

HEALTHCARE REALTY TRUST INC

Form 10-K

February 14, 2018

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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, 2017

OR

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

For the transition period _____ to _____

Commission File Number: 001-11852

HEALTHCARE REALTY TRUST INCORPORATED

(Exact name of Registrant as specified in its charter)

Maryland 62-1507028

(State or other jurisdiction of (I.R.S. Employer

Incorporation or organization) Identification No.)

3310 West End Avenue

Suite 700

Nashville, Tennessee 37203

(Address of principal executive offices)

(615) 269-8175

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
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Common stock, \$0.01 par value per share	New York Stock Exchange
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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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 30, 2017) held by non-affiliates on June 30, 2017 was \$3,878,376,057.

As of January 26, 2018, there were 125,144,327 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 8, 2018 are incorporated by reference into Part III of this Report.

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 FORM 10-K
 December 31, 2017

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PART I

Item 1. Business

Overview

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

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

Real Estate Properties

The Company had gross investments of approximately \$3.8 billion in 201 real estate properties, construction in progress, land held for development and corporate property at December 31, 2017. The Company provided property management services for 160 healthcare-related properties nationwide, totaling approximately 11.5 million square feet as of December 31, 2017. 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, 2017:

(Dollars and square feet in thousands)	Gross Investment	Square Feet	Percentage of Square Feet	December 31, 2017		December 31, 2016		
				Number of Properties	Occupancy ⁽¹⁾	Number of Properties	Occupancy ⁽¹⁾	
Medical office/outpatient	\$3,486,478	13,741	94.0	% 188	87.3	% 182	87.4	%
Inpatient	254,179	529	3.6	% 5	100.0	% 10	100.0	%
Other	66,797	363	2.4	% 8	98.4	% 10	83.1	%
Sub-Total	3,807,454	14,633	100.0	% 201	88.1	% 202	87.9	%
Construction in progress	5,458							
Land held for development	20,123							
Corporate property	5,603							
Total	\$3,838,638							

The occupancy columns represent the percentage of total rentable square feet leased (including month-to-month (1) and holdover leases), excluding properties classified as held for sale (eight properties as of December 31, 2017 and two properties as of December 31, 2016).

Revenue Concentrations

The Company’s real estate portfolio is leased to a diverse tenant base. For the year ended December 31, 2017, the Company did not have any tenants that accounted for 10% or more of the Company’s consolidated revenues, including revenues from discontinued operations. The largest revenue concentration is with Baylor Scott & White Health and its affiliates, which accounted for 9.7% of the Company's consolidated revenues, comprising 158 leases spread over 20 buildings.

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Expiring Leases

As of December 31, 2017, the weighted average remaining years to maturity pursuant to the Company's leases were approximately 4.1 years, with expirations through 2036. The table below details the Company's lease maturities as of December 31, 2017, excluding eight properties classified as held for sale.

Expiration Year	Number of Leases	Leased Square Feet	Percentage of Leased Square Feet	
2018 ⁽¹⁾	623	2,039,826	15.8	%
2019	526	2,327,477	18.1	%
2020	449	1,885,019	14.6	%
2021	317	1,171,015	9.1	%
2022	284	1,252,594	9.7	%
2023	154	801,219	6.2	%
2024	147	824,574	6.4	%
2025	75	650,673	5.1	%
2026	65	222,474	1.7	%
2027	61	642,254	5.0	%
Thereafter	78	1,070,766	8.3	%
	2,779	12,887,891	100.0	%

⁽¹⁾ Includes 52 leases totaling 140,172 square feet that expired prior to December 31, 2017 and are currently on month-to-month terms.

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

Liquidity

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

Business Strategy

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

2017 Investment Activity

The Company acquired 15 medical office buildings and increased its ownership interest in an existing medical office building during 2017 for a total purchase price of \$327.2 million. This includes the assumption of mortgage notes payable of \$45.8 million and the acquisition of equity interests in limited liability companies that own two parking garages in Atlanta, Georgia. The weighted average capitalization rate for these investments was 5.4%. The Company calculates the capitalization rate for an acquisition as the forecasted first year net operating income divided by the purchase price plus acquisition costs and expected first year capital additions.

The Company disposed of 10 properties during 2017 for a total sales price of \$122.7 million, including \$84.0 million for four inpatient rehabilitation facilities. The weighted average capitalization rate for these 10 properties was 7.0%. The Company calculates the capitalization rate for dispositions as the next 12 months forecasted net operating income

divided by the sales price.

In 2017, the Company funded \$32.3 million toward development and redevelopment of properties, with one redevelopment and one development project underway at December 31, 2017.

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See the Company's discussion regarding the 2017 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements and development activity in Note 15 to the Consolidated Financial Statements. Also, please refer to the Company's discussion in "Trends and Matters Impacting Operating Results" as part of Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report.

Competition

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

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

Government Regulation

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

The Medicare and Medicaid programs are highly regulated and subject to frequent evaluation and change.

Government healthcare spending has increased over time; however, changes from year to year in reimbursement methodology, rates and other regulatory requirements may cause the profitability of providing care to Medicare and Medicaid patients to decline, which could adversely affect tenants' ability to make lease payments to the Company. The Affordable Care Act was intended to provide for comprehensive reform of the United States' healthcare system and extend health insurance benefits to the uninsured population, with a mandate for individuals to purchase health coverage, and the potential to alleviate high uncompensated care expense to healthcare providers. However, the law also increased regulatory scrutiny of providers and insurers by federal and state administrative authorities; lowered annual increases in Medicare payment rates; and implemented cost-saving measures and shared risk-and-reward payment models to promote value and savings, rather than payment based solely on volume of services. These initiatives may slow the growth of healthcare spending over time, but also require providers to expand access and quality of care, presenting the industry and its individual participants with uncertainty and greater financial risk.

In 2017, the Affordable Care Act was subject to numerous legal and legislative challenges. While efforts in Congress to repeal the law were unsuccessful, President Trump's administration moved forward with an agenda to decrease the law's regulations, eliminate the individual insurance mandate penalty starting in 2019, end cost-sharing reduction payments to insurers for lower-income federal exchange enrollees, and increase states' flexibility to offer short-term, basic insurance plans. These initiatives could affect the market for individual health insurance and, consequently, the demand for healthcare services. The Company cannot predict the degree to which any changes may affect indirectly the economic performance of the Company, or its tenants, positively or negatively.

The Centers for Medicare and Medicaid Services ("CMS") continued to monitor physician Medicare rates in 2017 for reimbursement "site-neutrality," or equalizing Medicare rates 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 rates for physician-office settings for those facilities not grandfathered-in under the current Medicare rates as of the law's date of enactment, November 2, 2015. While these changes are expected to lessen reimbursement disparity between off-campus medical office and outpatient facilities, the Company's medical office

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

In 2018, physicians must begin reporting patient data on quality and performance measures that will affect their Medicare payments for the year 2020. Implementation of the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”), unless amended in future legislation, will eventually replace the traditional fee-for-service payment model for physicians with a new value-based payment initiative. The CMS exempted approximately two-thirds of physician practices from MACRA compliance in 2018, citing high costs of implementation with minimal yield in savings, especially for smaller practices. MACRA compliance, and the ongoing debate over the most effective payment system to use to promote value-based reimbursement, present the industry and its individual participants with uncertainty and financial risk. The Company cannot predict the degree to which any such changes may affect the economic performance of the Company's tenants or indirectly the Company.

Legislative Developments

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

- the legislation informally known as the Tax Cuts and Jobs Act of 2017, signed into law at the end of the year, affects healthcare providers and health systems in a variety of ways, positively and negatively, including by limiting their ability to deduct interest on debt, denying deductions for and imposing an excise tax on the compensation in excess of \$1 million of the five most highly-compensated employees of health systems, and eliminating, in 2019, the tax penalty for the Affordable Care Act’s individual health insurance mandate;
- the expansion of Medicaid benefits and the implementation of health insurance exchanges under the Affordable Care Act, whether run by the state or by the federal government, whereby individuals and small businesses purchase health insurance, including government-funded plans, many assisted by federal subsidies that are subject to ongoing legal and legislative challenges;
- quality control, cost containment, and value-based payment system reforms for Medicaid and Medicare, such as expansion of pay-for-performance criteria, bundled provider payments, accountable care organizations, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;
- implementation of MACRA, which, if not amended in future legislation, will eventually replace the traditional fee-for-service payment model for physicians with a new value-based payment initiative; the CMS exempted approximately two-thirds of physician practices from MACRA compliance in 2018;
- equalization of Medicare payment rates across different facility-type settings; Section 603 of the Bipartisan Budget Act of 2015 lowered Medicare payment rates, effective January 1, 2017 for services provided in off-campus, provider-based outpatient departments to the same level of rates for physician-office settings for those facilities not grandfathered under the current Medicare rates as of the law’s date of enactment, November 2, 2015;
- the continued adoption by providers of federal standards for the meaningful-use of electronic health records;
- anti-trust scrutiny of health insurance company mergers; and
- consideration of significant cost-saving overhauls of Medicare and Medicaid, including capped federal Medicaid payments to states, premium-support models to provide for a fixed amount of Medicare benefits per enrollee, and an increase in the eligibility age for Medicare.

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

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Environmental Matters

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

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

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

Insurance

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

Employees

At December 31, 2017, the Company employed 273 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

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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.

The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains electronic versions of the Company's reports on its website at www.sec.gov.

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Corporate Governance Principles

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

Committee Charters

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

Executive Officers

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

Item 1A. Risk Factors

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

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

Risk relating to our business and operations

The Company's expected results may not be achieved.

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

The Company'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.

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

The Company had approximately \$95.2 million, or 2.5% of the Company's real estate property investments, that were subject to purchase options held by lessees that were exercisable as of December 31, 2017. Other properties have purchase options that will become exercisable in future periods. Properties with options exercisable in 2018 produced aggregate net operating income of approximately \$9.1 million in 2017. 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.

In October 2017, the Company received notice that a tenant is exercising a purchase option on seven properties, comprised of five single-tenant net leased buildings and two multi-tenanted buildings, covered by one purchase option with a stated purchase price of approximately \$45.5 million, subject to certain contractual adjustments. Closing of the sale is expected to occur in April 2018.

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

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

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

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

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

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

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

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

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

The Company has, and in the future may have more, exposure to fixed rent escalators, which could lag behind inflation and the growth in operating expenses such as real estate taxes, utilities, insurance, and maintenance expense. The Company receives a significant portion of its revenues by leasing assets subject to fixed rent escalations. Eighty-seven percent of leases have increases that are based upon fixed percentages, eleven percent of leases have increases based on the

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Consumer Price Index and two 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, pay dividends or maintain its REIT status.

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;

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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.

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The Company is exposed to risks associated with geographic concentration.

As of December 31, 2017, the Company had investment concentrations of greater than 5% of its total investments in the Dallas, Texas (12.4%) and Seattle, Washington (11.2%) 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 9.7% of the Company's consolidated revenues. Most of the Company's properties on or adjacent to hospital campuses are largely dependent on the viability of the health system's campus where they are located, whether or not the hospital or health system is a tenant in such properties. The viability of these health systems depends on factors such as the quality and mix of healthcare services provided, competition, demographic trends in the surrounding community, market position and growth potential. If one of these hospitals is unable to meet its financial obligations, is unable to compete successfully, or is forced to close or relocate, the Company's properties on or near such hospital campus could be adversely impacted.

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

As of December 31, 2017, the Company had 109 properties that were held under ground leases, including one property with construction in progress, representing an aggregate gross investment of approximately \$2.1 billion. The weighted average remaining term of the Company's ground leases is approximately 68.7 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.

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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.

