are no outstanding loans under the Unsecured Term Loan 2026. This term loan has a delayed draw feature that allows the Company up to February 2020 to draw against the \$150 million commitments. Excluded from the table above are the discounts on the Company's outstanding senior notes of approximately \$3.0 million, net premiums totaling approximately \$0.6 million on 16 mortgage notes payable, and debt issuance costs totaling approximately \$5.8 million which are included in notes and bonds payable on the Company's Consolidated Balance Sheet as of December 31, 2019. The Company's long-term debt principal obligations are presented in more detail in the table below.

<i>In millions</i>	PRINCIPAL BALANCE at Dec. 31, 2019	PRINCIPAL BALANCE at Dec. 31, 2018	MATURITY DATE	CONTRACTUAL INTEREST RATES at Dec. 31, 2018	PRINCIPAL PAYMENTS	INTEREST PAYMENTS
Unsecured Credit Facility	\$ 293.0	\$ 262.0	5/23	LIBOR + 0.90%	At maturity	Monthly
Unsecured Term Loan due 2024	200.0	150.0	5/24	LIBOR + 1.00%	At maturity	Monthly
Unsecured Term Loan due 2026	—	—	6/26	LIBOR + 1.60%	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	129.3	143.1	7/20-5/40	3.31%-6.88%	Monthly	Monthly
	<b>\$ 1,422.3</b>	<b>\$ 1,355.1</b>				

- 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 three ground leases, with expiration dates through 2091, related to real estate investments for which the Company is currently making payments.
- 4 Includes cash flow projections related to the construction of one building in Seattle, Washington. This amount includes \$3.6 million of invoices that were accrued and included in construction in progress on the Company's Consolidated Balance Sheet as of December 31, 2019.
- 5 The Company has remaining tenant improvement allowances, excluding construction in progress, of approximately \$46.6 million. This amount includes \$9.7 million of invoices that were accrued as of December 31, 2019.
- 6 Includes the Memphis Redevelopment tenant improvement obligations of \$8.2 million. The Company executed the contract for the redevelopment of the core and shell in January 2020.

## 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, and partnerships where the Company controls the operating activities. All material intercompany accounts and transactions have been eliminated.

#### ***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 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, 2019 and 2018, the Company's Consolidated Balance Sheets include capitalized pursuit costs relating to potential developments totaling \$4.6 million and \$2.2 million respectively. The Company expensed costs related to the pursuit of acquisitions totaling \$1.0 million, \$0.6 million and \$2.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. In addition, the Company expensed costs related to the pursuit of developments totaling \$0.7 million, \$0.1 million and \$0.2 million for the years ended December 31, 2019, 2018 and 2017, 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 of 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.

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 2019 and 2018 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 recorded impairment charges totaling \$5.6 million and \$5.4 million, respectively, for the years ended December 31, 2019, and 2017 related to real estate properties and other long-lived assets. The Company did not record any impairment charges in 2018. The impairment charges related to two properties sold in 2019 and 2017.

#### ***Depreciation of Real Estate Assets and Amortization of Related Intangible Assets***

As of December 31, 2019, the Company had gross investments of approximately \$4.0 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, leasing commissions 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, tenant improvement amounts, and leasing commission percentages, 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.

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.

#### ***Revenue Recognition***

The Company's primary source of revenue is derived by non-cancelable leases. When a lease is executed, the terms and conditions of the lease are assessed to determine the appropriate accounting classification. All of the Company's leases are classified as operating leases. Operating leases are recognized on the straight-line basis over the term of the related lease, including periods where a tenant is provided a rent concession. Operating expense recoveries, which includes reimbursements for building specific operating expenses, are recognized as revenue in the period in which the related expenses are incurred. The Company generally expects that collectibility is probable at lease commencement. If the assessment of collectibility changes after the lease commencement date and Rental income is not considered probable, Rental income is recognized on a cash basis and all previously recognized uncollectible Rental income is reversed in the period in which it is determined not to be probable of collection. In addition to the lease-specific collectibility assessment performed under Topic 842, the Company may also apply a general reserve ("provision for bad debt"), as a reduction to Rental income, for its portfolio of operating lease receivables.

The Company also recognizes certain revenue based on the guidance in Topic 606 and is based on the five-step model to account for revenue arising from contracts with customers. The Company's primary source of revenue associated with Topic 606 relates to parking revenue and management fee income.

#### ***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 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, 2019, \$0.9 billion of the Company's \$1.4 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 2024 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.

<i>Dollars in thousands</i>	OUTSTANDING PRINCIPAL BALANCE as of Dec. 31, 2019	CALCULATED ANNUAL INTEREST	IMPACT ON EARNINGS AND CASH FLOW	
			ASSUMING 10% INCREASE in market interest rates	ASSUMING 10% DECREASE in market interest rates
<b>Variable Rate Debt</b>				
Unsecured Credit Facility	\$ 293,000	\$ 7,801	\$ (780)	\$ 780
Unsecured Term Loan due 2024 <sup>1</sup>	200,000	6,540	(79)	79
Unsecured Term Loan due 2026 <sup>2</sup>	—	—	—	—
	<b>\$ 493,000</b>	<b>\$ 14,341</b>	<b>\$ (859)</b>	<b>\$ 859</b>

<sup>1</sup> As of December 31, 2019 the Company had interest rate swaps that fix the interest rate of \$175.0 million of the Unsecured Term Loan due 2024.

<sup>2</sup> As of December 31, 2019, there are no outstanding loans under the Unsecured Term Loan due 2026. This term loan has a delayed draw feature that allows the Company up to February 2020 to draw against the \$150 million commitment.

<i>Dollars in thousands</i>	CARRYING VALUE as of Dec. 31, 2019 <sup>2</sup>	FAIR VALUE			
		DEC. 31, 2019	ASSUMING 10% INCREASE in market interest rates	ASSUMING 10% DECREASE in market interest rates	DEC. 31, 2018 <sup>1</sup>
<b>Fixed Rate Debt</b>					
Senior Notes due 2023	\$ 248,540	\$ 247,105	\$ 244,136	\$ 250,090	\$ 239,377
Senior Notes due 2025	248,522	248,981	244,466	253,685	238,811
Senior Notes due 2028	295,651	306,783	300,269	313,649	294,662
Mortgage Notes Payable	129,343	130,895	129,752	132,060	142,474
	<b>\$ 922,056</b>	<b>\$ 933,764</b>	<b>\$ 918,623</b>	<b>\$ 949,484</b>	<b>\$ 915,324</b>

<sup>1</sup> Fair values as of December 31, 2018 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.

<sup>2</sup> 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.

## 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") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, 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 at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 12, 2020 expressed an unqualified opinion thereon.

#### **Adoption of New Accounting Standard**

As discussed in Notes 1 and 3 to the consolidated financial statements, the Company changed its method of accounting for leases during the year ended December 31, 2019 due to the adoption of ASU No. 2016-02, Leases.

#### **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.

#### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### **Adoption of ASC 842, Leases - Determination of Incremental Borrowing Rate for Ground Leases**

As described in Note 1 to the Company's consolidated financial statements, the Company adopted ASU 2016-02, Leases (Topic 842) ("ASC 842") effective January 1, 2019 which resulted in the recognition of a right-of-use asset and related lease liability. The Company utilized a third-party to assist in determining its estimated incremental borrowing rate for ground leases. The terms of the Company's ground leases range from 40 to 99 years. The incremental borrowing rates utilized were determined considering the general economic environment and factored in various financing and asset specific adjustments so that the discount rate is appropriate for the intended use of the underlying lease. Changes in management's estimate of incremental borrowing rates could have a material impact on the right-of-use assets and the corresponding liabilities recorded at lease inception.

We identified the determination of the appropriate incremental borrowing rates for ground leases as a critical audit matter. The Company's ground leases typically include terms that extend beyond 40 years. Borrowing rates for instruments of this duration are not readily available to the Company. The Company utilized a third-party specialist to assist in the determination of the Company's incremental borrowing rates using the various terms of the ground leases. Auditing these incremental borrowing rates involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the degree of auditor judgment and the extent of specialized skills or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Utilizing professionals with specialized skills and knowledge to assist in: (i) evaluating the reasonableness of the methodology used to determine the appropriate discount rates that approximated the incremental borrowing rates for the underlying leased asset, (ii) performing sensitivity analyses to evaluate the impact of changes in the estimated incremental borrowing rates on the right-of-use assets and lease liabilities recorded, and (iii) evaluating the reasonableness of certain assumptions and inputs used to determine the incremental borrowing rates including the unsecured credit rating based on the Company's credit profile as compared to market data.

### **Asset Impairment - Identification of Triggering Events for Real Estate Properties**

As described in Notes 1, 2 and 6 to the Company's consolidated financial statements, the Company recorded total real estate properties, net of accumulated depreciation and amortization of approximately \$3.2 billion as of December 31, 2019. The Company assesses the potential for impairment of long-lived assets, including real estate properties, whenever events occur, or a change in circumstances, that indicate that the carrying value might not be fully recoverable ("triggering events"). A property value is impaired when 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.

We identified management's assessment of qualitative indicators of potential impairment triggering events for real estate properties as a critical audit matter. Qualitative 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, or negative economic or industry trends for the Company or its tenants. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the degree of auditor judgment and the extent of specialized knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Assessing the reasonableness of management's key assumptions and inputs, including certain qualitative factors such as acquisition dates of properties, terms of current leases, anticipated new leases and renewals of existing leases, potential sales of properties based on offers received, and market considerations such as closures of nearby hospitals, used to determine that no triggering events had occurred for properties and verifying that forecasted cash flows were sufficient such that no triggering event had occurred.
- Testing the completeness and accuracy of the underlying real estate property data including validating the number of properties and certain financial results to the general ledger.
- Reviewing internal documentation including Board of Director minutes, letters of intent for properties held for sale, and operation department communications for properties including those at or near breakeven, properties with lower occupancy and properties with leases expiring in the near term, to assess whether additional triggering factors were present.



### **Acquisitions of Real Estate Properties - Valuation of Land Acquired**

As described in Notes 1 and 4 to the Company's consolidated financial statements, the Company acquired a total of \$384.7 million of real estate properties during the year ended December 31, 2019, including a total land value of approximately \$59.1 million. The current period acquisitions were accounted for as asset acquisitions which require the total purchase price to be allocated among land, buildings, tenant improvements, lease and other intangible assets, and personal property, as applicable, based on relative fair value. Management's judgment is required in allocating the purchase price to tangible real estate assets, including land, "as if vacant" and any acquired intangible assets. Changes to the inputs and assumptions used by management to determine the relative fair value of land could have a material impact on the amount of the assets recorded.

We identified management's determination of the relative fair value of land acquired in the Company's asset acquisitions as a critical audit matter. Significant judgment is involved in making a determination of the estimated fair value of the land acquired in acquisitions of real estate properties including assessment of comparable transactions, intended use of property, proximity of comparable transactions to the acquired property, and other relevant information. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the degree of auditor judgment and the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Utilizing professionals with specialized skills and knowledge to assist in: (i) evaluating the reasonableness of the purchase price allocation methodology used by management for a sample of transactions to determine the relative fair value of the tangible and intangible assets acquired, and (ii) obtaining independent comparable sale transactions for land and evaluating the reasonableness of the market inputs and assumptions utilized by management.
- Evaluating the appropriateness of the comparable transactions utilized by management by reviewing the underlying assumptions and inputs including location of land acquired and other relevant information.

/s/ BDO USA, LLP

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

Nashville, Tennessee  
February 12, 2020

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

**ASSETS**

	DECEMBER 31,	
	2019	2018
<b>Real estate properties</b>		
Land	\$ 289,751	\$ 230,206
Buildings, improvements and lease intangibles	3,986,326	3,675,415
Personal property	10,538	10,696
Construction in progress	48,731	33,107
Land held for development	24,647	24,647
<b>Total real estate properties</b>	<b>4,359,993</b>	<b>3,974,071</b>
Less accumulated depreciation	(1,121,102)	(1,015,174)
<b>Total real estate properties, net</b>	<b>3,238,891</b>	<b>2,958,897</b>
Cash and cash equivalents	657	8,381
Assets held for sale, net	37	9,272
Operating lease right-of-use assets	126,177	—
Financing lease right-of-use assets	12,667	—
Other assets, net	185,426	214,697
<b>Total assets</b>	<b>\$ 3,563,855</b>	<b>\$ 3,191,247</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	DECEMBER 31,	
	2019	2018
<b>Liabilities</b>		
Notes and bonds payable	\$ 1,414,069	\$ 1,345,984
Accounts payable and accrued liabilities	78,517	80,411
Liabilities of properties held for sale	145	587
Operating lease liabilities	91,574	—
Financing lease liabilities	18,037	—
Other liabilities	61,504	47,623
<b>Total liabilities</b>	<b>1,663,846</b>	<b>1,474,605</b>
Commitments and contingencies		
<b>Stockholders' equity</b>		
Preferred stock, \$.01 par value; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; 300,000 shares authorized; 134,706 and 125,279 shares issued and outstanding at December 31, 2019 and 2018, respectively.	1,347	1,253
Additional paid-in capital	3,485,003	3,180,284
Accumulated other comprehensive loss	(6,175)	(902)
Cumulative net income attributable to common stockholders	1,127,304	1,088,119
Cumulative dividends	(2,707,470)	(2,552,112)
<b>Total stockholders' equity</b>	<b>1,900,009</b>	<b>1,716,642</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,563,855</b>	<b>\$ 3,191,247</b>

See accompanying notes.

Healthcare Realty Trust Incorporated  
**Consolidated Statements of Income**  
*Amounts in thousands, except per share data*

	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
<b>Revenues</b>			
Rental income	\$ 462,225	\$ 442,397	\$ 416,978
Other operating	8,073	7,992	7,759
	<b>470,298</b>	<b>450,389</b>	<b>424,737</b>
<b>Expenses</b>			
Property operating	180,005	170,506	157,252
General and administrative	34,826	34,511	32,992
Acquisition and pursuit costs	1,742	738	2,180
Depreciation and amortization	177,859	164,201	142,472
Bad debt, net of recoveries	—	60	159
	<b>394,432</b>	<b>370,016</b>	<b>335,055</b>
<b>Other income (expense)</b>			
Gain on sales of real estate assets	25,101	41,665	39,524
Interest expense	(55,435)	(52,804)	(56,402)
Loss on extinguishment of debt	—	—	(44,985)
Impairment of real estate assets	(5,617)	—	(5,385)
Interest and other income (expense), net	(730)	537	658
	<b>(36,681)</b>	<b>(10,602)</b>	<b>(66,590)</b>
<b>Net income</b>	<b>\$ 39,185</b>	<b>\$ 69,771</b>	<b>\$ 23,092</b>
Basic earnings per common share	\$ 0.29	\$ 0.55	\$ 0.18
Diluted earnings per common share	\$ 0.29	\$ 0.55	\$ 0.18
Weighted average common shares outstanding - basic	128,000	123,292	117,926
Weighted average common shares outstanding - diluted	128,084	123,351	118,017

See accompanying notes.

Healthcare Realty Trust Incorporated

**Consolidated Statements of Comprehensive Income**

*Amounts in thousands*

	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
<b>Net income</b>	<b>\$ 39,185</b>	<b>\$ 69,771</b>	<b>\$ 23,092</b>
Other comprehensive income (loss)			
Interest rate swaps			
Reclassification adjustment for losses included in net income (interest expense)	319	424	176
Losses arising during the period	(5,592)	(27)	(74)
	<u>(5,273)</u>	<u>397</u>	<u>102</u>
<b>Comprehensive income</b>	<b>\$ 33,912</b>	<b>\$ 70,168</b>	<b>\$ 23,194</b>

See accompanying notes.

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
<b>Balance at December 31, 2016</b>	\$ —	\$ 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)
Share-based compensation	—	4	10,024	—	—	—	10,028
Net income	—	—	—	—	23,092	—	23,092
Gain on forward starting interest rate swaps	—	—	—	102	—	—	102
Dividends to common stockholders (\$1.20 per share)	—	—	—	—	—	(142,327)	(142,327)
<b>Balance at December 31, 2017</b>	—	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)
Share-based compensation	—	3	10,688	—	—	—	10,691
Net income	—	—	—	—	69,771	—	69,771
Gain on forward starting interest rate swaps	—	—	—	397	—	—	397
Dividends to common stockholders (\$1.20 per share)	—	—	—	—	—	(150,266)	(150,266)
<b>Balance at December 31, 2018</b>	—	1,253	3,180,284	(902)	1,088,119	(2,552,112)	1,716,642
Issuance of stock, net of costs	—	92	295,764	—	—	—	295,856
Common stock redemption	—	(1)	(3,317)	—	—	—	(3,318)
Share-based compensation	—	3	12,272	—	—	—	12,275
Net income	—	—	—	—	39,185	—	39,185
Loss on interest rate swaps	—	—	—	(5,273)	—	—	(5,273)
Dividends to common stockholders (\$1.20 per share)	—	—	—	—	—	(155,358)	(155,358)
<b>Balance at December 31, 2019</b>	\$ —	\$ 1,347	\$ 3,485,003	\$ (6,175)	\$ 1,127,304	\$ (2,707,470)	\$ 1,900,009

See accompanying notes.

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

**OPERATING ACTIVITIES**

	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
Net income	\$ 39,185	\$ 69,771	\$ 23,092
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	177,859	164,201	142,472
Other amortization	3,013	3,000	3,879
Share-based compensation	12,275	10,691	10,028
Amortization of straight-line rent receivable (lessor)	(3,000)	(4,281)	(6,072)
Amortization of straight-line rent on operating leases (lessee)	1,537	1,519	1,497
Gain on sales of real estate assets	(25,101)	(41,665)	(39,524)
Loss on extinguishment of debt	—	—	44,985
Impairment of real estate assets	5,617	—	5,385
Loss (income) from unconsolidated joint ventures	19	(4)	(7)
Distributions from unconsolidated joint ventures	381	182	—
Provision for bad debts, net	—	60	159
Changes in operating assets and liabilities:			
Other assets, including right-of-use-assets	(8,573)	(3,998)	(2,156)
Accounts payable and accrued liabilities	2,752	4,731	(7,307)
Other liabilities	7,174	4,148	3,335
<b>Net cash provided by operating activities</b>	<b>213,138</b>	<b>208,355</b>	<b>179,766</b>

**INVESTING ACTIVITIES**

Acquisitions of real estate	(380,274)	(104,312)	(274,668)
Development of real estate	(25,985)	(26,728)	(14,911)
Additional long-lived assets	(64,670)	(70,807)	(80,613)
Investment in unconsolidated joint ventures	—	—	(8,701)
Proceeds from sales of real estate assets	52,401	96,812	119,426
Proceeds from notes receivable repayments	—	8	19
<b>Net cash used in investing activities</b>	<b>(418,528)</b>	<b>(105,027)</b>	<b>(259,448)</b>

**FINANCING ACTIVITIES**

Net borrowings on unsecured credit facility	31,000	73,000	82,000
Borrowings on term loan	50,000	—	—
Borrowings of notes and bonds payable	—	—	297,459
Repayments of notes and bonds payable	(13,857)	(19,850)	(5,829)
Redemption of notes and bonds payable	—	—	(442,774)
Dividends paid	(155,358)	(150,266)	(142,327)
Net proceeds from issuance of common stock	295,946	611	248,554
Common stock redemptions	(5,097)	(4,532)	(1,686)
Debt issuance and assumption costs	(4,589)	(125)	(4,007)
Payments made on finance leases	(379)	—	—
<b>Net cash provided by (used in) financing activities</b>	<b>197,666</b>	<b>(101,162)</b>	<b>31,390</b>
(Decrease) increase in cash and cash equivalents	(7,724)	2,166	(48,292)
Cash and cash equivalents at beginning of period	8,381	6,215	54,507
<b>Cash and cash equivalents at end of period</b>	<b>\$ 657</b>	<b>\$ 8,381</b>	<b>\$ 6,215</b>

**Supplemental Cash Flow Information**

Interest paid	\$ 53,978	\$ 45,752	\$ 64,395
Mortgage notes payable assumed upon acquisition (adjusted to fair value)	\$ —	\$ 7,995	\$ 43,674
Invoices accrued for construction, tenant improvements and other capitalized costs	\$ 17,294	\$ 12,682	\$ 8,303
Capitalized interest	\$ 1,411	\$ 951	\$ 871

See accompanying notes.

## 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 \$4.4 billion in 204 real estate properties, construction in progress, the Memphis Redevelopment, land held for development and corporate property as of December 31, 2019. The Company's 204 owned real estate properties are located in 25 states and total approximately 15.4 million square feet. The Company provided property management services to approximately 11.4 million square feet nationwide. Square footage and property count disclosures in these Notes to the Company's Consolidated Financial Statements are unaudited.

### *Principles of Consolidation*

The Company's Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries, joint ventures, and partnerships where the Company controls the operating activities.

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 (expense), 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 \$4.4 billion as of December 31, 2019 and \$4.0 billion as of December 31, 2018.

During 2019 and 2018, the Company eliminated against accumulated depreciation approximately \$17.2 million and \$9.9 million, respectively, of fully amortized real estate intangibles that were initially recorded as a component of certain real estate acquisitions. Also during 2019 and 2018, approximately \$1.3 million and \$0.5 million of fully depreciated tenant and capital improvements that were no longer in service were eliminated against accumulated depreciation.

Depreciation expense of real estate properties for the three years ended December 31, 2019, 2018 and 2017 was \$152.6 million, \$143.8 million and \$129.4 million, respectively. Depreciation and amortization of real estate assets and liabilities in place as of December 31, 2019, is provided for on a straight-line basis over the asset's estimated useful life:

Land improvements	3.0 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, 2019 and December 31, 2018.

***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. Land fair value is estimated by using an assessment of comparable transactions and other relevant data. 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.

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 estimated 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 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-place 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, 2019 and 2018, the Company had \$6.2 million and \$0.9 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 did not have any restricted cash for the year ended December 31, 2019. The Company had restricted cash during the year ended December 31, 2018, however it was reinvested for real estate acquisitions prior to the ending balance sheet date.

***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 2019 and 2018 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.

***Share-Based Compensation***

The Company has various employee and director share-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. See Note 12 for details on the Company's share-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, 2019, 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:

<i>In thousands</i>	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
<b>Type of Revenue</b>			
Parking income	\$ 7,520	\$ 6,930	\$ 6,611
Property lease guaranty income	128	675	726
Management fee income	270	273	308
Miscellaneous	155	114	114
	<b>\$ 8,073</b>	<b>\$ 7,992</b>	<b>\$ 7,759</b>

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 of the Company's owned real estate properties as of December 31, 2018 and 2017 respectively, was 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. The agreement expired February 28, 2019. If the minimum return was not achieved through normal operations of the property, the Company calculated and accrued 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 Statements of Income. The components of rental income are as follows:

<i>(Dollars in thousands)</i>	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
Property operating income	\$ 415,142	\$ 390,256	\$ 358,009
Single-tenant net lease	44,083	47,860	52,897
Straight-line rent	3,000	4,281	6,072
<b>Rental income</b>	<b>\$ 462,225</b>	<b>\$ 442,397</b>	<b>\$ 416,978</b>

**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, 2019.

Federal tax returns for the years 2016, 2017, 2018 and 2019 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.

**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 pro rata 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 stockholders.

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.

#### ***New Accounting Pronouncements***

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

In February 2016, the Financial Accounting Standards Board ("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 elected. 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, (b) the lessor 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 and (c) the lessee practical expedient not to separate certain non-lease components from the associated lease component.

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 are classified as either finance or operating, with the classification affecting the pattern of expense recognition in the income statement. The Company's ground leases executed or assumed prior to the adoption of Topic 842 continue to be accounted for as operating leases and will not result in a materially different ground lease expense. However, each ground lease executed by the Company after the adoption of Topic 842 will be evaluated to determine if it is an operating or finance lease. If the lease is to be accounted for as a finance lease, ground lease expense would be accounted for using the effective interest method instead of the straight-line method over the term of the lease, which would result in higher ground lease expense in the earlier years of a ground lease when compared to the straight-line method. Leases in which the Company is the lessee are primarily ground leases, but also includes management office leases in third party buildings and certain copier and postage machine leases. The terms of the ground leases generally range from 40 to 99 years with a weighted average remaining lease term remaining of 52.1 years, excluding renewal options. The Company's discount rates, which approximates the Company's incremental borrowing rate, ranged from 3.8% for leases expiring in 2021 to 6.2% for leases expiring in 2115. The Company utilized a third party to assist in determining the discount rates for its ground leases. The discount rates consider the general economic environment and factor in various financing and asset specific adjustments so that the discount rate is appropriate for the intended use of the underlying lease. As of January 1, 2019, the Company recognized the present value of its lease payments and a corresponding lease liability of \$91.7 million. In addition, the Company reclassified \$45.0 million of prepaid ground leases and below-market lease intangibles from the Other assets line item, \$1.9 million of above-market lease intangibles from the Other liabilities line and \$8.4 million of straight-line rent from the Accounts payable and accrued liabilities line item to the Operating lease right-of-use assets line item on the Consolidated Balance Sheet.