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, 2017, the Company had approximately \$1.3 billion of outstanding indebtedness and the Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was 32.3%. Covenants under the Credit Agreement, dated as of October 14, 2011, among the Company and Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto, as amended ("Unsecured Credit Facility"), the Term Loan Agreement, dated as of February 27, 2014, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto, as amended (the "Unsecured Term Loan due 2022") and the indentures governing the Company's senior notes permit the Company to incur substantial, additional debt, and the Company may borrow additional funds, which may include

secured borrowings. A high level of indebtedness would require the Company to dedicate a substantial portion of its cash flows from operations to service the debt, thereby reducing the funds available to implement the Company's business strategy and to make distributions to stockholders. A high level of indebtedness could also:
• limit the Company's ability to adjust rapidly to changing market conditions in the event of a downturn in general economic conditions or in the real estate and/or healthcare industries;

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

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

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

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

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

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

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

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

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

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

A REIT is required by the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), to make dividend distributions, thereby retaining less of its capital for growth. As a result, a REIT typically requires new capital to invest in real estate assets. However, there may be times when the Company will have limited access to capital from the equity and/or debt markets. Changes in the Company's debt ratings could have a material adverse effect on its interest costs and financing sources. The Company's debt rating can be materially influenced by a number of factors

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

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

The Company is exposed to increases in interest rates, which could adversely impact its ability to refinance existing debt, sell assets or engage in acquisition and development activity.

The Company receives a significant portion of its revenues by leasing its assets under long-term leases in which the rental rate is generally fixed, subject to annual rent escalators. A significant portion of the Company's debt may be subject to floating rates, based on LIBOR or other indices. The generally fixed nature of revenues and the variable rate of certain debt obligations create interest rate risk for the Company. Increases in interest rates could make the financing of any acquisition or investment activity more costly. Rising interest rates would increase the cost of borrowing under the Unsecured Credit Facility and the Unsecured Term Loan due 2022, could limit the Company's ability to refinance existing debt when it matures or cause the Company to pay higher rates upon refinancing. An increase in interest rates also could have the effect of reducing the amounts that third parties might be willing to pay for real estate assets, which could limit the Company's ability to sell assets at times when it might be advantageous to do so.

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

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

Risks relating to government regulations

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

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

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

The healthcare service industry may be affected by the following:

• trends in the method of delivery of healthcare services;

• competition among healthcare providers;

• consolidation of large health insurers;

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

•availability of capital;

•credit downgrades;

•liability insurance expense;

•regulatory and government reimbursement uncertainty resulting from the Affordable Care Act and other healthcare reform laws;

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efforts to repeal, replace or modify the Affordable Care Act in whole or in part;

health reform initiatives to address healthcare costs through expanded value-based purchasing programs, bundled provider payments, health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, lower payments for hospital readmissions, and shared risk-and-reward payment models such as accountable care organizations;

federal court decisions on cases challenging the legality of certain aspects of the Affordable Care Act;

- federal and state government plans to reduce budget deficits and address debt ceiling limits by lowering healthcare provider Medicare and Medicaid payment rates;

equalizing Medicare payment rates across different settings;

heightened health information technology security standards and the meaningful use of electronic health records by healthcare providers; and

potential tax law changes affecting providers.

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

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

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

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

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

sanctions for noncompliance and may be enforced by governmental agencies or private parties. 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.

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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, including any applicable alternative minimum 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 16 to the Consolidated Financial Statements.

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

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

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

- Preferred Stock. The Company's charter authorizes the board of directors to issue preferred stock in one or more classes and establish the preferences and rights of any class of preferred stock issued. These actions can be taken without stockholder approval. The issuance of preferred stock could have the effect of delaying or preventing someone from taking control of the Company.
- Business combinations. Pursuant to the Maryland law, the Company cannot merge into or consolidate with another corporation or enter into a statutory share exchange transaction in which the Company is not the surviving entity or

sell all or substantially all of its assets unless the board of directors adopts a resolution declaring the proposed transaction advisable and two-thirds of the stockholders voting together as a single class approve the transaction. 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

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for the Company's common stock, because such person or entity, even if it acquired a majority of the Company's outstanding voting securities, would likely be able to take action as a stockholder, such as electing new directors or approving a merger, only at a duly called stockholders meeting. Maryland law also establishes special requirements with respect to business combinations between Maryland corporations and interested stockholders unless exemptions apply. Among other things, the law prohibits for five years a merger and other similar transactions between a corporation and an interested stockholder and requires a supermajority vote for such transactions after the end of the five-year period.

Control share acquisitions. Maryland general corporation law also provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquirer or by officers or employee directors. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or to acquisitions approved or exempted by the corporation's charter or bylaws.

Maryland unsolicited takeover statute. Under Maryland law, the Company's board of directors could adopt various anti-takeover provisions without the consent of stockholders. The adoption of such measures could discourage offers for the Company or make an acquisition of the Company more difficult.

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

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

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

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

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

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize the Company's REIT qualification. The Company's continued qualification as a REIT will depend on the Company's satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, the Company's ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which the Company has no control or only limited influence, including in cases where the Company owns an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

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.

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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, including its headquarters, which are located at 3310 West End Avenue in Nashville, Tennessee. The Company's corporate office lease currently covers approximately 36,653 square feet of rented space and expires on October 31, 2020. The Company's base rent for 2017 was approximately \$1.0 million for office space leases.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Shares of the Company's common stock are traded on the New York Stock Exchange under the symbol "HR." At December 31, 2017, there were 1,047 stockholders of record. The following table sets forth the high and low sales prices per share of common stock, and the dividends declared and paid per share of common stock related to the periods indicated.

	High	Low	Dividends Declared and Paid per Share
2017			
First Quarter	\$32.50	\$29.80	\$ 0.30
Second Quarter	36.17	31.46	0.30
Third Quarter	34.65	31.78	0.30
Fourth Quarter (Dividend payable on March 6, 2018)	33.87	31.58	0.30
2016			
First Quarter	\$31.09	\$27.50	\$ 0.30
Second Quarter	35.00	29.42	0.30
Third Quarter	36.60	32.80	0.30
Fourth Quarter	34.28	26.66	0.30

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, 2017 about the Company's common stock that may be issued as restricted stock and upon the exercise of options, warrants and rights under all of the Company's existing compensation plans, including the 2015 Stock Incentive Plan and the 2000 Employee Stock Purchase Plan.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	318,100	—	2,087,307
Equity compensation plans not approved by security holders	—	—	—
Total	318,100	—	2,087,307

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

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Issuer Purchases of Equity Securities

During the year ended December 31, 2017, the Company withheld 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	15,695	\$ 30.31	—	—
February 1 - February 28	886	30.35	—	—
March 1 - March 31	—	—	—	—
April 1 - April 30	—	—	—	—
May 1 - May 31	—	—	—	—
June 1 - June 30	—	—	—	—
July 1 - July 31	—	—	—	—
August 1 - August 31	—	—	—	—
September 1 - September 30	—	—	—	—
October 1 - October 31	—	—	—	—
November 1 - November 30	—	—	—	—
December 1 - December 31	77,822	32.31	—	—
Total	94,403			

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Item 6. Selected Financial Data

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

(Amounts in thousands except per share data)	Year Ended December 31,				
	2017	2016	2015	2014	2013 ⁽¹⁾
Statement of Income Data:					
Total revenues	\$424,499	\$411,630	\$388,471	\$370,855	\$330,949
Total expenses	335,046	309,932	283,541	267,100	243,331
Other income (expense)	(66,357)	(15,942)	(46,094)	(69,776)	(100,710)
Income (loss) from continuing operations	\$23,096	\$85,756	\$58,836	\$33,979	\$(13,092)
Income (loss) from discontinued operations	(4)	(185)	10,600	(1,779)	20,075
Net income attributable to common stockholders	\$23,092	\$85,571	\$69,436	\$31,887	\$6,946
Diluted earnings per common share:					
Income (loss) from continuing operations	\$0.18	\$0.78	\$0.59	\$0.35	\$(0.14)
Income (loss) from discontinued operations	0.00	0.00	0.11	(0.02)	0.22
Net income attributable to common stockholders	\$0.18	\$0.78	\$0.70	\$0.33	\$0.08
Weighted average common shares outstanding - Diluted					
	118,017	109,387	99,880	96,759	90,941
Balance Sheet Data (as of the end of the period):					
Real estate properties, gross	\$3,838,638	\$3,628,221	\$3,380,908	\$3,258,279	\$3,067,187
Real estate properties, net	\$2,941,208	\$2,787,382	\$2,618,982	\$2,557,608	\$2,435,078
Mortgage notes receivable	\$—	\$—	\$—	\$1,900	\$125,547
Assets held for sale and discontinued operations, net	\$33,147	\$3,092	\$724	\$9,146	\$6,852
Total assets	\$3,193,585	\$3,040,647	\$2,810,224	\$2,757,510	\$2,729,662
Notes and bonds payable	\$1,283,880	\$1,264,370	\$1,424,992	\$1,403,692	\$1,348,459
Total stockholders' equity	\$1,789,883	\$1,653,414	\$1,242,747	\$1,221,054	\$1,245,286
Other Data:					
Funds from operations ⁽²⁾	\$134,274	\$174,420	\$124,571	\$146,493	\$92,166
Funds from operations per common share - Diluted ⁽²⁾	\$1.13	\$1.59	\$1.25	\$1.51	\$1.00
Cash flows from operations	\$179,766	\$151,272	\$160,375	\$125,370	\$120,797
Dividends paid	\$142,327	\$131,759	\$120,266	\$116,371	\$111,571
Dividends declared and paid per common share	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20

(1) The Company did not have any dispositions that met the criteria for presentation as discontinued operations in 2015, 2016, or 2017. The year ended December 31, 2013 was restated to conform to the discontinued operations presentation for 2014. See Note 5 to the Consolidated Financial Statements for more information on the Company's discontinued operations as of December 31, 2017.

(2) The Company adopted ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" and ASU No. 2015-15 "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements", as of January 1, 2016. Balance Sheet data for the years ending December 31, 2017, 2016 and 2015 shown above reflect this reclassification. Balance Sheet data for the years ending December 31, 2014 and 2013 have not been restated.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of (3) funds from operations ("FFO"), including why the Company presents FFO and a reconciliation of net income attributable to common stockholders to FFO.

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

Disclosure Regarding Forward-Looking Statements

This report and other materials Healthcare Realty has filed or may file with the Securities and Exchange Commission ("SEC"), as well as information included in oral statements or other written statements made, or to be made, by senior management of the Company, contain, or will contain, disclosures that are "forward-looking statements."

Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "target," "intend," "plan," "estimate," "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:

• 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;

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

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

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

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

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

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

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

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

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

• The Company is exposed to risks associated with geographic concentration;

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

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

• The Company may experience uninsured or underinsured losses;

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

• 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;

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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, which could adversely impact its 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;

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

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

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

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

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

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

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

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

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

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

The purpose of this Management's Discussion and Analysis of Financial Condition and Results of Operations is to provide an understanding of the Company's consolidated financial condition, results of operations and cash flows by focusing on the changes in key measures from year to year. This section is provided as a supplement to, and should be read in conjunction with, the Company's Consolidated Financial Statements and accompanying notes. This section is organized in the following sections:

Overview

Liquidity and Capital Resources

- Trends and Matters Impacting Operating Results

Results of Operations

Non-GAAP Financial Measures and Key Performance Indicators

Off-Balance Sheet Arrangements

Contractual Obligations

Application of Critical Accounting Policies to Accounting Estimates

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Overview

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

Liquidity and Capital Resources

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

- Leverage ratios and lending covenants;
- Dividend payout percentage; and
- Interest rates, underlying treasury rates, debt market spreads and equity markets.

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

Sources and Uses of Cash

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

The Company expects to continue to meet its liquidity needs, including capital for additional investments, dividend payments and debt service funds through cash flows from operations and the cash flow sources addressed above. The Company also had unencumbered real estate assets, excluding assets held for sale, with a gross book value of approximately \$3.4 billion at December 31, 2017, 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, 2017, 2016 and 2015 were \$179.8 million, \$151.3 million and \$154.0 million, respectively. Several items impact cash flows from operating activities including, but not limited to, cash generated from property operations, interest payments and the timing related to the payment of invoices and other expenses and receipt of tenant rent.

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

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

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Investing Activities

A summary of the significant transactions impacting investing activities for the year ended December 31, 2017 is listed below. See Note 4 to the Consolidated Financial Statements for more detail on these activities.

Outflows

The Company acquired 15 medical office buildings and increased its ownership interest in an existing medical office building during 2017 for a total purchase price of \$327.2 million, including cash consideration of \$283.1 million. This includes the assumption of mortgage notes payable of \$45.8 million (excluding fair value adjustments totaling \$0.6 million recorded at closing) and the acquisition of equity interests in limited liability companies that own two parking garages in Atlanta, Georgia. The following table details the acquisitions for the year ended December 31, 2017:

(Dollars in millions)	Health System Affiliation	Date Acquired	Purchase Price	Mortgage		Square Footage	Hospital Campus Location ⁽¹⁾
				Notes Payable	Assumed		
St. Paul, Minnesota	Fairview Health	3/6/17	\$ 13.5	\$ —		34,608	On
San Francisco, California	Sutter Health	6/12/17	26.8	—		75,649	On
Washington, D.C.	Trinity Health	6/13/17	24.0	(12.1)	)	62,379	On
Los Angeles, California	HCA	7/31/17	16.3	—		42,780	On
Atlanta, Georgia	WellStar Health	11/1/17	25.5	—		76,944	On
Atlanta, Georgia	WellStar Health	11/1/17	30.3	—		74,024	On
Atlanta, Georgia	WellStar Health	11/1/17	49.7	—		118,180	On
Atlanta, Georgia ⁽²⁾	Piedmont	11/1/17	6.7	—		19,732	ANC
Seattle, Washington	Overlake Health	11/1/17	12.7	—		26,345	ADJ
Atlanta, Georgia	WellStar Health	12/13/17	25.8	(10.5)	)	59,427	On
Atlanta, Georgia	WellStar Health	12/13/17	15.4	(4.7)	)	40,171	On
Atlanta, Georgia	WellStar Health	12/18/17	26.3	(11.8)	)	66,984	On
Atlanta, Georgia	WellStar Health	12/18/17	14.2	(6.7)	)	40,324	On
Chicago, Illinois	Ascension	12/18/17	28.7	—		99,526	On
Seattle, Washington	UW Medicine	12/18/17	8.8	—		32,828	ADJ
Austin, Texas ⁽³⁾	Ascension	12/21/17	2.5	—		7,972	ADJ
			\$ 327.2	\$ (45.8)	)	877,873	

(1) On = Located on a hospital campus; ADJ = Adjacent to hospital campus; ANC = Anchored

(2) This building is not located on a hospital campus, but is 100% leased to a hospital system and is classified as anchored.

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

In 2017, the Company funded \$32.3 million toward development and redevelopment of properties. In addition, the Company funded \$44.6 million at its owned real estate properties, including first generation tenant improvement allowances and planned capital expenditures for acquisitions. The following table details these expenditures for the year ended December 31, 2017:

(Dollars in millions)	2017
1st generation tenant improvements & planned capital expenditures for acquisitions	\$5.4
2nd generation tenant improvements	20.4
Capital expenditures	18.8
Total capital funding	\$44.6

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Inflows

The Company disposed of 10 properties in 2017 for a total sales price of \$122.7 million, including cash proceeds of \$119.4 million and \$3.3 million of closing costs and related adjustments. The following table details these dispositions for the year ended December 31, 2017:

(Dollars in millions)	Date Disposed	Sales Price	Square Footage	Property Type ⁽¹⁾
Evansville, Indiana	3/6/17	\$ 6.4	29,500	OTH
Columbus, Georgia ⁽²⁾	3/7/17	0.6	12,000	MOB
Las Vegas, Nevada ⁽²⁾	3/30/17	5.5	18,147	MOB
Texas (3 properties)	3/31/17	69.5	169,722	IRF
Chicago, Illinois	6/16/17	0.5	5,100	MOB
San Antonio, Texas	6/29/17	14.5	39,786	IRF
Roseburg, Oregon	6/29/17	23.2	62,246	MOB
St. Louis, Missouri	9/7/17	2.5	79,980	MOB
Total dispositions		\$ 122.7	416,481	

(1)MOB = medical office building; IRF = inpatient rehabilitation facility; OTH = other

(2)Previously classified as held for sale.

Financing Activities

Debt Activity

Below is a summary of the significant financing activity for the year ended December 31, 2017. See Notes 10 and 11 to the Consolidated Financial Statements for more information on the capital markets and financing activities:

The Company had the following changes in debt structure:

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, resulting in an effective rate of 3.84%.

The Company redeemed the outstanding principal of \$400.0 million on the unsecured senior notes due 2021 (the "Senior Notes due 2021") in two transactions. On November 1, 2017 and December 27, 2017, the Company redeemed \$100.0 million and \$300.0 million, respectively. The aggregate redemption price was \$452.3 million, consisting of outstanding principal of \$400.0 million, accrued interest of \$9.5 million, and a "make-whole" amount of approximately \$42.8 million for the early extinguishment of debt. The aggregate unaccreted discount and unamortized costs on these notes of \$2.2 million was written off upon redemption. The Company recognized a loss on early extinguishment of debt of approximately \$45.0 million in the fourth quarter of 2017 related to these redemptions.

On December 18, 2017, the Company entered into an amendment to its Unsecured Term Loan due 2022. The amendment to the Term Loan extends the maturity date from January 2019 to December 2022 and reduces the spread over LIBOR relating to the cost of borrowing by 10 basis points, based on the Company's unsecured debt ratings as of December 31, 2017.

On December 20, 2017, the Company entered into two interest rate swaps totaling \$25.0 million to hedge the 1-month LIBOR portion of the cost of borrowing under the Unsecured Term Loan due 2022 to a fixed rate of interest of 2.18% (plus the applicable margin rate, currently 1.10%) through December 16, 2022.

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The following table details the mortgage note payable activity for the year ended December 31, 2017:

(Dollars in millions)	Transaction Date	Borrowing (Repayment)	Encumbered Square Footage	Contractual Interest Rate	
Debt assumptions:					
Washington, D.C. ⁽¹⁾	06/13/17	\$ 12.1	62,379	4.7	%
Atlanta, Georgia ⁽¹⁾	12/13/17	10.5	59,427	3.5	%
Atlanta, Georgia ⁽¹⁾	12/13/17	4.7	40,171	5.5	%
Atlanta, Georgia ⁽¹⁾	12/18/17	11.8	66,984	3.3	%
Atlanta, Georgia ⁽¹⁾	12/18/17	6.7	40,324	4.1	%
Total borrowings		\$ 45.8	269,285	4.1	%
Repayments in full:					
Minneapolis, Minnesota ⁽²⁾	5/1/17	\$ (0.2)	60,476	6.5	%
Kingsport, Tennessee	9/28/17	(1.3)	75,000	5.6	%
Columbus, Ohio	10/2/17	(0.2)	73,331	5.5	%
Total repayments		\$ (1.7)	208,807	5.7	%

(1) Assumed upon acquisition and excluding fair value adjustments totaling \$0.6 million in aggregate recorded at closing.

(2) This property has three remaining notes that are secured by the property with maturity dates ranging from 2022 to 2040, but is repayable, without penalty, in 2020.

Subsequent Activity

On January 30, 2018, the Company entered into two interest rate swaps totaling \$50.0 million to hedge the 1-month LIBOR portion of the cost of borrowing under the Unsecured Term Loan due 2022 to a fixed rate of interest of 2.46% (plus the applicable margin rate, currently 1.10%) through December 16, 2022.

The following table details the Company's debt balances as of December 31, 2017:

	2017 ⁽³⁾	Balance as of December 31,	Weighted Years to Maturity	Effective Interest Rate	
Senior Notes due 2023	\$247,703		5.3	3.95	%
Senior Notes due 2025	248,044		7.3	4.08	%
Senior Notes due 2028	294,757		10.0	3.84	%
Total Senior Notes Outstanding	\$790,504		7.7	3.95	%
Unsecured credit facility due 2020 ⁽¹⁾	189,000		2.6	2.56	%
Unsecured term loan due 2022 ⁽²⁾	148,994		5.0	2.77	%
Mortgage notes payable	155,382		5.6	4.82	%
Total Outstanding Notes and Bonds Payable	\$1,283,880		6.4	3.71	%

As of December 31, 2017, the Company had \$189.0 million outstanding under the Unsecured Credit Facility with a (1) weighted average interest rate of approximately 2.56% and a remaining borrowing capacity of approximately \$511.0 million.

The effective interest rate includes the impact of two interest rate swaps totaling \$25.0 million to hedge the (2) 1-month LIBOR portion of the cost of borrowing under the Term Loan to a fixed rate of interest of 2.18% (plus the applicable margin rate, currently 1.10%) through December 16, 2022.

(3) Balances are reflected net of discounts and deferred financing costs and include premiums.

Debt Covenant Information

As of December 31, 2017, 99.2% of the Company's debt balances were due after 2018. Also, as of December 31, 2017, the Company's stockholders' equity totaled approximately \$1.8 billion and its leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 32.3%. The Company's fixed

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charge ratio, calculated in accordance with Item 503 of Regulation S-K, includes only income from continuing operations which is reduced by depreciation and amortization and the operating results of properties currently classified as held for sale. In accordance with this definition, the Company's earnings from continuing operations as of December 31, 2017 were sufficient to cover its fixed charges with a ratio of 1.4 to 1.0. Calculated in accordance with the fixed charge covenant ratio under its Unsecured Credit Facility, the Company's earnings covered its fixed charges at a ratio of 3.8 to 1.0.

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, 2017, the Company was in compliance with the financial covenant provisions under all of its various debt instruments.

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

Common Stock Issuances

On February 19, 2016, the Company entered into sales agreements with five investment banks to allow sales under its at-the-market equity offering program of up to 10,000,000 shares of common stock. On May 5, 2017, the Company entered into a sales agreement with a sixth investment bank in connection with the same allotment of shares. No shares were issued under this program in 2017. The Company has 5,868,697 authorized shares remaining available to be sold under the current sales agreements as of February 14, 2018.

On August 14, 2017, the Company issued 8,337,500 shares of common stock, par value \$0.01 per share, at \$30.90 per share in an underwritten public offering pursuant to the Company's existing effective registration statement. The net proceeds of the offering, after underwriting discount and offering expenses, were approximately \$247.1 million. The proceeds were invested into acquisitions and the repayment of indebtedness.

Dividends Payable

The Company is 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. Common stock cash dividends paid during or related to 2017 are shown in the table below:

Quarter	Quarterly Dividend	Date of Declaration	Date of Record	Date Paid/*Payable
4th Quarter 2016	\$ 0.30	January 31, 2017	February 14, 2017	February 28, 2017
1st Quarter 2017	\$ 0.30	May 2, 2017	May 16, 2017	May 31, 2017
2nd Quarter 2017	\$ 0.30	August 1, 2017	August 11, 2017	August 31, 2017
3rd Quarter 2017	\$ 0.30	October 31, 2017	November 16, 2017	November 30, 2017
4th Quarter 2017	\$ 0.30	February 13, 2018	February 23, 2018	* March 6, 2018

The ability of the Company to pay dividends is dependent upon its ability to generate funds from operations and cash flows and to make accretive new investments.