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, are generally accounted for under Topic 606 and separated from the lease payments. However, the Company elected the

lessor practical expedient allowing the Company to not separate these components when certain conditions are met. The combined component is accounted for under Topic 842.

The adoption of Topic 842, where the Company is the lessor, did not have a material impact on the Company's Consolidated Financial Statements for the twelve months ended months ended December 31, 2019.

The new standard was effective for the Company on January 1, 2019. Topic 842 provides two transition alternatives. The Company elected the prospective optional transition method available to apply Topic 842 in the year of adoption and the guidance in Accounting Standards Codification Topic 840 in the comparative periods. Topic 842 includes extensive quantitative and qualitative disclosures as compared to Topic 840, Leases, for both lessees and lessors. See Note 3 to the Company's Consolidated Financial Statements for additional disclosures.

*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. Operating lease receivables, representing the majority of the Company's receivables, are not within the scope of the new standard. The Company adopted this standard as of January 1, 2020. There was a not material impact to the Consolidated Financial Statements from the adoption of this standard.

*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 adopted this standard as of January 1, 2020. There was not a material impact to the Consolidated Financial Statements from the adoption of this standard.

## 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 following table summarizes the Company's investments at December 31, 2019.

<i>Dollars in thousands</i>	NUMBER OF PROPERTIES	LAND	BUILDINGS, IMPROVEMENTS, AND LEASE INTANGIBLES	PERSONAL PROPERTY	TOTAL	ACCUMULATED DEPRECIATION
Seattle, WA	25	\$ 58,565	\$ 532,767	\$ 421	\$ 591,753	\$(88,890)
Dallas, TX	25	19,194	496,683	442	516,319	(181,556)
Los Angeles, CA	14	44,386	205,829	347	250,562	(95,979)
Atlanta, GA	9	3,679	212,509	84	216,272	(20,040)
Nashville, TN	6	20,053	180,463	1,109	201,625	(64,038)
Charlotte, NC	16	4,200	176,261	105	180,566	(67,040)
Denver, CO	9	16,514	134,004	271	150,789	(25,265)
Washington, D.C.	6	—	150,304	21	150,325	(25,097)
Richmond, VA	7	—	149,132	106	149,238	(44,204)
Houston, TX	9	16,211	132,013	78	148,302	(44,229)
Honolulu, HI	3	8,327	135,641	159	144,127	(39,165)
Des Moines, IA	7	12,665	126,401	99	139,165	(34,725)
Oklahoma City, OK	4	10,401	115,706	15	126,122	(19,351)
Indianapolis, IN	4	3,299	118,847	—	122,146	(26,082)
San Francisco, CA	3	14,054	107,396	43	121,493	(20,906)
Springfield, MO	1	1,989	109,304	—	111,293	(17,740)
Austin, TX	5	14,236	92,809	123	107,168	(24,048)
Memphis, TN	7	5,241	92,508	194	97,943	(37,582)
San Antonio, TX	6	6,487	88,583	404	95,474	(40,573)
Chicago, IL	3	5,859	87,588	211	93,658	(23,540)
Minneapolis, MN	4	2,090	62,359	—	64,449	(10,486)
Other (16 markets)	31	17,079	475,409	806	493,294	(165,159)
	<b>204</b>	<b>284,529</b>	<b>3,982,516</b>	<b>5,038</b>	<b>4,272,083</b>	<b>(1,115,695)</b>
Construction in progress	—	—	48,731	—	48,731	—
Land held for development	—	24,647	—	—	24,647	(671)
Memphis Redevelopment	—	5,222	3,810	—	9,032	(50)
Corporate property	—	—	—	5,500	5,500	(4,686)
<b>Total real estate investments</b>	<b>204</b>	<b>\$ 314,398</b>	<b>\$ 4,035,057</b>	<b>\$ 10,538</b>	<b>\$ 4,359,993</b>	<b>\$(1,121,102)</b>

## 3. Leases

### *Lesser Accounting Under ASC 842*

The Company's properties generally are leased pursuant to non-cancelable, fixed-term operating leases with expiration dates through 2035. Some leases provide for fixed rent renewal terms in addition to market rent renewal terms. Some leases provide the lessee, during the term of the lease, with an option or 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. The Company records these expenses on a net basis, with the exception of property taxes. Property taxes are recorded on a gross basis as a lessor cost in which the tenant reimburses the Company. The Company generally expects that collectibility is probable at lease commencement. If the assessment of collectibility changes after the lease commencement date and Rental income is not considered probable, Rental income is recognized on a cash basis and all previously recognized uncollectible Rental income is reversed in the period in which the it is

determined not to be probable of collection. In addition to the lease-specific collectibility assessment performed under Topic 842, the Company may also apply a general reserve ("provision for bad debt"), as a reduction to Rental income, for its portfolio of operating lease receivables.

The Company's leases typically have escalators that are either based on a stated percentage or an index such as CPI (consumer price index). In addition, most of the Company's leases include nonlease components such as reimbursement of operating expenses as additional rent or include the reimbursement of expected operating expenses as part of the lease payment. The Company adopted an accounting policy to combine lease and nonlease components. Rent escalators based on indices and reimbursements of operating expenses that are not included in the lease rate are considered variable lease payments. Variable payments are recognized in the period earned. Lease income for the Company's operating leases recognized for the twelve months ended December 31, 2019 was \$462.2 million.

Future minimum lease payments under the non-cancelable operating leases, excluding any reimbursements, as of December 31, 2019 are as follows:

<i>In thousands</i>	
2020	\$ 360,340
2021	315,426
2022	275,798
2023	233,424
2024	177,738
2025 and thereafter	501,849
	<u>\$ 1,864,575</u>

#### *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, 2019, 2018 and 2017.

#### *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 investments of approximately \$96.0 million in four real estate properties as of December 31, 2019 that were subject to purchase options that were exercisable.

#### *Lessor Accounting Under ASC 840*

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 were as follows:

<i>In thousands</i>		
2019	\$	326,441
2020		279,211
2021		235,660
2022		201,072
2023		163,978
2024 and thereafter		476,673
	\$	1,683,035

#### ***Lessee Accounting Under ASC 842***

As of December 31, 2019, the Company was obligated, as the lessee, under operating lease agreements consisting primarily of the Company's ground leases. As of December 31, 2019, the Company had 108 properties totaling 8.9 million square feet that were held under ground leases. Some of the ground leases renewal terms are based on fixed rent renewal terms and others have market rent renewal terms. These ground leases typically have initial terms of 40 to 99 years with expiration dates through 2117. Any rental increases related to the Company's ground leases are generally either stated or based on the Consumer Price Index. The Company had 46 prepaid ground leases as of December 31, 2019. The amortization of the prepaid rent, included in the operating lease right-of-use asset, represented approximately \$0.6 million for the twelve months ended December 31, 2019, 2018 and 2017 respectively.

The Company's future lease payments (primarily for its 62 non-prepaid ground leases) as of December 31, 2019 were as follows:

<i>In thousands</i>	OPERATING	FINANCING
2020	\$ 4,814	\$ 746
2021	4,844	754
2022	4,875	763
2023	4,913	774
2024	4,969	795
2025 and thereafter	307,665	83,404
<b>Total undiscounted lease payments</b>	<b>332,080</b>	<b>87,236</b>
Discount	(240,506)	(69,199)
<b>Lease liabilities</b>	<b>\$ 91,574</b>	<b>\$ 18,037</b>

#### ***Lessee Accounting Under ASC 840***

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 rental increases related to the Company's ground leases are generally either stated or based on the Consumer Price Index.

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

<i>In thousands</i>	
2019	\$ 5,288
2020	5,260
2021	5,238
2022	5,207
2023	5,224
2024 and thereafter	323,533
	<b>\$ 349,750</b>

The following table provides details of the Company's total lease expense for the year ended December 31, 2019:

<i>In thousands</i>	YEAR ENDED Dec. 31, 2019
<b>Operating lease cost</b>	
Operating lease expense	\$ 4,623
Variable lease expense	3,161
<b>Finance lease cost</b>	
Amortization of right-of-use assets	165
Interest on lease liabilities	616
<b>Total lease expense</b>	<b>\$ 8,565</b>
<b>Other information</b>	
Operating cash flows outflows related to operating leases	\$ 6,972
Financing cash flows outflows related to financing leases	\$ 379
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 17,800
Weighted-average remaining lease term (excluding renewal options) - operating leases	49.5
Weighted-average remaining lease term (excluding renewal options) - finance leases	65.2
Weighted-average discount rate - operating leases	5.7%
Weighted-average discount rate - finance leases	5.4%

#### 4. Acquisitions, Dispositions and Mortgage Repayments

##### 2019 Acquisitions

The following table details the Company's acquisitions for the year ended December 31, 2019:

<i>Dollars in millions</i>	TYPE <sup>1</sup>	DATE ACQUIRED	PURCHASE PRICE	CASH CONSIDERATION <sup>2</sup>	REAL ESTATE	OTHER <sup>3</sup>	SQUARE FOOTAGE unaudited
Washington, D.C. <sup>4</sup>	MOB	3/28/19	\$ 46.0	\$ 45.9	\$ 50.2	(4.3)	158,338
Indianapolis, IN <sup>5</sup>	MOB	3/28/19	47.0	44.8	43.7	1.1	143,499
Atlanta, GA	MOB	4/2/19	28.0	28.0	28.0	—	47,963
Dallas, TX	MOB	6/10/19	17.0	16.7	17.0	(0.3)	89,990
Seattle, WA	MOB	6/11/19	7.7	7.8	7.8	—	29,870
Seattle, WA	MOB	6/14/19	19.0	19.1	19.5	(0.4)	47,255
Seattle, WA	MOB	6/28/19	30.5	30.4	30.6	(0.2)	78,288
Houston, TX	MOB	8/1/19	13.5	13.5	13.5	—	29,903
Oklahoma City, OK	MOB	9/26/19	4.1	4.1	4.1	—	28,542
Los Angeles, CA <sup>6</sup>	MOB	9/30/19	61.1	60.9	61.8	(0.9)	115,634
Raleigh, NC	MOB	10/31/19	21.6	22.0	21.7	0.3	57,730
Dallas, TX <sup>7</sup>	MOB	10/31/19	20.1	19.5	20.2	(0.7)	48,192
Seattle, WA	MOB	11/18/19	22.8	23.1	23.2	(0.1)	36,350
Seattle, WA	MOB	12/10/19	24.2	24.5	24.6	(0.1)	44,166
Memphis, TN	MOB	12/13/19	8.7	8.9	8.9	—	110,883
Seattle, WA	MOB	12/18/19	10.0	9.3	9.9	(0.6)	20,109
			<b>\$ 381.3</b>	<b>\$ 378.5</b>	<b>\$ 384.7</b>	<b>(6.2)</b>	<b>1,086,712</b>

1 MOB = medical office building.

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

3 Includes other assets acquired, liabilities assumed, and intangibles recognized at acquisition.

4 Includes two properties. The Company assumed two ground leases in connection with this acquisition that are classified as financing leases. The present value of future lease payments totaling \$14.3 million was recorded on the Company's Consolidated Balance Sheets under the caption Finance lease liabilities. In addition, the right-of-use assets were partially offset by \$5.2 million of above-market lease intangibles included in Other.

5 The Company assumed a prepaid ground lease totaling \$0.8 million and recorded a below-market lease intangible totaling \$0.9 million in connection with this acquisition that is classified as an operating lease that is included in Other.

6 Includes two properties.

7 The Company assumed a ground lease in connection with this acquisition that is classified as a financing lease. The present value of future lease payments totaling \$3.6 million was recorded on the Company's Consolidated Balance Sheets under the caption Finance lease liabilities.