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

The Company acquired 15 medical office buildings and increased its ownership interest in an existing medical office building during 2017 for a total purchase price of \$327.2 million, including cash consideration of \$283.1 million. This includes the assumption of mortgage notes payable of \$45.8 million (excluding fair value adjustments totaling \$0.6 million recorded upon acquisition) and the acquisition of equity interests in limited liability companies that own two parking garages in Atlanta, Georgia. The weighted average capitalization rate for these investments was 5.4%.

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The Company disposed of 10 properties during 2017 for a total sales price of \$122.7 million, including cash proceeds of \$119.4 million and \$3.3 million of closing costs and adjustments. The weighted average capitalization rate of the 2017 dispositions was 7.0%.

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

See the Company's discussion regarding the 2017 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements.

Development and Redevelopment Activity

In 2017, the Company funded \$32.3 million toward development and redevelopment of properties, including the following:

The Company began a redevelopment project of a medical office building in Charlotte, North Carolina, which includes a 38,000 square foot expansion. The Company funded \$3.3 million during the year ended December 31, 2017. The project is expected to be completed in the first quarter of 2019.

The Company began development of a 151,000 square foot medical office building in Seattle, Washington. The Company funded \$1.8 million during the year ended December 31, 2017. The project is expected to be completed in the second quarter of 2019.

The Company received a certificate of occupancy for a 99,957 square foot medical office building in Denver, Colorado. The Company spent \$14.6 million during the year ended December 31, 2017 including approximately \$2.8 million related to overages on tenant improvement projects that have been or will be reimbursed by the tenant. The Company expects to continue to fund tenant improvements throughout 2018 and 2019.

- The Company completed the redevelopment and expansion of one of its medical office buildings in Nashville, Tennessee. The Company spent approximately \$12.6 million on the redevelopment of this property during the year ended December 31, 2017, including approximately \$3.2 million related to overages on tenant improvement projects that have been or will be reimbursed by the tenant.

The Company is in the planning stages with several health systems and developers regarding new development and redevelopment opportunities and expects one or more to begin in 2018. Total costs to develop or redevelop a typical medical office building can vary depending on the scope of the project, market rental terms, parking configuration, building amenities, asset type and geographic location.

The Company's disclosures regarding projections or estimates of completion dates and leasing may not reflect actual results. See Note 15 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, 2017, the Company held approximately \$10.0 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 15% to 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 7.9 years and a weighted average remaining lease term of 3.6 years. During 2017, 599 leases totaling 2.0 million square feet in its multi-tenant portfolio expired, of which 459 leases totaling 1.6 million square feet were renewed or the tenants continue to occupy the space. Demand for well-located real estate with complementary practice types and services remains consistent, and the Company's 2017 quarterly tenant retention statistics ranged from 76% to 90%. In 2018, the Company has 623 leases totaling 2.0 million square feet in its multi-tenant portfolio that are scheduled to expire. Of those leases, 86% are in on-campus buildings, which tend to have a high tenant retention rate.

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The Company continues to emphasize revenue growth for its in-place leases. In 2017, the Company experienced contractual rental rate growth which averaged 2.7% for in-place leases compared to 2.5% in 2016. 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 2017, quarterly cash leasing spreads ranged from 3.5% to 9.0% compared to 3.3% to 6.6% in 2016 related to the Company's 201 properties. In the Company's same store portfolio, quarterly cash leasing spreads ranged from 3.7% to 9.5% in 2017 compared to 3.9% to 7.2% in 2016.

In a further effort to maximize revenue growth and reduce its exposure to uncontrollable expenses such as taxes and utilities, the Company carefully manages its balance of lease types. Gross leases, wherein the Company has full exposure to all operating expenses, comprise 13% of its lease portfolio. Modified gross or base year leases, in which the Company and tenant both pay a share of operating expenses, comprise 31% of the Company's leased portfolio. Net leases, in which tenants pay all allowable operating expenses, total 56% of the leased portfolio.

Capital Additions

As a part of the Company's leasing practice, the Company seeks to earn a return on capital additions when determining asking lease rates for each property by considering gross investment, inclusive of any actual or expected capital additions. The Company invested \$18.8 million, or \$1.28 per square foot, in capital additions in 2017, \$17.1 million, or \$1.17 per square foot, in capital additions in 2016 and \$16.0 million, or \$1.12 per square foot in 2015.

Capital additions 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 additions 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 additions also do not include improvements related to a specific tenant suite, unless the improvement is part of a major building system or common area improvement.

Tenant Improvements

The Company may provide a tenant improvement allowance in new or renewal leases for the purpose of refurbishing or renovating tenant space. Shorter-term leases (one to two years) generally do not include a tenant improvement allowance.

Tenant improvements spending totaled approximately \$25.8 million in 2017, of which \$5.4 million pertained to first generation space. Tenant improvements spending in 2016 totaled \$39.8 million, of which \$16.1 million pertained to first generation space. If tenants spend more than the allowance, the Company generally offers the tenant the option to finance the overage over the lease term with interest or reimburse the overage to the Company in a lump sum. In either case, such overages are amortized by the Company as rental income over the term of the lease. Interest earned on tenant overages is included in other operating income in the Company's Consolidated Statements of Income and totaled approximately \$0.4 million in 2017, \$0.5 million in 2016, and \$0.6 million in 2015. The tenant overage amount amortized to rent totaled approximately \$4.6 million in 2017, \$4.6 million in 2016, and \$4.5 million in 2015.

Second generation, multi-tenant tenant improvement commitments in 2017 for renewals averaged \$1.78 per square foot per lease year, ranging quarterly from \$1.38 to \$2.30. In 2016, these commitments averaged \$1.55 per square foot per lease year, ranging quarterly from \$1.04 to \$1.84. In 2015, these commitments averaged \$1.21 per square foot per lease year, ranging quarterly from \$0.78 to \$1.80.

Second generation, multi-tenant tenant improvement commitments in 2017 for new leases averaged \$3.60 per square foot per lease year, ranging quarterly from \$2.10 to \$4.78. In 2016, these commitments averaged \$4.74 per square foot per lease year, ranging quarterly from \$3.79 to \$5.55. In 2015, these commitments averaged \$3.41 per square foot per lease year, ranging quarterly from \$2.79 to \$3.75.

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 2017, the Company paid leasing commissions of approximately \$7.1 million, or \$0.49 per square foot, of which \$1.3 million pertained to the leases for first generation space. In 2016, the Company paid leasing commissions of approximately \$5.2 million, or \$0.36 per square foot, of which \$0.6 million pertained to the leases for

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first generation space. The amount of leasing commissions amortized over the term of the applicable leases and included in property operating expense in the Company's Consolidated Statements of Income totaled \$4.5 million, \$4.2 million and \$3.4 million for the years ended December 31, 2017, 2016 and 2015, 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 2017 totaled approximately \$3.0 million, or \$0.20 per square foot, of which \$1.1 million pertained to leases for first generation space. Rent abatements for 2016 totaled approximately \$3.5 million, or \$0.24 per square foot, of which \$1.2 million pertained to leases for first generation space. Rent abatements for 2015 totaled approximately \$2.8 million, or \$0.20 per square foot, of which \$1.1 million pertained to leases for first generation space.

Single-Tenant Net Leases

No single-tenant net leases are scheduled to expire during 2018. The Company expects to sell five single-tenant net leased properties in April 2018 pursuant to a purchase option. See "Purchase Options" below.

As of December 31, 2017, the Company has a total of 21 single-tenant net leases, excluding assets held for sale, with a weighted average lease term of 12.3 years and a weighted average remaining lease term of 8.0 years.

Property Operating Agreement Expirations

One of the Company's 201 owned real estate properties as of December 31, 2017 was covered under a property operating agreement between the Company and a sponsoring health system. This agreement contractually obligates the sponsoring health system to provide to the Company a minimum return on the Company's investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the Company calculates and accrues to property lease guaranty revenue, each quarter, any shortfalls due from the sponsoring health systems under the terms of the property operating agreement. This agreement expires in February 2019. The Company recognized \$0.7 million in property operating guaranty revenue during 2017 related to this agreement.

Operating Leases

At December 31, 2017, the Company had 109 properties totaling 8.9 million square feet that were held under ground leases with a remaining weighted average term of 68.7 years, including renewal options. These ground leases typically have initial terms of 50 to 75 years with one to two renewal options extending the terms to 75 to 100 years, with expiration dates through 2117. As of December 31, 2017, the Company was obligated to make rental payments under operating lease agreements consisting primarily of the Company's corporate office lease and ground leases related to 61 real estate investments, excluding those ground leases the Company has prepaid. Rental expense relating to the operating leases for the years ended December 31, 2017, 2016 and 2015 was \$6.3 million, \$5.7 million and \$5.1 million, respectively.

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Purchase Options

The Company had approximately \$95.2 million in real estate properties as of December 31, 2017 that were subject to exercisable purchase options. The Company has approximately \$442.4 million in real estate properties that are subject to purchase options that will become exercisable after 2018. 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, 2017		
		Fair Market Value Method (1)	Non Fair Market Value Method (2)	Total
Current	4	\$95,187	\$—	\$95,187
2018	—	—	—	—
2019	2	41,521	—	41,521
2020	—	—	—	—
2021	1	—	14,984	14,984
2022	—	—	—	—
2023	—	—	—	—
2024	—	—	—	—
2025	5	18,883	221,929	240,812
2026	—	—	—	—
2027	—	—	—	—
2028 and thereafter	5	145,102	—	145,102
Total	17	\$300,693	\$236,913	\$537,606

(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 18% greater than the Company's current gross investment.

In October 2017, the Company received notice that a tenant is exercising a purchase option on seven properties, comprised of five single-tenant net leased buildings and two multi-tenanted buildings, covered by one purchase option with a stated purchase price of approximately \$45.5 million, subject to certain contractual adjustments. The Company's aggregate net book value for these properties was \$23.9 million at December 31, 2017. The Company recognized net operating income of approximately \$6.1 million for the twelve months ended December 31, 2017 from these properties. Closing of the sale is expected to occur in April 2018.

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 \$154.9 million of mortgage notes payable, most of which were assumed when the Company acquired properties. In 2018, approximately \$5.9 million of these mortgage notes payable will mature. The Company intends to repay the mortgage notes upon maturity. During 2017, the Company redeemed its Senior Notes due 2021, issued its Senior Notes due 2028 and renewed its Term Loan due 2022. The result of this activity extended the Company's maturities and reduced the Company's cost of borrowing from 4.28% at December 31, 2016 to 3.71% at December 31, 2017.

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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 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, 2017:

	% Increase	% of Base Rent	
Annual increase			
CPI	2.1	% 10.0	%
Fixed	2.9	% 81.1	%
Non-annual increase			
CPI	0.9	% 1.5	%
Fixed	1.9	% 5.9	%
No increase			
Term > 1 year	—	% 1.5	%

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. The Company expects general and administrative expenses to increase approximately \$0.8 million in the first quarter of 2018 over the fourth quarter of 2017. The first quarter administrative costs include customary increases in payroll taxes, non-cash ESPP expense and healthcare savings account fundings. Approximately \$0.6 million is not expected to recur in subsequent quarters in 2018.

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Results of Operations

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

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

Revenues

Rental income increased \$15.4 million, or 3.8%, to approximately \$422.9 million compared to \$407.5 million in the prior year and is comprised of the following:

			Change	
(Dollars in thousands)	2017	2016	\$	%
Property operating	\$363,907	\$336,409	\$27,498	8.2 %
Single-tenant net lease	52,873	63,871	(10,998)	(17.2)%
Straight-line rent	6,072	7,201	(1,129)	(15.7)%
Total Rental income	\$422,852	\$407,481	\$15,371	3.8 %

Property operating income increased \$27.5 million, or 8.2%, from the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2016 and 2017 resulted in an increase of \$18.2 million.
- Net leasing activity including contractual rent increases and renewals contributed \$13.7 million.
- Dispositions in 2016 and 2017 resulted in a decrease of \$4.4 million.

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

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

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

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

Expenses

Property operating expenses increased \$10.8 million, or 7.4%, for the year ended December 31, 2017 compared to the prior year primarily as a result of the following activity:

- Acquisitions and developments in 2016 and 2017 resulted in an increase of \$7.7 million.
- Increases in portfolio operating expenses as follows:
 - property tax expense of \$2.0 million;
 - maintenance and repair expense of \$0.4 million;
 - ground lease straight-line rent expense of \$0.8 million;
 - janitorial expense of \$0.7 million;
 - utilities expense of \$0.3 million;
 - compensation-related expense of \$0.4 million; and
 - security expense of \$0.1 million.
- Dispositions in 2016 and 2017 resulted in a decrease of \$1.6 million.

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

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

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

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

Other Income (Expense)

Other income (expense), a net expense, increased \$50.4 million, or 316.2%, for the year ended December 31, 2017 compared to the prior year mainly due to the following activity:

Gain on Sales of Real Estate Properties

Gain on sales of real estate properties, excluding those classified within discontinued operations, totaling approximately \$39.5 million and \$41.0 million are associated with the sales of eight and six real estate properties during 2017 and 2016, respectively.

Interest Expense

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

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

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

- The Senior Notes due 2028 in an aggregate amount of \$300.0 million were issued in the fourth quarter of 2017 and accounted for an increase of \$0.6 million.
- The Senior Notes due 2021 were repaid in the fourth quarter of 2017 and accounted for a decrease of \$1.1 million.
- The Unsecured Credit Facility due 2020 and Unsecured Term Loan due 2022 accounted for a net decrease of \$0.2 million.
- Mortgage notes assumed upon acquisition of real properties accounted for an increase of \$0.3 million, and mortgage notes repayments accounted for a decrease of \$0.9 million.
- Scheduled monthly interest payments related to the Company's mortgage notes payable increased \$0.1 million.

Loss on Extinguishments of Debt

Loss on extinguishment of debt of approximately \$45.0 million is associated with the 2017 redemption of the Senior Notes due 2021. See Note 9 to the Consolidated Financial Statements for more information.

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Impairment of Real Estate Assets

Impairment of real estate assets, excluding those classified within discontinued operations, totaling approximately \$5.4 million is associated with the sale of two real estate properties during 2017.

Discontinued Operations

Loss from discontinued operations totaled approximately \$0.2 million for the year ended December 31, 2016 and includes the results of operations, impairments and gains on sale related to assets classified as held for sale as of December 31, 2014. None of the Company's 2016 or 2017 dispositions met the definition of a discontinued operation as amended in Accounting Standards Update No. 2014-08, which the Company adopted in 2015.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The Company's consolidated results of operations for 2016 compared to 2015 were significantly impacted by acquisitions, dispositions, extinguishments of debt, gains on sale and impairment charges recorded on real estate properties.

Revenues

Rental income increased \$24.1 million, or 6.3%, to approximately \$407.5 million compared to \$383.3 million in the prior year and is comprised of the following:

			Change	
(Dollars in thousands)	2016	2015	\$	%
Property operating	\$336,409	\$306,550	\$29,859	9.7 %
Single-tenant net lease	63,871	67,238	(3,367)	(5.0)%
Straight-line rent	7,201	9,545	(2,344)	(24.6)%
Total Rental income	\$407,481	\$383,333	\$24,148	6.3 %

Property operating income increased \$29.9 million, or 9.7%, from the prior year primarily as a result of the following activity:

▲ Acquisitions in 2015 and 2016 accounted for an increase of \$19.3 million.

◆ Net leasing activity including contractual rent increases and renewals accounted for an increase of \$13.4 million.

◆ Dispositions in 2015 accounted for a decrease of \$2.9 million.

Single-tenant net lease income decreased \$3.4 million, or 5.0%, from the prior year primarily as a result of the following activity:

◆ Contractual rent increases accounted for an increase of \$0.6 million.

◆ Reduction in lease revenue of \$0.6 million upon expiration and execution of new leases and reserves (see Trends and Matters Impacting Operating Results for additional information).

◆ Dispositions in 2015 and 2016 accounted for a decrease of \$3.3 million.

Straight-line rent income decreased \$2.3 million, or 24.6%, from the prior year primarily as a result of the following activity:

▲ Acquisitions in 2015 and 2016 accounted for an increase of \$1.1 million.

◆ Dispositions in 2015 and 2016 accounted for a decrease of \$0.4 million.

◆ The effect of prior year rent abatements that expired and net leasing activity caused a decrease of \$3.0 million.

Expenses

Property operating expenses increased \$6.3 million, or 4.5%, for the year ended December 31, 2016 compared to the prior year primarily as a result of the following activity:

▲ Acquisitions in 2015 and 2016 accounted for an increase of \$7.5 million.

◆ Dispositions in 2015 and 2016 accounted for a decrease of \$2.3 million.

◆ The Company experienced overall increases in the following:

maintenance and repair expense of \$0.4 million;
portfolio property taxes of \$0.4 million;

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leasing commission and legal fee expense of \$0.2 million; compensation-related expense of \$0.7 million; and janitorial expense of \$0.2 million.

• The Company experienced an overall decrease in utility expense of \$0.8 million.

General and administrative expenses increased approximately \$6.6 million, or 26.7%, for the year ended December 31, 2016 compared to the prior year primarily as a result of the following activity:

• Increase in performance-based compensation expense totaling \$5.1 million, including \$1.5 million of non-cash stock-based award amortization.

• Other net increases, including telecommunication expense and compensation-related expense, of \$1.5 million.

Depreciation and amortization expense increased \$11.1 million, or 9.5%, for the year ended December 31, 2016 compared to the prior year primarily as a result of the following activity:

• Properties acquired in 2015 and 2016 and developments completed and commencing operations contributed a combined increase of \$8.4 million.

• Various building and tenant improvement expenditures caused an increase of \$7.3 million.

• Dispositions in 2015 caused a decrease of \$2.6 million.

• Assets that became fully depreciated resulted in a decrease of \$2.0 million.

Other Income (Expense)

Other income (expense), a net expense, decreased \$30.2 million, or 65.4%, for the year ended December 31, 2016 compared to the prior year mainly due to the following activity:

Gain on Sales of Real Estate Properties

Gain on sales of real estate properties excluding those classified within discontinued operations, totaling approximately \$41.0 million and \$56.6 million are associated with the sales of six and seven real estate properties during 2016 and 2015, respectively.

Interest Expense

Interest expense decreased \$8.2 million for the year ended December 31, 2016 compared to the prior year. The components of interest expense are as follows:

(Dollars in thousands)	2016	2015	Change	Percentage Change
Contractual interest	\$55,666	\$62,215	\$(6,549)	(10.5)%
Net discount/premium accretion	(45)	376	(421)	(112.0)%
Deferred financing costs amortization	2,820	3,067	(247)	(8.1)%
Amortization of interest rate swap settlement	168	115	53	46.1%
Interest cost capitalization	(1,258)	(239)	(1,019)	426.4%
Total interest expense	\$57,351	\$65,534	\$(8,183)	(12.5)%

Contractual interest decreased \$6.5 million, or 10.5%, primarily as a result of the following activity:

• The Unsecured Credit Facility and Unsecured Term Loan due 2022 accounted for a net decrease of \$1.0 million.

• Unsecured senior notes due 2025 in an aggregate amount of \$250.0 million (the "Senior Notes due 2025") were issued in the second quarter of 2015 and accounted for an increase of \$3.0 million.

• The unsecured senior notes due 2017 (the "Senior Notes due 2017") were repaid in the second quarter of 2015 and accounted for a decrease of \$7.3 million.

• Mortgage notes assumed upon acquisition of real properties and mortgage notes refinanced accounted for an increase of \$1.7 million, and mortgage notes repayments accounted for a decrease of \$3.1 million.

• Scheduled monthly interest payments related to the Company's mortgage notes payable increased \$0.2 million.

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Loss on Extinguishments of Debt

Loss on extinguishment of debt of approximately \$28.0 million is associated with the 2015 redemption of the Senior Notes due 2017. See Note 9 to the Consolidated Financial Statements for more information.

Pension Termination

Pension termination expense of approximately \$5.3 million represents the effect of the Company's termination of the Executive Retirement Plan in 2015.

Impairment of Real Estate Assets

Impairment of real estate assets excluding those classified within discontinued operations, totaling approximately \$3.6 million is associated with the sale of two real estate properties during 2015.

Impairment of Internally-Developed Software

The Company recognized an impairment of internally-developed software of approximately \$0.7 million in 2015, which was abandoned for a third party program that was previously unavailable.

Discontinued Operations

Loss from discontinued operations totaled \$0.2 million and income from discontinued operations totaled \$10.6 million, respectively, for the years ended December 31, 2016 and 2015, which includes the results of operations, impairments and gains on sale related to assets classified as held for sale as of December 31, 2014. None of the Company's 2015 or 2016 dispositions met the definition of a discontinued operation as amended in Accounting Standards Update No. 2014-08, which the Company adopted in 2015. The Company disposed of one real estate property in 2015 that was classified as held for sale at December 31, 2014 and one property remained classified as held for sale as of December 31, 2016.

Non-GAAP Financial Measures and Key Performance Indicators

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

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

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

FFO and FFO per share are operating performance measures adopted by the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as the most commonly accepted and reported measure of a REIT's operating performance equal to "net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, 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 deferred financing 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 maintenance capital expenditures, including second generation tenant improvements and leasing commissions paid and straight-line rent income, net of expense. The Company's definition of these terms may not be comparable to that of other real estate companies as they may have different methodologies for computing these amounts. Normalized FFO and FAD should not be considered as an alternative to net income as an indicator of the Company's financial performance or to cash flow from operating activities as an indicator of the Company's liquidity. Normalized FFO and FAD should be reviewed in connection with GAAP financial measures.

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Management believes FFO, Normalized FFO, FFO per share, Normalized FFO per share and FAD ("Non-GAAP Measures") provide an understanding of the operating performance of the Company's properties without giving effect to certain significant non-cash items, primarily depreciation and amortization expense. Historical cost accounting for real estate assets in accordance with GAAP assumes that the value of real estate assets diminishes predictably over time. However, real estate values instead have historically risen or fallen with market conditions. The Company believes that by excluding the effect of depreciation, amortization, impairments and gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, Non-GAAP Measures can facilitate comparisons of operating performance between periods. The Company reports Non-GAAP Measures because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs. For these reasons, management deems it appropriate to disclose and discuss these Non-GAAP Measures. However, none of these measures represent cash generated from operating activities determined in accordance with GAAP and are not necessarily indicative of cash available to fund cash needs. Further, these measures should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity.

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The table below reconciles net income attributable to common stockholders to FFO, Normalized FFO and FAD for the years ended December 31, 2017, 2016, and 2015.