The following table summarizes the estimated relative fair values of the assets acquired and liabilities assumed in the real estate acquisitions for 2019 as of the acquisition date:

	ESTIMATED FAIR VALUE in millions	ESTIMATED USEFUL LIFE in years
Building	\$ 270.7	8.0 - 37.0
Land	59.1	—
Land Improvements	4.2	3.0 - 12.0
Intangibles		
At-market lease intangibles	50.7	3.3 - 9.2
Above-market lease intangibles (lessor)	0.7	2.4 - 9.9
Below-market lease intangibles (lessor)	(0.7)	1.2 - 8.6
Above-market lease intangibles (lessee)	(5.1)	69.1 - 72.3
Below-market lease intangibles (lessee)	0.9	65.1
Other assets acquired	2.3	
Accounts payable, accrued liabilities and other liabilities assumed	(4.3)	
<b>Total cash paid</b>	<b>\$ 378.5</b>	

**Subsequent Acquisition**

On January 3, 2020, the Company acquired an 86,986 square foot medical office building in Los Angeles, California for a purchase price of \$42.0 million.

**2018 Real Estate Acquisitions**

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

<i>Dollars in millions</i>	TYPE <sup>1</sup>	DATE ACQUIRED	PURCHASE PRICE	MORTGAGE NOTES PAYABLE ASSUMED <sup>2</sup>	CASH CONSIDERATION <sup>3</sup>	REAL ESTATE	OTHER <sup>4</sup>	SQUARE FOOTAGE unaudited
Seattle, WA	MOB	5/4/18	\$ 7.8	\$ —	\$ 7.8	\$ 7.8	—	13,314
Denver, CO <sup>5</sup>	MOB	5/18/18	12.1	(8.0)	3.8	12.1	(0.2)	93,992
Denver, CO <sup>5</sup>	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 <sup>6</sup>	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

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 in millions	ESTIMATED USEFUL LIFE 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 (lessor)	14.3	1.3 - 4.2
Below-market lease intangibles (lessor)	(0.1)	3.8
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)	
<b>Total cash paid</b>	<b>\$ 103.1</b>	

**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 CommonSpirit Health'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.

### 2019 Real Estate Asset Dispositions

The following table details the Company's dispositions for the year ended December 31, 2019:

<i>Dollars in millions</i>	TYPE <sup>1</sup>	DATE DISPOSED	SALES PRICE	CLOSING ADJUSTMENTS	NET PROCEEDS	NET REAL ESTATE INVESTMENT	OTHER including receivables <sup>2</sup>	GAIN/ (IMPAIRMENT)	SQUARE FOOTAGE unaudited
Tucson, AZ <sup>3</sup>	MOB	4/9/19	\$ 13.0	\$ (0.9)	\$ 12.1	\$ 6.9	\$ 0.4	\$ 4.8	67,345
Virginia Beach, VA <sup>4</sup>	MOB	8/1/19	1.3	(0.1)	1.2	1.2	—	—	10,000
San Antonio, TX	MOB	8/28/19	0.9	(0.1)	0.8	0.6	—	0.2	10,138
Erie, PA	IRF	10/25/19	14.0	—	14.0	1.3	—	12.7	90,123
New Orleans, LA <sup>5</sup>	MOB	11/25/19	3.7	(0.2)	3.5	1.2	0.2	2.1	136,155
Kingsport, TN	SNF	11/27/19	9.5	(0.3)	9.2	5.0	1.3	2.9	75,000
Pittsburgh, PA <sup>6</sup>	IRF	12/18/19	3.8	(0.3)	3.5	3.5	—	—	78,731
Dallas, TX <sup>5</sup>	MOB	12/30/19	8.7	(0.6)	8.1	6.1	(0.4)	2.4	69,558
			<b>\$ 54.9</b>	<b>\$ (2.5)</b>	<b>\$ 52.4</b>	<b>\$ 25.8</b>	<b>\$ 1.5</b>	<b>\$ 25.1</b>	<b>537,050</b>

1 MOB = medical office building; IRF = inpatient rehabilitation facility; SNF = skilled nursing facility

2 Includes straight-line rent receivables, leasing commissions and lease inducements.

3 Includes four properties sold to a single purchaser.

4 The Company reclassified this property to held for sale during the second quarter of 2019 and recorded an impairment charge of \$0.4 million based on the sales price less estimated costs to sell.

5 Includes two properties.

6 The Company reclassified this property to held for sale during the first quarter of 2017 and subsequently in the second quarter of 2019, the Company accepted an offer to purchase and recorded an impairment charge of \$5.2 million.

### 2018 Real Estate Asset Dispositions

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

<i>Dollars in millions</i>	TYPE <sup>1</sup>	DATE DISPOSED	SALES PRICE	CLOSING ADJUSTMENTS	NET PROCEEDS	NET REAL ESTATE INVESTMENT	OTHER including receivables <sup>3</sup>	GAIN/ (IMPAIRMENT)	SQUARE FOOTAGE unaudited
Roanoke, VA <sup>2,4</sup>	MOB, OFC	4/26/18	\$ 46.2	\$ —	\$ 46.2	\$ 23.9	\$ —	\$ 22.3	460,881
Michigan <sup>5</sup>	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
			<b>\$ 98.7</b>	<b>\$ (1.9)</b>	<b>\$ 96.8</b>	<b>\$ 54.5</b>	<b>\$ 2.5</b>	<b>\$ 39.8</b>	<b>806,206</b>

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.

## 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. As of December 31, 2019 the Company had no properties classified as held for sale, and as of December 31, 2018, the Company had one property classified as held for sale.

The table below reflects the assets and liabilities of the properties classified as held for sale as of December 31, 2019 and 2018.

<i>Dollars in thousands</i>	DECEMBER 31,	
	2019	2018
<b>Balance Sheet data</b>		
Land	\$ —	\$ 1,125
Buildings, improvements and lease intangibles	—	18,231
	—	<b>19,356</b>
Accumulated depreciation	—	(10,657)
<b>Real estate assets held for sale, net</b>	<b>—</b>	<b>8,699</b>
Other assets, net	37	573
<b>Assets held for sale, net</b>	<b>\$ 37</b>	<b>\$ 9,272</b>
Accounts payable and accrued liabilities	\$ 37	\$ 450
Other liabilities	108	137
<b>Liabilities of properties held for sale</b>	<b>\$ 145</b>	<b>\$ 587</b>

## 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 recorded impairment charges on properties sold or classified as held for sale for the years ended December 31, 2019 and 2017 totaling \$5.6 million and \$5.4 million, respectively. The Company did not record any impairment charges in 2018. 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, 2019 and 2018 are detailed in the table below:

<i>Dollars in millions</i>	DECEMBER 31,	
	2019	2018
Straight-line rent receivables	\$ 70.5	\$ 69.5
Prepaid assets	44.3	66.2
Additional long-lived assets, net	22.7	23.5
Accounts receivable, net	13.0	9.7
Ground lease modification, net	9.4	9.9
Equity investments in joint ventures	8.1	8.5
Debt issuance costs, net <sup>1</sup>	5.0	2.2
Project costs	4.6	2.2
Goodwill	3.5	3.5
Customer relationship intangible assets, net	2.5	1.7
Above-market intangible assets, net <sup>2</sup>	1.2	16.8
Interest rate swap assets	—	0.2
Other	0.6	0.8
	<b>\$ 185.4</b>	<b>\$ 214.7</b>

<sup>1</sup> Includes debt issuance costs related to the Company's Unsecured Credit Facility and Unsecured Term Loan due 2026.

<sup>2</sup> Includes below-market ground lease intangibles as of December 31, 2018. These intangibles were reclassified to Operating right-of-use assets on the Company's Consolidated Balance Sheets as of December 31, 2019.

**Unconsolidated Joint Ventures**

The Company owns a non-managing membership interest in two limited liability companies, or LLCs, that own two parking garages in Atlanta, Georgia which is included in the equity investments in the 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, 2019 and 2018 related to its LLCs accounted for under the equity method are shown in the table below:

<i>Dollars in millions</i>	DECEMBER 31,	
	2019	2018
Net LLC investments, beginning of period	\$ 8.5	\$ 8.7
Equity income (loss) recognized during the period	—	—
Owner distributions	(0.4)	(0.2)
<b>Net LLC investments, end of period</b>	<b>\$ 8.1</b>	<b>\$ 8.5</b>

**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, 2019 and 2018 consisted of the following:

<i>Dollars in millions</i>	GROSS BALANCE at December 31,		ACCUMULATED AMORTIZATION at December 31,		WEIGHTED AVG. REMAINING LIFE in years	BALANCE SHEET CLASSIFICATION
	2019	2018	2019	2018		
Goodwill	\$ 3.5	\$ 3.5	\$ —	\$ —	N/A	Other assets, net
Credit facility debt issuance costs	5.8	5.4	0.8	3.2	3.8	Other assets, net
Above-market lease intangibles (lessor)	4.0	4.5	2.8	3.3	3.9	Other assets, net
Customer relationship intangibles (lessor)	4.1	2.7	1.6	1.0	43.1	Other assets, net
Below-market lease intangibles	(7.3)	(7.3)	(4.0)	(4.0)	6.7	Other liabilities
Debt issuance costs <sup>1</sup>	9.2	9.3	3.5	2.8	5.8	Notes and bonds payable
At-market lease intangibles	147.9	114.4	59.8	52.0	5.4	Real estate properties
Above-market lease intangibles (lessee)	(7.2)	(2.0)	(0.2)	(0.1)	75.5	Right-of-use asset
Below-market lease intangibles (lessee)	18.8	17.8	2.5	2.2	63.0	Right-of-use asset
	<b>\$ 178.8</b>	<b>\$ 148.3</b>	<b>\$ 66.8</b>	<b>\$ 60.4</b>	<b>16.6</b>	

<sup>1</sup> Includes debt issuance costs related to the Company's Unsecured Senior Notes payable, Unsecured Term Loan due 2024, and mortgage notes payable.

For the years ended December 31, 2019 and 2018, the Company recognized approximately \$28.0 million and \$23.2 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, 2019:

<i>Dollars in millions</i>	FUTURE AMORTIZATION OF INTANGIBLES, NET
2019	\$ 24.1
2020	19.1
2021	16.0
2022	11.2
2023	7.0

## 9. Notes and Bonds Payable

<i>Dollars in thousands</i>	DECEMBER 31,		MATURITY DATES	CONTRACTUAL INTEREST RATES	PRINCIPAL PAYMENTS	INTEREST PAYMENTS
	2019	2018				
Unsecured Credit Facility	\$ 293,000	\$ 262,000	5/23	LIBOR + .90%	At maturity	Monthly
Unsecured Term Loan due 2024 <sup>1</sup>	199,013	149,183	5/24	LIBOR + 1.00%	At maturity	Monthly
Unsecured Term Loan due 2026 <sup>2</sup>	—	—	6/26	LIBOR + 1.60%	At maturity	Monthly
Senior Notes due 2023 <sup>1</sup>	248,540	248,117	4/23	3.75%	At maturity	Semi-Annual
Senior Notes due 2025 <sup>1</sup>	248,522	248,278	5/25	3.88%	At maturity	Semi-Annual
Senior Notes due 2028 <sup>1</sup>	295,651	295,198	1/28	3.63%	At maturity	Semi-Annual
Mortgage notes payable <sup>3</sup>	129,343	143,208	7/20-5/40	3.31%-6.88%	Monthly	Monthly
	<b>\$ 1,414,069</b>	<b>\$ 1,345,984</b>				

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

2 As of December 31, 2019, there are no outstanding loans under the Unsecured Term Loan 2026. This term loan has a delayed draw feature that allows the Company up to February 2020 to draw against the \$150 million commitments.

3 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, 2019, the Company was in compliance with its financial covenant provisions under its various debt instruments.

### *Unsecured Credit Facility*

On October 14, 2011, the Company entered into a \$700.0 million unsecured credit facility with a syndicate of lenders. On May 31, 2019, the Company entered into an amended and restated Unsecured Credit Facility to extend the maturity date to May 2023. The credit facility agreement provides the Company with two six-month extension options that could extend the maturity date to May 2024. Each option is subject to an extension fee of 0.0625% 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 0.775% to 1.45% (0.90% as of December 31, 2019). In addition, the Company pays a facility fee per annum on the aggregate amount of commitments ranging from 0.125% to 0.30% (0.20% as of December 31, 2019). In connection with the amendment, the Company paid up-front fees to the lenders of approximately \$3.5 million, which will be amortized over the term of the facility. As of December 31, 2019, the Company had \$293.0 million outstanding under the Unsecured Credit Facility with an effective interest rate of approximately 2.66% and had a remaining borrowing capacity of approximately \$407.0 million.

### *Unsecured Term Loan due 2024*

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 May 31, 2019, the Company entered into an amendment to the unsecured term loan due 2022 with a syndicate of nine lenders to extend the maturity date to May 2024 and to increase the loan amount from \$150.0 million to \$200 million. The Unsecured Term Loan due 2024 bears interest at a rate equal to (x) LIBOR plus (y) a margin ranging from 0.85% to 1.65% (1.00% as of December 31, 2019) based upon the Company's unsecured debt ratings. Payments under the Unsecured Term Loan due 2024 are interest only, with the full amount of the principal due at maturity. The Unsecured Term Loan due 2024 may be prepaid at any time, without penalty. The Unsecured Term Loan due 2024 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. As of December 31, 2019, the Company had interest rate swaps totaling \$175.0 million to hedge the 1-month LIBOR portion of the cost of borrowing under the Unsecured Term Loan due 2024 at a weighted average rate of 2.29%. The outstanding balance on the Unsecured Term Loan due 2024 was \$200.0 million as of December 31, 2019 with an effective interest rate of approximately 3.27% including the impact of the interest rate swaps. In connection with the amendment, the Company paid up-front fees to the lenders of approximately \$0.7 million, of which \$0.4



million was capitalized and will be amortized over the term of the loan, and \$0.3 million was expensed during the second quarter of 2019. For each of the years ended December 31, 2019, 2018, and 2017 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 2024 on the Company's Consolidated Balance Sheets as of December 31, 2019 and 2018:

<i>Dollars in thousands</i>	DECEMBER 31,	
	2019	2018
Unsecured Term Loan due 2024 principal balance	\$ 200,000	\$ 150,000
Debt issuance costs	(987)	(817)
<b>Unsecured Term Loan due 2024 carrying amount</b>	<b>\$ 199,013</b>	<b>\$ 149,183</b>

#### ***Unsecured Term Loan due 2026***

On May 31, 2019, the Company amended and restated its term loan agreement with a syndicate of lenders. The Unsecured Term Loan due 2026 has a delayed draw feature that allows the Company up to nine months to draw against the \$150.0 million commitments. Loans outstanding under the Unsecured Term Loan due 2026 will bear interest at a rate equal to LIBOR plus a margin ranging from 1.45% to 2.40% (1.60% at December 31, 2019). As of December 31, 2019, no loans were outstanding under the Unsecured Term Loan due 2026. Committed amounts that remain undrawn are subject to a ticking fee ranging from 0.125% to 0.30% per annum (0.20% at December 31, 2019). In connection with the amendment, the Company paid up-front fees to the lenders of approximately \$1.1 million, of which \$0.7 million was capitalized and will be amortized over the term of the loan, and \$0.4 million was expensed during the second quarter of 2019.

#### ***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, 2019, 2018 and 2017, 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, 2019 and 2018:

<i>Dollars in thousands</i>	DECEMBER 31,	
	2019	2018
Senior Notes due 2023 face value	\$ 250,000	\$ 250,000
Unaccreted discount	(761)	(974)
Debt issuance costs	(699)	(909)
<b>Senior Notes due 2023 carrying amount</b>	<b>\$ 248,540</b>	<b>\$ 248,117</b>

#### ***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, 2019, 2018, and 2017 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, 2019 and 2018:

<i>Dollars in thousands</i>	DECEMBER 31,	
	2019	2018
Senior Notes due 2025 face value	\$ 250,000	\$ 250,000
Unaccreted discount	(121)	(141)
Debt issuance costs	(1,357)	(1,581)
<b>Senior Notes due 2028 carrying amount</b>	<b>\$ 248,522</b>	<b>\$ 248,278</b>

#### **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, 2019, 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, 2019:

<i>Dollars in thousands</i>	DECEMBER 31,	
	2019	2018
Senior Notes due 2028 face value	\$ 300,000	\$ 300,000
Unaccreted discount	(2,100)	(2,319)
Debt issuance costs	(2,249)	(2,483)
<b>Senior Notes due 2028 carrying amount</b>	<b>\$ 295,651</b>	<b>\$ 295,198</b>

#### **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, 2019 and 2018. For the years ended December 31, 2019, 2018 and 2017, the Company amortized approximately \$0.6 million, \$0.4 million and \$0.3 million of the discount and \$0.4 million, \$0.8 million, and \$0.7 million of the premium. For the years ended December 31, 2019, 2018 and 2017, the Company also amortized approximately \$0.2 million, \$0.1 million, and \$0.1 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.

<i>Dollars in thousands</i>	DECEMBER 31,	
	2019	2018
Mortgage notes payable principal balance	\$ 129,258	\$ 143,115
Unamortized premium	1,162	1,805
Unaccreted discount	(528)	(968)
Debt issuance costs	(549)	(744)
<b>Mortgage notes payable carrying amount</b>	<b>\$ 129,343</b>	<b>\$ 143,208</b>

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

<i>Dollars in millions</i>	ORIGINAL BALANCE	EFFECTIVE INTEREST RATE <sup>20</sup>	MATURITY DATE	COLLATERAL <sup>21</sup>	PRINCIPAL AND INTEREST PAYMENTS <sup>19</sup>	INVESTMENT IN COLLATERAL at December 31,	BALANCE at December 31,	
						2019	2019	2018
Commercial Bank <sup>1</sup>	\$ 9.4	4.55%	7/19	MOB	Monthly/8-yr amort	\$ —	\$ —	\$ 9.0
Commercial Bank <sup>2</sup>	15.2	7.65%	7/20	MOB	<sup>18</sup>	18.6	12.5	12.5
Life Insurance Co. <sup>3</sup>	7.9	4.00%	8/20	MOB	Monthly/15-yr amort.	20.7	0.5	1.3
Life Insurance Co. <sup>4</sup>	7.3	5.25%	8/20	MOB	Monthly/27-yr amort.	18.1	6.0	6.2
Life Insurance Co. <sup>5</sup>	5.6	4.30%	1/21	MOB	Monthly/10-yr amort.	15.8	4.5	4.6
Commercial Bank <sup>6</sup>	12.9	6.43%	2/21	MOB	Monthly/12-yr amort.	55.2	10.1	10.3
Life Insurance Co. <sup>7</sup>	11.0	3.87%	11/22	MOB	Monthly/7-yr amort.	22.0	10.0	10.2
Life Insurance Co. <sup>8</sup>	12.3	3.86%	8/23	MOB	Monthly/7-yr amort.	25.4	10.9	11.2
Financial Services <sup>9</sup>	12.4	4.27%	10/23	MOB	Monthly/10-yr amort.	22.6	11.7	12.0
Life Insurance Co. <sup>10</sup>	9.0	4.84%	12/23	MOB,OFC	Monthly/10-yr amort.	25.7	7.6	7.8
Life Insurance Co. <sup>11</sup>	13.3	4.13%	1/24	MOB	Monthly/10-yr amort.	20.8	12.7	13.0
Life Insurance Co. <sup>12</sup>	6.8	3.96%	2/24	MOB	Monthly/7-yr amort.	14.6	6.4	6.6
Financial Services <sup>13</sup>	9.7	4.32%	9/24	MOB	Monthly/10-yr amort.	17.0	8.3	8.6
Commercial Bank	11.5	3.71%	1/26	MOB	Monthly/10-yr amort.	38.6	9.6	10.1
Commercial Bank <sup>14</sup>	15.0	5.25%	4/27	MOB	Monthly/20-yr amort.	33.5	7.9	8.8
Municipal Government <sup>15, 16</sup>	11.0	4.79%	<sup>17</sup>	MOB	Semi-Annual <sup>17</sup>	21.0	10.6	11.0
						<b>\$ 369.6</b>	<b>\$ 129.3</b>	<b>\$ 143.2</b>

- 1 The Company repaid this mortgage note in April 2019. The Company's unencumbered gross investment was \$27.8 million at December 31, 2019.
- 2 The unaccreted portion of the \$2.4 million discount recorded on this note upon acquisition is included in the balance above.
- 3 The unamortized portion of the \$0.3 million premium recorded on this note upon acquisition is included in the balance above.
- 4 The unamortized portion of the \$0.4 million premium recorded on this note upon acquisition is included in the balance above. This mortgage note payable was repaid in full on February 3, 2020.
- 5 The unamortized portion of the \$0.2 million premium recorded on this note upon acquisition is included in the balance above.
- 6 The unaccreted portion of the \$1.0 million discount recorded on this note upon acquisition is included in the balance above.
- 7 The unaccreted portion of the \$0.1 million discount recorded on this note upon acquisition is included in the balance above.
- 8 The unaccreted portion of the \$0.2 million discount recorded on this note upon acquisition is included in the balance above.
- 9 The unamortized portion of the \$0.4 million premium recorded on this note upon acquisition is included in the balance above.
- 10 The unamortized portion of the \$0.1 million premium recorded on this note upon acquisition is included in the balance above.
- 11 The unamortized portion of the \$0.8 million premium recorded on this note upon acquisition is included in the balance above.
- 12 The unamortized portion of the \$0.2 million premium recorded on this note upon acquisition is included in the balance above.
- 13 The unamortized portion of the \$0.1 million premium recorded on this note upon acquisition is included in the balance above.
- 14 The unamortized portion of the \$0.7 million premium recorded on this note upon acquisition is included in the balance above.
- 15 Balance consists of three notes secured by the same building.
- 16 The unamortized portion of the \$1.0 million premium recorded on the three notes upon acquisition is included in the balance above.
- 17 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.
- 18 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.
- 19 Payable in monthly installments of principal and interest with the final payment due at maturity (unless otherwise noted).
- 20 The contractual interest rates for the 17 outstanding mortgage notes ranged from 3.3% to 6.9% as of December 31, 2019.
- 21 MOB-Medical office building, OFC-Office

**Other Long-Term Debt Information**

Future maturities of the Company's notes and bonds payable as of December 31, 2019 were as follows:

<i>Dollars in thousands</i>	PRINCIPAL MATURITIES	NET ACCRETION/ AMORTIZATION <sup>1</sup>	DEBT ISSUANCE COSTS <sup>2</sup>	NOTES AND BONDS PAYABLE	%
2020	\$ 23,064	\$ (392)	\$ (1,081)	21,591	1.5%
2021	17,594	(326)	(1,065)	16,203	1.1%
2022	12,977	(336)	(1,077)	11,564	0.8%
2023	573,230	(183)	(921)	572,126	40.5%
2024	225,966	(262)	(667)	225,037	15.9%
2025 and thereafter	569,427	(849)	(1,030)	567,548	40.2%
	<b>\$ 1,422,258</b>	<b>\$ (2,348)</b>	<b>\$ (5,841)</b>	<b>1,414,069</b>	<b>100.0%</b>

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 16 mortgage notes payable.

2 Excludes approximately \$5.0 million in debt issuance costs related to the Company's Unsecured Credit Facility and Unsecured Term Loan due 2026 included in other assets, net.

**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 2019, 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.

The Company had eight 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
Interest rate swaps - 2019	4	100.0
<b>Total interest rate swaps</b>	<b>8</b>	<b>\$ 175.0</b>

**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, 2019 and 2018.

<i>Dollars in thousands</i>	AS OF DECEMBER 31, 2019		AS OF DECEMBER 31, 2018	
	BALANCE SHEET LOCATION	FAIR VALUE	BALANCE SHEET LOCATION	FAIR VALUE
Derivatives designated as hedging instruments				
Interest rate swaps 2017	Other liabilities	\$ (467)	Other assets, net	\$ 229
Interest rate swaps 2018	Other liabilities	(1,335)	Other liabilities	(68)
Interest rate swaps 2019	Other liabilities	(3,478)	Other liabilities	—
<b>Total derivatives designated as hedging instruments</b>		<b>\$ (5,280)</b>		<b>\$ 161</b>

**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, 2019 related to the Company's outstanding interest rate swaps.

<i>Dollars in thousands</i>	AMOUNT OF (LOSS) RECOGNIZED IN OCI on derivatives		AMOUNT OF (GAIN)/LOSS RECLASSIFIED FROM OCI INTO INCOME for the twelve months ended December 31,	
	2019		2019	2018
Interest rate swaps 2017	\$ (674)	Interest expense	\$ (22)	\$ 51
Interest rate swaps 2018	(1,366)	Interest expense	99	204
Interest rate swaps 2019	(3,552)	Interest expense	74	—
Settled interest rate swaps	—	Interest expense	168	169
	<b>\$ (5,592)</b>	<b>Total interest expense</b>	<b>\$ 319</b>	<b>\$ 424</b>

The Company estimates that an additional \$1.4 million will be reclassified from accumulated other comprehensive loss as an increase to interest expense over the next 12 months.