(Amounts in thousands, except per share data)	Year Ended December 31,		
	2017	2016	2015
Net income	\$23,092	\$85,571	\$69,436
Gain on sales of real estate properties	(39,524)	(41,044)	(67,172)
Impairments	5,385	121	4,325
Real estate depreciation and amortization	145,321	129,772	117,982
Total adjustments	111,182	88,849	55,135
Funds from Operations	\$134,274	\$174,420	\$124,571
Acquisition and pursuit costs	2,180	3,414	1,394
Write-off of deferred financing costs upon amendment of credit facilities	21	81	—
Pension termination	—	4	5,260
Loss on extinguishment of debt	44,985	—	27,998
Impairment of internally-developed software	—	—	654
Interest incurred on the timing of issuance/redemption of senior notes	767	—	—
Security deposit recognized upon sale	—	—	141
Reversal of restricted stock amortization upon director / officer resignation	—	—	(40)
Revaluation of awards upon retirement	—	89	—
Normalized Funds from Operations	\$182,227	\$178,008	\$159,978
Non-real estate depreciation and amortization	5,551	5,475	5,830
Provision for bad debt, net	159	(21)	(194)
Straight-line rent receivable, net	(4,575)	(7,134)	(8,829)
Stock-based compensation	10,027	7,509	6,069
Provision for deferred post-retirement benefits	—	—	385
Non-cash items included in cash flows from operating activities	11,162	5,829	3,261
2nd Generation TI	(20,367)	(23,692)	(12,068)
Leasing commissions paid	(7,099)	(5,210)	(7,504)
Capital additions	(18,790)	(17,122)	(16,242)
Funds Available for Distribution	\$147,133	\$137,813	\$127,425
Funds from Operations per Common Share - Diluted	\$1.13	\$1.59	\$1.25
Normalized Funds from Operations per Common Share - Diluted	\$1.53	\$1.63	\$1.60
Weighted average common shares outstanding - Diluted	118,877	109,387	99,880

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Same Store NOI

Net operating income ("NOI") and same store NOI are key performance indicators. Management considers same store NOI a supplemental measure because it allows investors, analysts and Company management to measure unlevered property-level operating results. The Company defines NOI as operating revenues (property operating revenue, single-tenant net lease revenue, and property lease guaranty revenue) less property operating expenses related specifically to the property portfolio. 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. NOI also excludes non-cash items such as straight-line rent, above and below market lease intangibles, leasing commission amortization, lease inducements, lease terminations and tenant improvement amortization. Same store NOI is historical and not necessarily indicative of future results. The following table reflects the Company's same store NOI for the years ended December 31, 2017 and 2016.

(Dollars in thousands)	Number of Properties ⁽¹⁾	Gross Investment at December 31, 2017	Same Store NOI for the Year Ended December 31,	
			2017	2016
Multi-tenant Properties	142	\$2,665,547	\$191,663	\$182,777
Single-tenant Net Lease Properties	19	486,602	44,090	43,770
Total	161	\$3,152,149	\$235,753	\$226,547

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

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

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

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

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The following tables reconcile same store 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 NOI:

(Dollars in thousands)	Year Ended	
	December 31,	
	2017	2016
Net income	\$23,092	\$85,571
Loss from discontinued operations	4	185
Income from continuing operations	23,096	85,756
Other income (expense)	66,357	15,942
General and administrative expense	32,992	31,309
Depreciation and amortization expense	142,472	127,690
Other expenses ⁽¹⁾	8,636	8,967
Straight-line rent revenue	(6,072)	(7,201)
Other revenue ⁽²⁾	(4,690)	(5,531)
NOI	262,791	256,932
NOI not included in same store	(27,038)	(30,385)
Same store NOI	\$235,753	\$226,547

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

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

Reconciliation of Same Store Property Count:

	Property Count as of December 31, 2017
Same store properties	161
Acquisitions	25
Development Completions	2
Reposition	13
Total owned real estate properties	201

Off-Balance Sheet Arrangements

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

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Contractual Obligations

The Company monitors its contractual obligations to manage the availability of funds necessary to meet obligations when due. The following table represents the Company's long-term contractual obligations for which the Company was making payments as of December 31, 2017, 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, 2017, the Company had no long-term capital lease obligations.

(Dollars in thousands)	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 ⁽¹⁾	\$ 1,559,843	\$48,326	\$306,523	\$247,387	\$957,607
Operating lease commitments ⁽²⁾	313,422	6,456	12,886	11,024	283,056
Construction in progress ⁽³⁾	72,170	40,260	31,910	—	—
Tenant improvements ⁽⁴⁾	27,796	27,796	—	—	—
Total contractual obligations	\$1,973,231	\$122,838	\$351,319	\$258,411	\$1,240,663

The amounts shown include estimated interest on total debt other than the Unsecured Credit Facility due 2020 and Unsecured Term Loan due 2022, whose balance and interest rate may fluctuate from day to day. Excluded from the table above are the discounts on the Company's outstanding senior notes of approximately \$3.9 million, net (1) premiums totaling approximately \$1.3 million on 18 mortgage notes payable, and deferred financing costs totaling approximately \$7.5 million which are included in notes and bonds payable on the Company's Consolidated Balance Sheet as of December 31, 2017. The Company's long-term debt principal obligations are presented in more detail in the table below.

(In millions)	Principal Balance at Dec. 31, 2017	Principal Balance at Dec. 31, 2016	Maturity Date	Contractual Interest Rates at December 31, 2017	Principal Payments	Interest Payments
Unsecured Credit Facility	\$ 189.0	\$ 107.0	7/20	LIBOR + 1.00%	At maturity	Monthly
Unsecured Term Loan due 2022	150.0	150.0	12/22	LIBOR + 1.10%	At maturity	Monthly
Senior Notes due 2021	—	400.0	1/21	5.75	% At maturity	Semi-Annual
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	—	1/28	3.63	% At maturity	Semi-Annual
Mortgage notes payable	154.9	114.9	12/18-5/40	3.31%-6.88%	Monthly	Monthly
	\$ 1,293.9	\$ 1,271.9				

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

(3) Includes cash flow projections related to the construction of one building in Seattle, Washington and the redevelopment of a building in Charlotte, North Carolina. This amount includes \$1.8 million of invoices that were accrued and included in construction in progress on the Company's Consolidated Balance Sheet as of December 31, 2017.

(4) The Company has remaining tenant improvement allowances, excluding construction in progress, of approximately \$27.8 million. The Company expects to fund these improvements in 2018.

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Application of Critical Accounting Policies to Accounting Estimates

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

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

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

Principles of Consolidation

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

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

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

Capitalization of Costs

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

Direct costs of a development project generally include construction costs, professional services such as architectural and legal costs, travel expenses, and land acquisition costs as well as other types of fees and expenses. These costs are capitalized as part of the basis of an asset to which such costs relate. Indirect costs include capitalized interest and overhead costs. Indirect costs are capitalized during construction and on the unoccupied space in a property for up to one year after the certificate of substantial completion is received. 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.

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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, 2017 and 2016, the Company's Consolidated Balance Sheets include capitalized pursuit costs relating to potential developments totaling \$2.0 million and \$2.1 million respectively. The Company expensed costs related to acquisitions totaling \$2.0 million, \$4.2 million and \$1.7 million for the years ended December 31, 2017, 2016 and 2015, respectively. In addition, the Company expensed costs related to the pursuit of developments totaling \$0.2 million, \$0.3 million and \$0.7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Valuation of Long-Lived and Intangible Assets and Goodwill

Long-Lived Assets Held and Used

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

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

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

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

the purchase and sale agreement. Management will re-evaluate the recoverability of the property if and when significant changes occur as the transaction proceeds toward closing. Normally sale transactions will close within 15 to 30 days after the due diligence period expires. Upon expiration of the due diligence period, management will again re-evaluate the recoverability of the property, updating its assessment based on the status of the potential sale.

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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 2017 and 2016 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 \$5.4 million, \$0.1 million, and \$4.3 million, respectively, for the years ended December 31, 2017, 2016, and 2015 related to real estate properties and other long-lived assets. The impairment charges in 2017 related to two properties sold. The impairment charges in 2016 related to one property classified as held for sale, reducing the Company's carrying value on the property to the estimated fair value of the property less estimated costs to sell. The impairment charges in 2015 related to two properties sold and one property previously classified as held for sale, reducing the Company's carrying value on the properties to the estimated fair value of the property less estimated costs to sell.

Depreciation of Real Estate Assets and Amortization of Related Intangible Assets

As of December 31, 2017, the Company had investments of approximately \$3.6 billion in depreciable real estate assets and related intangible assets. When real estate assets and related intangible assets are acquired or placed in service, they must be depreciated or amortized. Management's judgment involves determining which depreciation method to use, estimating the economic life of the building and improvement components of real estate assets, and estimating the value of intangible assets acquired when real estate assets are purchased that have in-place leases. As described in more detail in Note 1 to the Consolidated Financial Statements, when the Company acquires real estate properties with in-place leases, the cost of the acquisition must be allocated between the acquired tangible real estate assets "as if vacant" and any acquired intangible assets. Such intangible assets could include above- (or below-) market in-place leases and at-market in-place leases, which could include the opportunity costs associated with

absorption period rentals, direct costs associated with obtaining new leases such as tenant improvements, and customer relationship assets. With regard to the

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elements of estimating the “as if vacant” values of the property and the intangible assets, including the absorption period, occupancy increases during the absorption period, and tenant improvement amounts, the Company uses the same absorption period and occupancy assumptions for similar property types. Any remaining excess purchase price is then allocated to goodwill. The identifiable tangible and intangible assets are then subject to depreciation and amortization. Goodwill is evaluated for impairment on an annual basis unless circumstances suggest that a more frequent evaluation is warranted.

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

Allowance for Doubtful Accounts and Credit Losses

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

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

The Company also evaluates collectability of any mortgage notes and notes receivable. A loan is impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan as scheduled, including both contractual interest and principal payments. This assessment also includes an evaluation of any loan collateral.

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

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

existence of a guarantor and the willingness and ability of the guarantor to pay the receivable.

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

Derivative Instruments

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

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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 and mortgage notes receivable. Management uses regular monitoring of market conditions and analysis techniques to manage this risk. As of December 31, 2017, \$0.9 billion of the Company's \$1.3 billion of outstanding debt bore interest at fixed rates, excluding the Company's interest rate swaps which convert a portion of the Unsecured Term Loan due 2022 from variable interest to a fixed interest rate.

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

(Dollars in thousands)	Outstanding Principal Balance as of December 31, 2017	Calculated Annual Interest	Impact on Earnings and Cash Flows	
			Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates
Variable Rate Debt:				
Unsecured Credit Facility	\$ 189,000	\$ 4,846	\$ (296)	\$ 296
Unsecured Term Loan due 2022 ⁽¹⁾	150,000	4,155	(416)	416
	\$ 339,000	\$ 9,001	\$ (712)	\$ 712

⁽¹⁾ As of December 31, 2017 the Company had interest rate swaps that fix the interest rate of \$25.0 million of the Unsecured Term Loan due 2022.

(Dollars in thousands)	Carrying Value as of December 31, 2017	Fair Value			
		December 31, 2017	Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates	December 31, 2016 ⁽¹⁾
Fixed Rate Debt:					
Senior Notes due 2021 ⁽²⁾	\$ —	\$—	\$ —	\$ —	\$ 414,837
Senior Notes due 2023 ⁽²⁾	247,703	240,281	235,297	245,368	238,150
Senior Notes due 2025 ⁽²⁾	248,044	241,324	234,856	248,148	239,563
Senior Notes due 2028 ⁽²⁾	294,757	294,848	286,034	304,526	—
Mortgage Notes Payable ⁽²⁾	155,382	155,301	153,134	157,519	115,504
	\$ 945,886	\$931,754	\$ 909,321	\$ 955,561	\$ 1,008,054

Fair values as of December 31, 2016 represent fair values of obligations that were outstanding as of that date, and (1) do not reflect the effect of any subsequent changes in principal balances and/or additions or extinguishments of instruments.