**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, 2019. The net amounts of derivative liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative liabilities are presented on the Company's Consolidated Balance Sheets.

**Offsetting of Derivative Liabilities**

	GROSS AMOUNTS of recognized liabilities	GROSS AMOUNTS OFFSET in the Consolidated Balance Sheets	NET AMOUNTS OF LIABILITIES presented in the Consolidated Balance Sheets	GROSS AMOUNTS NOT OFFSET in the Consolidated Balance Sheets		
				FINANCIAL INSTRUMENTS	CASH COLLATERAL	NET AMOUNT
Derivatives	\$ (5,280)	\$ —	\$ (5,280)	\$ 5,280	\$ —	\$ —

**Credit-risk-related Contingent Features**

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 has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

As of December 31, 2019, the fair value of derivatives in a net liability position including accrued interest but excluding any adjustment for nonperformance risk related to these agreements was \$5.5 million. As of December 31, 2019, the Company has not posted any collateral related to these agreements and was not in breach of any agreement

provisions. If the Company had breached any of these provisions, it could have been required to settle its obligations under the agreements at their aggregate termination value of \$5.5 million.

## 11. Stockholders' Equity

### Common Stock

The Company had no preferred shares outstanding and had common shares outstanding for the three years ended December 31, 2019 as follows:

	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
Balance, beginning of year	\$ 125,279,455	\$ 125,131,593	\$ 116,416,900
Issuance of common stock	9,251,440	26,203	8,395,607
Non-vested share-based awards, net of withheld shares and forfeitures	175,259	121,659	319,086
<b>Balance, end of year</b>	<b>\$ 134,706,154</b>	<b>\$ 125,279,455</b>	<b>\$ 125,131,593</b>

### Equity Offering

On March 19, 2019, the Company issued 3,737,500 shares of common stock, par value \$0.01 per share, at \$31.40 per share in an underwritten public offering pursuant to the Company's existing effective registration statement. The net proceeds of the offering, after underwriting discounts and offering expenses, were approximately \$115.8 million.

### 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	SALE PRICE per share	NET PROCEEDS in millions
2019	5,470,673	\$32.01 - \$33.77	\$ 179.1
2018	—	NA	\$ —
2017	—	NA	\$ —

The Company had 398,024 authorized shares remaining available to be sold under the current sales agreements as of January 31, 2020 and no shares were sold related to this program during 2017 or 2018.

### Dividends Declared

During 2019, the Company declared and paid common stock dividends aggregating \$1.20 per share (\$0.30 per share per quarter).

On February 11, 2020, the Company declared a quarterly common stock dividend in the amount of \$0.30 per share payable on March 9, 2020 to stockholders of record on February 24, 2020.

### Authorization to Repurchase Common Stock

On April 30, 2019, the Company's Board of Directors authorized the repurchase of up to \$50 million of outstanding shares of the Company's common stock either in the open market or through privately negotiated transactions, subject to market conditions, regulatory constraints, and other customary conditions. The Company is not obligated under this authorization to repurchase any specific number of shares. This authorization supersedes all previous stock repurchase authorizations. As of the date of these Consolidated Financial Statements, the Company has not repurchased any shares of its common stock under this authorization.

**Accumulated Other Comprehensive Loss**

During each of the two years ended December 31, 2019 and 2018, the Company entered into interest rate swaps to hedge the variable cash flows associated with existing variable-rate debt. 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, 2019 and 2018:

<i>Dollars in thousands</i>	INTEREST RATE SWAPS as of December 31,	
	2019	2018
Beginning balance	\$ (902)	\$ (1,299)
Other comprehensive loss before reclassifications	319	424
Amounts reclassified from accumulated other comprehensive income (loss)	(5,592)	(27)
Net current-period other comprehensive (loss) income	(5,273)	397
<b>Ending balance</b>	<b>\$ (6,175)</b>	<b>\$ (902)</b>

The following table represents the details regarding the reclassifications from Accumulated other comprehensive income (loss) during the year ended December 31, 2019 (dollars in thousands):

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
Amounts reclassified from accumulated other comprehensive income (loss) related to settled interest rate swaps	\$ 168	Interest Expense
Amounts reclassified from accumulated other comprehensive income (loss) related to current interest rate swaps	151	Interest Expense
	<b>\$ 319</b>	

**12. Stock and Other Incentive Plans****Stock Incentive Plan**

In May 2015, the Company's stockholders approved the 2015 Stock 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, 2019 and 2018, the Company had issued a total of 1,988,079 and 1,711,240 restricted shares, respectively, under the 2015 Incentive Plan for compensation-related awards to employees and directors, with a total of 1,511,921 and 1,788,760, respectively, remaining unissued under the plan. 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, 2019, 2018 and 2017 from the amortization of the value of shares over the vesting period issued to employees and directors was \$12.0 million, \$10.4 million and \$9.8 million, respectively. The Company's former Executive Chairman, David R. Emery, died on September 30, 2019 resulting in \$2.9 million of expenses associated with the acceleration of his outstanding nonvested share-based awards. This charge is included in the 2019 compensation expense. In connection with the vesting, 80,490 shares

were withheld to pay employee federal income taxes. The following table represents expected amortization of the Company's non-vested shares issued:

<i>Dollars in millions</i>	FUTURE AMORTIZATION of non-vested shares	
2020	\$	8.7
2021		7.3
2022		5.9
2023		3.8
2024		2.5
2025 and thereafter		1.9
<b>Total</b>	<b>\$</b>	<b>30.1</b>

#### *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 2019, 2018 and 2017, compensation expense, included in general and administrative expense, resulting from the amortization of non-vested share grants to officers was approximately \$5.7 million, \$5.7 million, and \$5.0 million, respectively. Details of the awards that have been earned from this plan are as follows:

- On December 12, 2019, the Company granted non-vested stock awards for TSR performance to its four named executive officers, five senior vice presidents, and five first vice presidents with a grant date fair value totaling \$6.1 million, which were granted in the form of 187,072 non-vested shares, with a five-year vesting period, which will result in annual compensation expense of \$1.2 million for the each of 2020, 2021, 2022, and 2023, and \$1.1 million for 2024, respectively.
- 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.

#### *Long-Term Incentive Program*

In the first quarter of 2019 and 2018, 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 \$1.0 million and \$1.2 million, which was granted in the form of 31,262 non-vested shares and 43,414 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 2019, 2018 and 2017, compensation expense resulting from the amortization of non-vested share grants to officers was approximately \$1.1 million, \$1.2 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 2019, 2018 and 2017, the Company issued 33,509 shares, 33,348 shares and 39,016 shares, respectively, to its officers through the salary deferral plan. For 2019, 2018 and 2017, compensation expense resulting from the amortization of non-vested share grants to officers was approximately \$0.9 million, \$1.0 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 2019, 2018 and 2017, the Company issued 24,996 shares, 30,989 shares, and 23,231 shares, respectively, to its non-employee directors through the 2015 Incentive Plan. For each of the years 2019, 2018 and 2017, compensation expense resulting from the amortization of non-vested share grants to directors was approximately \$0.8 million, respectively.

*Other Grants*

The Company issued three one-time non-vested share grants related to executive management transition in 2016. For 2019, 2018 and 2017 compensation expense resulting from the amortization of these non-vested share grants to officers was approximately \$3.5 million, \$1.7 million, and \$1.7 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. The Company's former Executive Chairman, David R. Emery, died on September 30, 2019 resulting in the acceleration of this outstanding grant totaling \$2.0 million.

A summary of the activity under the 2015 Incentive Plan and related information for the three years in the period ended December 31, 2019 follows:

<i>Dollars in thousands, except per share data</i>	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
<b>Share-based awards, beginning of year</b>	<b>1,769,863</b>	<b>1,907,645</b>	<b>1,786,497</b>
Granted	276,839	273,012	413,489
Vested	(292,636)	(410,794)	(292,341)
<b>Share-based awards, end of year</b>	<b>1,754,066</b>	<b>1,769,863</b>	<b>1,907,645</b>
<b>Weighted-average grant date fair value of</b>			
Share-based awards, beginning of year	\$ 29.36	\$ 28.44	\$ 27.18
Share-based awards granted during the year	\$ 31.75	\$ 29.72	\$ 32.05
Share-based awards vested during the year	\$ 28.84	\$ 25.32	\$ 25.88
Share-based awards, end of year	\$ 29.82	\$ 29.36	\$ 28.44
Grant date fair value of shares granted during the year	\$ 8,791	\$ 8,114	\$ 13,254

The vesting periods for the non-vested shares granted during 2019 ranged from one to eight years with a weighted-average amortization period remaining as of December 31, 2019 of approximately 5 years.

During 2019, 2018 and 2017, the Company withheld 101,580 shares, 151,353 shares and 94,403 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 \$0.5 million for the year ended December 31, 2019 and \$0.4 million for each year during 2018 and 2017.

#### **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, 2019, the Company had issued 599,104 shares under the plan of which 7,990 shares were issued in 2019, 9,487 shares were issued in 2018 and 26,031 shares were issued in 2017.

#### **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. The Company accounts for these awards based on fair value, using the Black-Scholes model, and generally recognizes expense over the award's vesting period, net of 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 the first quarter of each year and then may record additional compensation expense in subsequent quarters as warranted.

During the years ended December 31, 2019, 2018 and 2017, the Company recognized in general and administrative expenses approximately \$0.2 million, \$0.3 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.

Cash received from employees upon exercising options under the Employee Stock Purchase Plan was approximately \$1.0 million for the year ended December 31, 2019, \$0.4 million for the year ended December 31, 2018, and \$0.8 million for the year ended December 31, 2017.

A summary of the Employee Stock Purchase Plan activity and related information for the three years in the period ended December 31, 2019 is as follows:

<i>Dollars in thousands, except per share data</i>	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
<b>Options outstanding, beginning of year</b>	<b>328,533</b>	<b>318,100</b>	<b>316,321</b>
Granted	235,572	203,836	206,824
Exercised	(35,277)	(16,716)	(32,076)
Forfeited	(54,095)	(40,897)	(40,659)
Expired	(142,074)	(135,790)	(132,310)
<b>Options outstanding and exercisable, end of year</b>	<b>332,659</b>	<b>328,533</b>	<b>318,100</b>
<b>Weighted-average exercise price of</b>			
Options outstanding, beginning of year	\$ 24.17	\$ 25.00	\$ 23.69
Options granted during the year	\$ 24.17	\$ 27.30	\$ 25.77
Options exercised during the year	\$ 25.01	\$ 24.01	\$ 24.31
Options forfeited during the year	\$ 25.26	\$ 24.06	\$ 25.01
Options expired during the year	\$ 25.77	\$ 23.55	\$ 23.22
Options outstanding, end of year	\$ 25.59	\$ 24.17	\$ 25.00
Weighted-average fair value of options granted during the year (calculated as of the grant date)	\$ 7.02	\$ 7.81	\$ 6.31
Intrinsic value of options exercised during the year	\$ 269	\$ 71	\$ 271
Intrinsic value of options outstanding and exercisable (calculated as of December 31)	\$ 2,589	\$ 1,402	\$ 2,683
Exercise prices of options outstanding (calculated as of December 31)	\$ 25.59	\$ 24.17	\$ 25.00
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.

	2019	2018	2017
Risk-free interest rates	2.48%	1.89%	1.20%
Expected dividend yields	4.19%	3.66%	3.70%
Expected life (in years)	1.45	1.45	1.45
Expected volatility	29.8%	28.4%	20.4%
Expected forfeiture rates	85%	85%	85%

**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, 2019.

<i>Dollars in thousands, except per share data</i>	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
<b>Weighted average common shares</b>			
Weighted average common shares outstanding	129,735,723	125,219,773	119,739,216
Non-vested shares	(1,736,022)	(1,927,648)	(1,813,058)
<b>Weighted average common shares - basic</b>	<b>127,999,701</b>	<b>123,292,125</b>	<b>117,926,158</b>
Weighted average common shares - basic	127,999,701	123,292,125	117,926,158
Dilutive effect of employee stock purchase plan	84,283	58,808	91,007
<b>Weighted average common shares - diluted</b>	<b>128,083,984</b>	<b>123,350,933</b>	<b>118,017,165</b>
Net income	\$ 39,185	\$ 69,771	\$ 23,092
Dividends paid on nonvested share-based awards	(2,075)	(2,320)	(2,149)
<b>Net income applicable to common stockholders</b>	<b>\$ 37,110</b>	<b>\$ 67,451</b>	<b>\$ 20,943</b>
Basic earnings per common share	\$ 0.29	\$ 0.55	\$ 0.18
Diluted earnings per common share	\$ 0.29	\$ 0.55	\$ 0.18

**14. Commitments and Contingencies*****Redevelopment Activity***

The Company completed the redevelopment of a medical office building in Charlotte, North Carolina, which includes a 40,278 square foot vertical expansion and funded approximately \$1.5 million during the year ended December 31, 2019. The first tenant took occupancy in the second quarter of 2019.