⁽²⁾ Balances are presented net of discounts. Level 2 – model-derived valuations in which significant inputs and significant value drivers are observable in active markets.

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Item 8. Financial Statements and Supplementary Data
Report of Independent Registered Public Accounting Firm
Board of Directors and Stockholders
Healthcare Realty Trust Incorporated
Nashville, Tennessee
Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Healthcare Realty Trust Incorporated (the "Company") and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, 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, 2017, 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 14, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

/s/ BDO USA, LLP

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

Nashville, Tennessee
February 14, 2018

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Healthcare Realty Trust Incorporated

Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	December 31,	
	2017	2016
ASSETS		
Real estate properties:		
Land	\$201,283	\$199,672
Buildings, improvements and lease intangibles	3,601,460	3,386,480
Personal property	10,314	10,291
Construction in progress	5,458	11,655
Land held for development	20,123	20,123
	3,838,638	3,628,221
Less accumulated depreciation	(897,430)	(840,839)
Total real estate properties, net	2,941,208	2,787,382
Cash and cash equivalents	6,215	5,409
Restricted cash	—	49,098
Assets held for sale and discontinued operations, net	33,147	3,092
Other assets, net	213,015	195,666
Total assets	\$3,193,585	\$3,040,647
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes and bonds payable	\$1,283,880	\$1,264,370
Accounts payable and accrued liabilities	70,995	78,266
Liabilities of assets held for sale and discontinued operations	93	614
Other liabilities	48,734	43,983
Total liabilities	1,403,702	1,387,233
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; 300,000 and 150,000 shares authorized; 125,132 and 116,417 shares issued and outstanding at December 31, 2017 and 2016, respectively.	1,251	1,164
Additional paid-in capital	3,173,429	2,917,914
Accumulated other comprehensive loss	(1,299)	(1,401)
Cumulative net income attributable to common stockholders	1,018,348	995,256
Cumulative dividends	(2,401,846)	(2,259,519)
Total stockholders' equity	1,789,883	1,653,414
Total liabilities and stockholders' equity	\$3,193,585	\$3,040,647
See accompanying notes.		

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

	Year Ended December 31,		
	2017	2016	2015
REVENUES			
Rental income	\$422,852	\$407,481	\$383,333
Mortgage interest	—	—	91
Other operating	1,647	4,149	5,047
	424,499	411,630	388,471
EXPENSES			
Property operating	157,233	146,458	140,195
General and administrative	32,992	31,309	24,716
Acquisition and pursuit costs	2,180	4,496	2,209
Depreciation and amortization	142,472	127,690	116,614
Bad debt, net of recoveries	169	(21)	(193)
	335,046	309,932	283,541
OTHER INCOME (EXPENSE)			
Gain on sales of real estate assets	39,519	41,038	56,602
Interest expense	(56,402)	(57,351)	(65,534)
Loss on extinguishment of debt	(44,985)	—	(27,998)
Pension termination	—	(4)	(5,260)
Impairment of real estate assets	(5,385)	—	(3,639)
Impairment of internally-developed software	—	—	(654)
Interest and other income, net	896	375	389
	(66,357)	(15,942)	(46,094)
INCOME FROM CONTINUING OPERATIONS	23,096	85,756	58,836
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations	(9)	(71)	715
Impairments of real estate assets	—	(121)	(686)
Gain on sales of real estate properties	5	7	10,571
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(4)	(185)	10,600
NET INCOME	\$23,092	\$85,571	\$69,436
BASIC EARNINGS PER COMMON SHARE:			
Income from continuing operations	\$0.18	\$0.79	\$0.59
Discontinued operations	0.00	0.00	0.11
Net income	\$0.18	\$0.79	\$0.70
DILUTED EARNINGS PER COMMON SHARE:			
Income from continuing operations	\$0.18	\$0.78	\$0.59
Discontinued operations	0.00	0.00	0.11
Net income	\$0.18	\$0.78	\$0.70
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	117,926	108,572	99,171
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	118,017	109,387	99,880
See accompanying notes.			

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Healthcare Realty Trust Incorporated
 Consolidated Statements of Comprehensive Income
 (Amounts in thousands)

	Year Ended December 31,		
	2017	2016	2015
NET INCOME	\$23,092	\$85,571	\$69,436
Other comprehensive income:			
Defined benefit plans:			
Reclassification adjustment for losses included in net income (Pension termination)	—	—	2,519
Interest rate swaps:			
Reclassification adjustment for losses included in net income (Interest expense)	176	168	115
Losses arising during the period	(74)	—	—
Losses on settlement of swaps arising during the period	—	—	(1,684)
Other comprehensive income	102	168	950
COMPREHENSIVE INCOME	\$23,194	\$85,739	\$70,386
See accompanying notes.			

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Healthcare Realty Trust Incorporated

Consolidated Statements of Equity

(Amounts in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Net Income	Cumulative Dividends	Total Stockholders' Equity
Balance at December 31, 2014	\$ —	\$ 988	\$ 2,389,830	\$ (2,519)	\$ 840,249	\$(2,007,494)	\$ 1,221,054
Issuance of stock, net of costs	—	25	66,886	—	—	—	66,911
Common stock redemption	—	—	(1,367)	—	—	—	(1,367)
Stock-based compensation	—	2	6,027	—	—	—	6,029
Net income	—	—	—	—	69,436	—	69,436
Amounts reclassified from accumulated other comprehensive loss arising from loss on defined benefit pension plan	—	—	—	2,519	—	—	2,519
Dividends to common stockholders (\$1.20 per share)	—	—	—	—	—	(120,266)	(120,266)
Loss on forward starting interest rate swaps	—	—	—	(1,569)	—	—	(1,569)
Balance at December 31, 2015	—	1,015	2,461,376	(1,569)	909,685	(2,127,760)	1,242,747
Issuance of stock, net of costs	—	140	450,409	—	—	—	450,549
Common stock redemption	—	—	(1,460)	—	—	—	(1,460)
Stock-based compensation	—	9	7,589	—	—	—	7,598
Net income	—	—	—	—	85,571	—	85,571
Loss on forward starting interest rate swaps	—	—	—	168	—	—	168
Dividends to common stockholders (\$1.20 per share)	—	—	—	—	—	(131,759)	(131,759)
Balance at December 31, 2016	—	1,164	2,917,914	(1,401)	995,256	(2,259,519)	1,653,414
Issuance of stock, net of costs	—	84	248,508	—	—	—	248,592
Common stock redemption	—	(1)	(3,017)	—	—	—	(3,018)
Stock-based compensation	—	4	10,024	—	—	—	10,028
Net income	—	—	—	—	23,092	—	23,092
Loss on interest rate swaps	—	—	—	102	—	—	102
Dividends to common stockholders (\$1.20 per share)	—	—	—	—	—	(142,327)	(142,327)
Balance at December 31, 2017	\$ —	\$ 1,251	\$ 3,173,429	\$ (1,299)	\$ 1,018,348	\$(2,401,846)	\$ 1,789,883

See accompanying notes.

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

	Year Ended December 31,		
	2017	2016	2015
OPERATING ACTIVITIES			
Net income	\$23,092	\$85,571	\$69,436
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	142,472	127,690	116,614
Other amortization	3,879	3,351	3,749
Stock-based compensation	10,028	7,598	6,029
Amortization of straight-line rent receivable	(6,072)	(7,201)	(9,600)
Amortization of straight-line rent liability	1,497	67	771
Gain on sales of real estate assets	(39,524)	(41,044)	(67,229)
Loss on extinguishment of debt	44,985	—	27,998
Impairment of real estate assets	5,385	121	4,325
Pension termination	—	—	5,260
Impairment of internally-developed software	—	—	654
Equity income from unconsolidated joint ventures	(7)	—	—
Provision for bad debts, net	159	(21)	(194)
Changes in operating assets and liabilities:			
Other assets	(2,156)	(1,332)	(2,932)
Accounts payable and accrued liabilities	(7,307)	449	(2,202)
Other liabilities	3,335	(23,977)	1,304
Net cash provided by operating activities	179,766	151,272	153,983
INVESTING ACTIVITIES			
Acquisitions of real estate	(274,668)	(224,944)	(154,858)
Development of real estate	(14,911)	(34,719)	(17,354)
Additional long-lived assets	(80,613)	(71,433)	(48,769)
Investment in unconsolidated joint ventures	(8,701)	—	—
Proceeds from sales of real estate	119,426	93,253	153,281
Proceeds from mortgages and notes receivable repayments	19	19	1,918
Net cash used in investing activities	(259,448)	(237,824)	(65,782)
FINANCING ACTIVITIES			
Net borrowings (repayments) on unsecured credit facility	82,000	(99,000)	121,000
Repayment on term loan	—	(50,000)	—
Borrowings of notes and bonds payable	297,459	11,500	249,793
Repayments on notes and bonds payable	(5,829)	(37,910)	(72,724)
Redemption of notes and bonds payable	(442,774)	—	(326,830)
Dividends paid	(142,327)	(131,759)	(120,266)
Net proceeds from issuance of common stock	248,554	450,503	66,942
Common stock redemptions	(1,686)	(1,756)	(1,367)
Settlement of swaps	—	—	(1,684)
Debt issuance and assumption costs	(4,007)	(4,621)	(2,482)
Net cash provided by (used in) financing activities	31,390	136,957	(87,618)
Increase (decrease) in cash, cash equivalents and restricted cash	(48,292)	50,405	583
Cash, cash equivalents and restricted cash at beginning of period	54,507	4,102	3,519
Cash, cash equivalents and restricted cash at end of period	\$6,215	\$54,507	\$4,102

Supplemental Cash Flow Information:

Interest paid	\$64,395	\$55,878	\$69,773
Mortgage notes payable assumed upon acquisition (adjusted to fair value)	\$46,374	\$13,951	\$28,783
Invoices accrued for construction, tenant improvements and other capitalized costs	\$8,303	\$11,734	\$10,431
Capitalized interest	\$871	\$1,258	\$239
See accompanying notes.			

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business Overview

Healthcare Realty Trust Incorporated (the "Company") is a real estate investment trust ("REIT") that owns, leases, manages, acquires, finances, develops and redevelops income-producing real estate properties associated primarily with the delivery of outpatient healthcare services throughout the United States of America. The Company had gross investments of approximately \$3.8 billion in 201 real estate properties, construction in progress, land held for development and corporate property as of December 31, 2017. The Company's 201 owned real estate properties are located in 27 states and total approximately 14.6 million square feet. The Company provided property management services to approximately 11.5 million square feet nationwide. Square footage and property count disclosures in this Annual Report on Form 10-K are unaudited.

Principles of Consolidation

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

In accordance with the consolidation accounting standards, the Company must evaluate each contractual relationship it has with its lessees, borrowers, or others to determine whether or not the contractual arrangement creates a variable interest in those entities. If the Company determines that it has a variable interest and the entity is a VIE, then management must determine whether or not the Company is the primary beneficiary of the VIE, resulting in consolidation of the VIE if the Company is the primary beneficiary. A primary beneficiary has the power to direct those activities of the VIE that most significantly impact its economic performance and has the obligation to absorb the losses of, or receive the benefits from, the VIE. The Company had no VIEs as of December 31, 2017 and 2016. The Company's investments in its unconsolidated joint ventures are included in other assets and the related equity income is recognized 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 \$3.8 billion as of December 31, 2017 and \$3.6 billion as of December 31, 2016.