The Company initiated the redevelopment of a 110,883 square foot medical office building in Memphis, Tennessee in December 2019. The Company funded approximately \$0.3 million, excluding the purchase price of \$8.7 million for the land and building. The building will continue to operate with in-place leases during construction. The Memphis Redevelopment is expected to be completed in the first quarter of 2021.

The Company also funded approximately \$1.0 million of primarily tenant improvements in connection with its previously completed redevelopment of a medical office building in Nashville, Tennessee.

***Development Activity***

The Company continued the development of a 151,000 square foot medical office building in Seattle, Washington. The Company spent approximately \$25.2 million on the development during the year ended December 31, 2019. The Company expects initial occupancy to occur in the first quarter of 2020.

The Company also funded approximately \$0.6 million of primarily tenant improvements as the Company continues to lease up its previously completed development of a medical office building in Denver, Colorado.

The table below details the Company's construction activity as of December 31, 2019. The information included in the table below represents management's estimates and expectations at December 31, 2019, which are subject to change. The Company's disclosures regarding certain projections or estimates of completion dates may not reflect actual results.

<i>Dollars in thousands</i>	NUMBER OF PROPERTIES	INITIAL OCCUPANCY	DECEMBER 31, 2019			ESTIMATED REMAINING FUNDINGS unaudited	ESTIMATED TOTAL INVESTMENT unaudited	APPROXIMATE SQUARE FEET unaudited
			CONSTRUCTION IN PROGRESS BALANCE	TOTAL FUNDED during the year	TOTAL AMOUNT FUNDED			
<b>Construction Activity</b>								
Seattle, WA	1	Q1 2020	\$ 48,731	\$ 25,211	\$ 49,033	\$ 15,087	\$ 64,120	151,000
<b>Redevelopment Activity</b>								
Memphis, TN <sup>1</sup>	1	Q1 2021	—	9,032	9,032	18,768	27,800	110,883
<b>Total</b>			<b>\$ 48,731</b>	<b>\$ 34,243</b>	<b>\$ 58,065</b>	<b>\$ 33,855</b>	<b>\$ 91,920</b>	<b>261,883</b>

<sup>1</sup> Initial occupancy represents the quarter in which the redevelopment is expected to be completed. The building will continue to operate with in-place leases during construction.

#### **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, 2019, the Company had commitments of approximately \$46.6 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, 2019 and December 31, 2018.

### **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.

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 \$4.4 billion, \$4.0 billion, and \$4.0 billion as of December 31, 2019, 2018 and 2017, 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, 2019:

<i>Dollars in thousands</i>	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
<b>Net income</b>	<b>\$ 39,185</b>	<b>\$ 69,771</b>	<b>\$ 23,092</b>
Reconciling items to taxable income			
Depreciation and amortization	67,953	64,775	46,426
Gain or loss on disposition of depreciable assets	(15,689)	(27,581)	1,570
Straight-line rent	(11,535)	(3,049)	(4,551)
Receivable allowances	1,942	2,470	1,680
Share-based compensation	2,628	(1,699)	1,855
Other	12,631	842	6,552
	<b>57,930</b>	<b>35,758</b>	<b>53,532</b>
<b>Taxable income<sup>1</sup></b>	<b>\$ 97,115</b>	<b>\$ 105,529</b>	<b>\$ 76,624</b>
Dividends paid	\$ 155,358	\$ 150,266	\$ 142,327

<sup>1</sup> 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, 2019.

For the three years ended December 31, 2019, there were no preferred shares outstanding. As such, no dividends were distributed related to preferred shares for those periods.

	2019		2018		2017	
	PER SHARE	%	PER SHARE	%	PER SHARE	%
<b>Common stock</b>						
Ordinary income <sup>1</sup>	\$ 0.79	65.7%	\$ 0.75	62.2%	\$ 0.42	34.5%
Return of capital	0.40	33.9%	0.33	27.8%	0.50	42.0%
Unrecaptured section 1250 gain	0.01	0.4%	0.12	10.0%	0.28	23.5%
<b>Common stock distributions</b>	<b>\$ 1.20</b>	<b>100.0%</b>	<b>\$ 1.20</b>	<b>100.0%</b>	<b>\$ 1.20</b>	<b>100.0%</b>

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

**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, 2019 are detailed in the table below:

<i>Dollars in thousands</i>	YEAR ENDED DECEMBER 31,		
	2019	2018	2017
<b>State income tax expense</b>			
Texas gross margins tax	\$ 550	\$ 586	\$ 608
<b>Total state income tax expense</b>	<b>\$ 550</b>	<b>\$ 586</b>	<b>\$ 608</b>
<b>State income tax payments, net of refunds and collections</b>	<b>\$ 543</b>	<b>\$ 637</b>	<b>\$ 555</b>

**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.
- **Borrowings under the Unsecured Credit Facility, Unsecured Term Loan due 2024 and Unsecured Term Loan due 2026** - 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, 2019 and 2018.

<i>Dollars in millions</i>	DECEMBER 31, 2019		DECEMBER 31, 2018	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Notes and bonds payable <sup>1</sup>	\$ 1,414.1	\$ 1,425.8	\$ 1,346.0	\$ 1,326.5

<sup>1</sup> Level 2 - model-derived valuations in which significant inputs and significant value drivers are observable in active markets.

**17. Selected Quarterly Financial Data (unaudited)**

Quarterly financial information for the year ended December 31, 2019 is summarized below.

<i>Dollars in thousands, except per share data</i>	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31 <sup>1</sup>
<b>2019</b>				
Revenues	\$ 112,657	\$ 116,317	\$ 119,799	\$ 121,524
Net income attributable to common stockholders	\$ 4,891	\$ 4,484	\$ 2,601	\$ 27,210
Net income attributable to common stockholders per share				
Basic earnings per common share	\$ 0.04	\$ 0.03	\$ 0.02	\$ 0.20
Diluted earnings per common share	\$ 0.04	\$ 0.03	\$ 0.02	\$ 0.20

<sup>1</sup> The increases in net income and amounts per share for the fourth quarter of 2019 are primarily attributable to gains of \$20.0 million on the sale of six properties.

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

<i>Dollars in thousands, except per share data</i>	QUARTER ENDED			
	MARCH 31	JUNE 30 <sup>1</sup>	SEPTEMBER 30	DECEMBER 31 <sup>2</sup>
<b>2018</b>				
Revenues	\$ 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

<sup>1</sup> 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.

<sup>2</sup> 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.

## 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 SEC'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 Company's management 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, 2019 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, 2019. 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.



**Report of**  
**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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, 2019, 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, 2019, 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 as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules and our report dated February 12, 2020 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 12, 2020

## 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 12, 2020 under the caption "Election of Directors," is incorporated herein by reference.

### Executive Officers

The executive officers of the Company are:

NAME	AGE	POSITION
Todd J. Meredith	45	President & Chief Executive Officer
J. Christopher Douglas	44	Executive Vice President & Chief Financial Officer
John M. Bryant, Jr.	53	Executive Vice President & General Counsel
Robert E. Hull	47	Executive Vice President - Investments

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 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](http://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 12, 2020 under the caption "Security Ownership of Certain Beneficial Owners and Management – Delinquent Section 16(a) Reports," 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 12, 2020 under the caption "Shareholder Recommendation or Nomination of Director Candidates," and is incorporated herein by reference.

### **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 12, 2020 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 12, 2020 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 12, 2020 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 12, 2020 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 12, 2020 under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm," is incorporated herein by reference.

## Item 15. Exhibits and Financial Statement Schedules

### 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, 2019 and December 31, 2018.
- Consolidated Statements of Income for the years ended December 31, 2019, December 31, 2018 and December 31, 2017.
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, December 31, 2018 and December 31, 2017.
- Consolidated Statements of Equity for the years ended December 31, 2019, December 31, 2018 and December 31, 2017.
- Consolidated Statements of Cash Flows for the years ended December 31, 2019, December 31, 2018 and December 31, 2017.
- Notes to Consolidated Financial Statements.

#### 2. Financial Statement Schedules

Schedule II	— Valuation and Qualifying Accounts for the years ended December 31, 2019, 2018, and 2017	95
Schedule III	— Real Estate and Accumulated Depreciation as of December 31, 2019	96

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
3.1	– Second Articles of Amendment and Restatement of the Company, as amended. <sup>1</sup>
3.2	– Amended and Restated Bylaws of the Company, as amended. <sup>1</sup>
4.1	– Specimen stock certificate. <sup>2</sup>
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). <sup>3</sup>
4.3	– 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). <sup>4</sup>
4.4	– Form of 3.75% Senior Note due 2023 (set forth in Exhibit B to the Fifth Supplemental Indenture filed as Exhibit (4.8) hereto). <sup>4</sup>
4.5	– 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). <sup>5</sup>
4.6	– Form of 3.875% Senior Notes due 2025 (set forth in Exhibit B to the Sixth Supplemental Indenture filed as Exhibit 4.9 hereto). <sup>5</sup>
4.7	– Seventh Supplemental Indenture, dated December 11, 2017, by and between the Company and Branch Banking and Trust Company, as Trustee. <sup>6</sup>
4.8	– Form of 3.625% Senior Note due 2028 (set forth in Exhibit B to the Seventh Supplemental Indenture filed as Exhibit 4.11 hereto). <sup>6</sup>
4.9	– Description of Registrant's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 (filed herewith).
10.1	– 2000 Employee Stock Purchase Plan. <sup>7</sup>
10.2	– Amendment No. 1 to 2000 Employee Stock Purchase Plan, dated February 13, 2018. <sup>8</sup>
10.3	– Dividend Reinvestment Plan, as Amended. <sup>9</sup>
10.4	– Third Amended and Restated Employment Agreement, dated February 16, 2016, between Todd J. Meredith and the Company. <sup>10</sup>
10.5	– Amendment No. 1 to Third Amended and Restated Employment Agreement, dated February 12, 2020, between Todd J. Meredith and the Company. (filed herewith)

- 10.6 – Third Amended and Restated Employment Agreement, dated February 15, 2017, between John M. Bryant, Jr. and the Company.<sup>11</sup>
- 10.7 – Amendment No. 1 to Third Amended and Restated Employment Agreement, dated February 12, 2020, between John M. Bryant, Jr. and the Company. (filed herewith)
- 10.8 – Amended and Restated Employment Agreement, dated January 1, 2017, between Robert E. Hull and the Company.<sup>11</sup>
- 10.9 – Amendment No. 1 to Amended and Restated Employment Agreement, dated February 12, 2020, between Robert E. Hull and the Company. (filed herewith)
- 10.10 – Amended and Restated Employment Agreement, dated February 2, 2016, between J. Christopher Douglas and the Company.<sup>12</sup>
- 10.11 – Amendment No. 1 to Amended and Restated Employment Agreement, dated February 12, 2020, between J. Christopher Douglas and the Company. (filed herewith)
- 10.12 – Healthcare Realty Trust Incorporated Amended and Restated Executive Incentive Plan.<sup>10</sup>
- 10.13 – 2010 Restricted Stock Implementation for Non-Employee Directors, dated May 4, 2010.<sup>13</sup>
- 10.14 – Amendment No. 1 to 2010 Restricted Stock Implementation for Non-Employee Directors, dated December 11, 2013.<sup>14</sup>
- 10.15 – Amendment No. 2 to 2010 Restricted Stock Implementation for Non-Employee Directors, dated August 4, 2015.<sup>15</sup>
- 10.16 – Healthcare Realty Trust Incorporated Form of Restricted Stock Agreement for Non-Employee Directors.<sup>16</sup>
- 10.17 – Healthcare Realty Trust Incorporated Form of Restricted Stock Agreement for Officers.<sup>16</sup>
- 10.18 – Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan.<sup>17</sup>
- 10.19 – Amendment No. 1 to Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan.<sup>15</sup>
- 10.20 – Amended and Restated Credit Agreement, dated as of May 31, 2019, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto.<sup>18</sup>
- 10.21 – Amended and Restated Term Loan, dated as of May 31, 2019, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto.<sup>18</sup>
  - 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 Annual Report on Form 10-K for the year ended December 31, 2018 filed on February 13, 2019 and hereby incorporated by reference.
  - 2 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.
  - 3 Filed as an exhibit to the Company's Form 8-K filed May 17, 2001 and hereby incorporated by reference.
  - 4 Filed as an exhibit to the Company's Form 8-K filed March 26, 2013 and hereby incorporated by reference.
  - 5 Filed as an exhibit to the Company's Form 8-K filed April 24, 2015 and hereby incorporated by reference.
  - 6 Filed as an exhibit to the Company's Form 8-K filed December 11, 2017 and hereby incorporated by reference.
  - 7 Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 1999 and hereby incorporated by reference.
  - 8 Filed as an exhibit to the Company's Form 10-Q for the quarter ended March 31, 2018 and hereby incorporated by reference.
  - 9 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.
  - 10 Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2015 and hereby incorporated by reference.
  - 11 Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2016 and hereby incorporated by reference.
  - 12 Filed as an exhibit to the Company's Form 8-K filed February 3, 2016 and hereby incorporated by reference.
  - 13 Filed as an exhibit to the Company's Form 10-Q for the quarter ended March 31, 2010 and hereby incorporated by reference.
  - 14 Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2013 and hereby incorporated by reference.
  - 15 Filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2015 and hereby incorporated by reference.
  - 16 Filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2012 and hereby incorporated by reference.
  - 17 Filed as an exhibit to the Company's proxy statement filed March 30, 2015 and hereby incorporated by reference.
  - 18 Filed as an exhibit to the Company's Form 8-K filed May 31, 2019 and hereby incorporated by reference.

## 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 Todd J. Meredith and the Company (filed as Exhibit 10.4)
4. Amendment No. 1 to Third Amended and Restated Employment Agreement, dated February 12, 2020, 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. Amendment No. 1 to Third Amended and Restated Employment Agreement, dated February 12, 2020, between John M. Bryant, Jr. and the Company (filed as Exhibit 10.7)
7. Amended and Restated Employment Agreement, dated January 1, 2017, between Robert E. Hull and the Company (filed as Exhibit 10.8)
8. Amendment No. 1 to Amended and Restated Employment Agreement, dated February 12, 2020, between Robert E. Hull and the Company (filed as Exhibit 10.9)
9. Amended and Restated Employment Agreement, dated February 2, 2016, between J. Christopher Douglas and the Company (filed as Exhibit 10.10)
10. Amendment No. 1 to Amended and Restated Employment Agreement, dated February 12, 2020, between J. Christopher Douglas and the Company (filed as Exhibit 10.11)
11. Healthcare Realty Trust Incorporated Amended and Restated Executive Incentive Plan (filed as Exhibit 10.12)
12. 2010 Restricted Stock Implementation for Non-Employee Directors, dated May 4, 2010 (filed as Exhibit 10.13)
13. Amendment No. 1 to Restricted Stock Implementation for Non-Employee Directors (filed as Exhibit 10.14)
14. Amendment No. 2 to Restricted Stock Implementation for Non-Employee Directors (filed as Exhibit 10.15)
15. Healthcare Realty Trust Incorporated Form of Restricted Stock Agreement for Non-Employee Directors (filed as Exhibit 10.16)
16. Healthcare Realty Trust Incorporated Form of Restricted Stock Agreement for Officers (filed as Exhibit 10.17)
17. Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan (filed as Exhibit 10.18)
18. Amendment No. 1 to Healthcare Realty Trust Incorporated 2015 Stock Incentive Plan (filed as Exhibit 10.19)

## Item 16. Form 10-K Summary

None.

## SIGNATURES AND SCHEDULES

### Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEALTHCARE REALTY TRUST INCORPORATED

By: /s/ TODD J. MEREDITH

Todd J. Meredith  
President and Chief Executive Officer  
February 12, 2020

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

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Todd J. Meredith</u> Todd J. Meredith	President and Chief Executive Officer (Principal Executive Officer)	February 12, 2020
<u>/s/ J. Christopher Douglas</u> J. Christopher Douglas	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 12, 2020
<u>/s/ Amanda L. Callaway</u> Amanda L. Callaway	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 12, 2020
<u>/s/ John V. Abbott</u> John V. Abbott	Director	February 12, 2020
<u>/s/ Nancy H. Agee</u> Nancy H. Agee	Director	February 12, 2020
<u>/s/ Edward H. Braman</u> Edward H. Braman	Director	February 12, 2020
<u>/s/ Peter F. Lyle</u> Peter F. Lyle	Director	February 12, 2020
<u>/s/ John Knox Singleton</u> John Knox Singleton	Director	February 12, 2020
<u>/s/ Bruce D. Sullivan</u> Bruce D. Sullivan	Director	February 12, 2020
<u>/s/ Christann M. Vasquez</u> Christann M. Vasquez	Director	February 12, 2020

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2019, 2018 and 2017

*Dollars in thousands*

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS AND DEDUCTIONS		UNCOLLECTIBLE ACCOUNTS WRITTEN-OFF	BALANCE AT END OF PERIOD
		CHARGED/ (CREDITED) TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
2019 Accounts receivable allowance	\$ 251	\$ 167	\$ —	\$ —	\$ 418
2018 Accounts receivable allowance	\$ 256	\$ 60	\$ —	\$ 65	\$ 251
2017 Accounts receivable allowance	\$ 148	\$ 159	\$ —	\$ 51	\$ 256



## Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2019

*Dollars in thousands*

MARKET	NUMBER OF PROP.	LAND <sup>1</sup>			BUILDINGS, IMPROVEMENTS, LEASE INTANGIBLES AND CIP <sup>1</sup>			PERSONAL PROPERTY	2, 3, 5 TOTAL PROPERTY	1, 3 ACCUMULATED DEPRECIATION	4 ENCUMBRANCES	DATE ACQUIRED	DATE CONST.
		INITIAL INVESTMENT	COST CAPITALIZED subsequent to acquisition	TOTAL	INITIAL INVESTMENT	COST CAPITALIZED subsequent to acquisition	TOTAL						
Seattle, WA	25	\$ 54,446	\$ 4,119	\$ 58,565	\$ 490,461	\$ 42,306	\$ 532,767	\$ 421	\$ 591,753	\$ 88,890	\$ 22,666	2008-2019	1957-2010
Dallas, TX	25	18,785	409	19,194	372,644	124,039	496,683	442	516,319	181,556	—	2003-2019	1974-2018
Los Angeles, CA	14	43,719	667	44,386	161,322	44,507	205,829	347	250,562	95,979	22,340	1993-2019	1973-1998
Atlanta, GA	9	3,251	428	3,679	209,400	3,109	212,509	84	216,272	20,040	31,715	2017-2019	1999-2014
Nashville, TN	6	20,004	49	20,053	115,061	65,402	180,463	1,109	201,625	64,038	—	2004-2018	1960-2015
Charlotte, NC	16	4,163	37	4,200	159,340	16,921	176,261	105	180,566	67,040	—	2008-2013	1961-2008
Denver, CO	9	13,887	2,627	16,514	106,183	27,821	134,004	271	150,789	25,265	7,565	2010-2018	1977-2015
Washington, DC	6	—	—	—	141,467	8,837	150,304	21	150,325	25,097	11,707	2004-2019	1967-2005
Richmond, VA	7	—	—	—	139,636	9,496	149,132	106	149,238	44,204	—	2011	1992-2005
Houston, TX	9	15,475	736	16,211	107,902	24,111	132,013	78	148,302	44,229	—	1993-2019	1984-2012
Honolulu, HI	3	8,314	13	8,327	93,839	41,802	135,641	159	144,127	39,165	—	2003-2004	1975-2010
Des Moines, IA	7	12,584	81	12,665	114,527	11,874	126,401	99	139,165	34,725	515	2008-2014	2002-2009
Oklahoma, City, OK	4	9,838	563	10,401	114,212	1,494	115,706	15	126,122	19,351	5,985	2010-2019	1970-2014
Indianapolis, IN	4	3,299	—	3,299	112,718	6,129	118,847	—	122,146	26,082	—	2008-2019	1992-2008
San Francisco, CA	3	14,054	—	14,054	93,852	13,544	107,396	43	121,493	20,906	—	2015-2017	1975-2014
Springfield, MO	1	1,989	—	1,989	109,304	—	109,304	—	111,293	17,740	—	2013	2013
Austin, TX	5	14,233	3	14,236	70,976	21,833	92,809	123	107,168	24,048	—	2007-2015	1972-2015
Memphis, TN	7	5,241	—	5,241	66,868	25,640	92,508	194	97,943	37,582	—	1999-2013	1993-2007
San Antonio, TX	6	6,456	31	6,487	62,161	26,422	88,583	404	95,474	40,573	—	1996-2010	1978-2011
Chicago, IL	3	5,859	—	5,859	69,993	17,595	87,588	211	93,658	23,540	—	2004-2018	1993-2009
Minneapolis, MN	4	2,090	—	2,090	61,078	1,281	62,359	—	64,449	10,486	18,907	2014-2017	1974-2010
Other (16 markets)	31	16,434	645	17,079	388,102	87,307	475,409	806	493,294	165,159	7,943	1993-2019	1906-2009
<b>Total real estate</b>	<b>204</b>	<b>274,121</b>	<b>10,408</b>	<b>284,529</b>	<b>3,361,046</b>	<b>621,470</b>	<b>3,982,516</b>	<b>5,038</b>	<b>4,272,083</b>	<b>1,115,695</b>	<b>129,343</b>		
Construction in progress	—	—	—	—	—	—	48,731	—	48,731	—	—	—	—
Land held for develop.	—	24,647	—	24,647	—	—	—	—	24,647	671	—	—	—
Memphis redevelopment	—	5,222	—	5,222	3,810	—	3,810	—	9,032	50	—	—	—
Corporate property	—	—	—	—	—	—	—	5,500	5,500	4,686	—	—	—
<b>Total properties</b>	<b>204</b>	<b>\$ 303,990</b>	<b>\$ 10,408</b>	<b>\$314,398</b>	<b>\$ 3,364,856</b>	<b>\$ 621,470</b>	<b>\$4,035,057</b>	<b>\$ 10,538</b>	<b>\$4,359,993</b>	<b>\$ 1,121,102</b>	<b>\$ 129,343</b>		

- The Company had no assets held for sale as of December 31, 2019.
- Total properties as of December 31, 2019 have an estimated aggregate total cost of \$4.4 billion for federal income tax purposes.
- Depreciation is provided for on a straight-line basis on buildings and improvements over 3.3 to 39.0 years, lease intangibles over 2.1 to 99.0 years, personal property over 2.8 to 20.0 years, and land improvements over 3.0 to 39.0 years.
- Includes unamortized premium of \$1.2 million and unaccrued discount of \$0.5 million and issuance costs of \$0.5 million as of December 31, 2019.
- Rollforward of Total Property and Accumulated Depreciation, including assets held for sale, for the year ended December 31, 2019, 2018 and 2017 follows:

*Dollars in thousands*

	YEAR ENDED DEC. 31, 2019		YEAR ENDED DEC. 31, 2018		YEAR ENDED DEC. 31, 2017	
	TOTAL PROPERTY	ACCUMULATED DEPRECIATION	TOTAL PROPERTY	ACCUMULATED DEPRECIATION	TOTAL PROPERTY	ACCUMULATED DEPRECIATION
<b>Beginning Balance</b>	<b>\$ 3,993,427</b>	<b>\$ 1,025,831</b>	<b>\$ 3,907,010</b>	<b>\$ 933,220</b>	<b>\$ 3,633,993</b>	<b>\$ 843,816</b>
Additions during the period						
Real Estate acquired	384,762	9,285	112,591	4,175	322,616	4,206
Other improvements	71,666	165,367	74,317	157,385	59,442	135,807
Land held for development	—	278	4,525	153	—	74
Construction in Progress	15,625	—	27,649	—	14,598	—
Retirement/dispositions						
Real Estate	(105,487)	(79,659)	(132,665)	(69,102)	(123,639)	(50,683)
Land held for development	—	—	—	—	—	—
<b>Ending Balance</b>	<b>\$ 4,359,993</b>	<b>\$ 1,121,102</b>	<b>\$ 3,993,427</b>	<b>\$ 1,025,831</b>	<b>\$ 3,907,010</b>	<b>\$ 933,220</b>

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because they are not required under the related instructions or are not applicable, or because the required information is shown in the consolidated financial statements or notes thereto.