During 2017 and 2016, the Company eliminated against accumulated depreciation approximately \$10.2 million and \$6.7 million, respectively, of fully amortized real estate intangibles that were initially recorded as a component of certain real estate acquisitions. Also during 2017 and 2016, approximately \$2.6 million and \$0.1 million of fully depreciated tenant and capital improvements that were no longer in service were eliminated against accumulated depreciation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Depreciation expense for the three years ended December 31, 2017, 2016 and 2015 was \$129.4 million, \$116.5 million and \$106.5 million, respectively. Depreciation and amortization of real estate assets and liabilities in place as of December 31, 2017, is provided for on a straight-line basis over the asset's estimated useful life:

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

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

Land Held for Development

Land held for development includes parcels of land owned by the Company, upon which the Company intends to develop and own outpatient healthcare facilities. The Company's investment in six parcels of land held for development located adjacent to certain of the Company's existing medical office buildings in Texas, Iowa and Tennessee totaled approximately \$20.1 million as of December 31, 2017 and 2016.

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

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. Where appropriate, the intangible assets recorded could include goodwill or customer relationship assets. The values related to above- or below-market in-place lease intangibles are amortized over the remaining term of the leases upon acquisition to rental income where the Company is the lessor and to property operating expense where the Company is the lessee, and are amortized over the remaining term of the leases upon acquisition.

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

The Company also estimates an absorption period, which can vary by property, assuming the building is vacant and must be leased up to the actual level of occupancy when acquired. During that absorption period, the owner would incur direct costs, such as tenant improvements, and would suffer lost rental income. Likewise, the owner would have

acquired a measurable asset in that, assuming the building was vacant, certain fixed costs would be avoided because the actual in-place lessees would reimburse a certain portion of fixed costs through expense reimbursements during the absorption period.

All of these intangible assets (above- or below-market lease, tenant improvement costs avoided, leasing costs avoided, rental income lost, and expenses recovered through in-place lessee reimbursements) are estimated and recorded in amounts equal to the present value of estimated future cash flows. The actual purchase price is allocated based on the various asset fair values described above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, and any goodwill recorded would be reviewed for impairment at least annually.

The fair values of at-market in-place lease and other intangible assets are amortized and reflected in amortization expense in the Company's Consolidated Statements of Income. 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.

During 2017, in connection with the sale of a medical office building, the Company recorded an impairment charge in continuing operations of approximately \$5.1 million based on the contractual sales price, a level one input. The Company used level one inputs to record an impairment charge in continuing operations of approximately \$0.3 million related to another property sold during 2017, reducing the Company's carrying value to the estimated fair value of the property less costs to sell prior to sale.

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, 2017 and 2016, the Company had \$1.3 million and \$1.4 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 carrying amount approximates fair value due to the short term maturity of these investments. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Company's Consolidated Balance Sheets with the same amounts shown on the Company's Consolidated Statements of Cash Flows:

(Dollars in thousands)	December 31,	
	2017	2016
Cash and cash equivalents	\$6,215	\$5,409
Restricted cash	—	49,098
Total cash, cash equivalents and restricted cash	\$6,215	\$54,507

Allowance for Doubtful Accounts and Credit Losses

Accounts Receivable

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

Mortgage Notes

The Company had no mortgage notes receivable outstanding as of December 31, 2017 and 2016 and no allowances were recorded on mortgage notes receivables during 2017 or 2016. The Company evaluates collectibility of any mortgage notes and records allowances on the notes as necessary. A loan is impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan as scheduled, including both contractual interest and principal payments. This assessment also includes an evaluation of the loan collateral. If a mortgage loan becomes past due, the Company will review the specific circumstances and may discontinue the accrual of interest on the loan. The loan is not returned to accrual status until the debtor has demonstrated the ability to continue debt service in accordance with the contractual terms. Loans placed on non-accrual status will be accounted for either on a cash basis, in which income is recognized only upon receipt of cash, or on a cost-recovery basis, in which all cash receipts reduce the carrying value of the loan, based on the Company's expectation of future collectibility.

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 deferred financing costs. In-place lease and customer relationship intangible assets are amortized on a straight-line basis over the applicable lives of the assets. Deferred financing costs are amortized over the term of the related credit facility or other debt instrument under the straight-line method, which approximates amortization under the effective interest method. Goodwill is not amortized but is evaluated annually as of December 31 for impairment. Both the 2017 and 2016 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Contingent Liabilities

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

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

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

Stock-Based Compensation

The Company has various employee and director stock-based awards outstanding. These awards include non-vested common stock and options to purchase common stock granted to employees pursuant to the 2015 Stock Incentive Plan and its predecessor plans (the "2015 Incentive Plan") and the 2000 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan"). The Company recognizes share-based payments to employees and directors in the Consolidated Statements of Income on a straight-line basis over the requisite service period based on the fair value of the award on the measurement date.

The Employee Stock Purchase Plan features a "look-back" provision which enables the employee to purchase a fixed number of common shares at the lesser of 85% of the market price on the date of grant or 85% of the market price on the date of exercise, with optional purchase dates occurring once each quarter for 27 months. The Company accounts for awards to its employees under the Employee Stock Purchase Plan based on fair value, using the Black-Scholes model, and generally recognizes expense over the award's vesting period, net of estimated forfeitures. Since the options granted under the Employee Stock Purchase Plan immediately vest, the Company records compensation expense for those options when they are granted in the first quarter of each year and then may record additional compensation expense in subsequent quarters as warranted. In each of the years ended December 31, 2017, 2016 and 2015, the Company recognized in general and administrative expenses approximately \$0.2 million of compensation expense related to the annual grant of options to its employees to purchase shares under the Employee Stock Purchase Plan.

See Note 13 for details on the Company's stock-based awards.

Accumulated Other Comprehensive Income (Loss)

Certain items must be included in comprehensive income, including items such as foreign currency translation adjustments, minimum pension liability adjustments, derivative instruments and unrealized gains or losses on available-for-sale securities. The Company's accumulated other comprehensive income (loss) as of December 31, 2017 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. As of December 31, 2016, the Company's accumulated other comprehensive income (loss) consisted only of 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 Recognition

The Company recognizes revenue when it is realized or realizable and earned. There are four criteria that must all be met before a Company may recognize revenue, including that persuasive evidence that an arrangement exists, delivery has occurred or services have been rendered (i.e., the tenant has taken possession of and controls the physical use of the leased asset), the price has been fixed or is determinable, and collectibility is reasonably assured. Income received

but not yet earned is deferred until such time it is earned. Deferred revenue, included in other liabilities on the Consolidated Balance Sheets, was \$36.0 million and \$32.4 million, respectively, as of December 31, 2017 and 2016 which includes deferred tenant improvement reimbursements of \$20.1 million and \$20.6 million, respectively, which will be recognized as revenue over the life of each respective lease.

The Company derives most of its revenues from its real estate property portfolio. The Company's rental and mortgage interest income is recognized based on contractual arrangements with its tenants, sponsoring health systems or borrowers. These contractual arrangements fall into three categories: leases, mortgage notes receivable, and property operating agreements as described in the following paragraphs. The Company may accrue late fees based on the contractual terms of a lease or note. Such fees, if accrued, are included in rental income or mortgage interest income on the Company's Consolidated Statements of Income, based on the type of contractual agreement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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:

	Year Ended December 31,		
(Dollars in thousands)	2017	2016	2015
Property operating income	\$363,907	\$336,409	\$306,550
Single-tenant net lease	52,873	63,871	67,238
Straight-line rent	6,072	7,201	9,545
Rental income	\$422,852	\$407,481	\$383,333

Operating expense recoveries, included in property operating income, were approximately \$73.4 million, \$66.0 million and \$58.9 million, respectively, for the years ended December 31, 2017, 2016 and 2015.

Mortgage Interest Income

Interest income on the Company's mortgage notes receivable is recognized based on the interest rates, maturity dates and amortization periods in accordance with each note agreement. The Company has no outstanding mortgage notes receivable as of December 31, 2017, 2016 and 2015. The Company amortizes any fees paid related to its mortgage notes receivable to mortgage interest income over the term of the loan on a straight-line basis which approximates amortization under the effective interest method.

Other Operating Income

Other operating income on the Company's Consolidated Statements of Income was comprised of the following:

	Year Ended December 31,		
(Dollars in thousands)	2017	2016	2015
Property lease guaranty revenue	\$726	\$3,058	\$3,890
Interest income	361	473	579
Management fee income	276	369	370
Other	284	249	208
	\$1,647	\$4,149	\$5,047

One, two and five of the Company's owned real estate properties as of December 31, 2017, 2016 and 2015, respectively, were covered under property operating agreements between the Company and a sponsoring health system, which contractually obligate the sponsoring health system to provide to the Company a minimum return on the Company's investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the Company calculates and accrues to property lease guaranty revenue, each quarter, any shortfalls due from the sponsoring health systems under the terms of the property operating agreement.

Interest income generally relates to interest on tenant improvement reimbursements as defined in each note or lease agreement.

Management fees 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.

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 16 for further discussion.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, 2017.

Federal tax returns for the years 2014, 2015, 2016 and 2017 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 16 for further discussion.

Sales and Use Taxes

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

Discontinued Operations

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

Assets Held for Sale

Long-lived assets held for sale are reported at the lower of their carrying amount or their fair value less cost to sell estimate. 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 discontinued operations and assets held for sale.

Earnings per Share

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

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 14 for the calculations of earnings per share.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Reclassifications

Condensed Consolidated Statements of Income

Certain reclassifications have been made on the Company's Condensed Consolidated Statements of Income. The Company reclassified acquisition and pursuit costs from the general and administrative line item to a separate line item. The acquisition and pursuit costs line item includes direct third party and travel costs related to the Company's pursuit of acquisitions and developments. In addition, the Company combined the line items labeled depreciation and amortization into one line item. These reclassifications are as follows:

(in thousands)	Year Ended December 31,			
	2016		2015	
	As Previously Reported	As Reclassified	As Previously Reported	As Reclassified
General and administrative	\$35,805	\$ 31,309	\$26,925	\$ 24,716
Acquisition and pursuit costs	—	4,496	—	2,209
Total	\$35,805	\$ 35,805	\$26,925	\$ 26,925
Depreciation	\$116,483	\$ —	\$106,530	\$ —
Amortization	11,207	—	10,084	—
Depreciation and amortization	—	127,690	—	116,614
Total	\$127,690	\$ 127,690	\$116,614	\$ 116,614

New Accounting Pronouncements

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

(in thousands)	Year Ended December 31,			
	2017		2016	
	As Reported	As Reclassified	As Previously Reported	As Reclassified
REVENUES				
Rental income	\$422,852	\$ 416,727	\$407,481	\$ 401,989
Other operating	1,647	8,011	4,149	9,966
	\$424,499	\$ 424,738	\$411,630	\$ 411,955
OTHER INCOME (EXPENSE)				
Interest and other income, net	\$896	\$ 658	\$375	\$ 50
INCOME FROM CONTINUING OPERATIONS	\$23,096	\$ 23,096	\$85,756	\$ 85,756

Accounting Standards Update No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, "Leases." For lessees, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company expects that all of the leases where the Company is the lessee will be recorded on the Company's balance sheet. See Note 15 for a discussion of leases where the Company is the lessee. For lessors, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor doesn't convey risks and rewards or control, then the lease would be classified as an operating lease. The Company has historically only entered into operating leases.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is evaluating the impact from the adoption of this new standard on the Consolidated Financial Statements and related notes.

Accounting Standards Update No. 2016-13

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This update is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other such commitments. This update requires that financial statement assets measured at an amortized cost and certain other financial instruments be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. This standard is effective for annual and interim periods beginning after

December 15, 2019 with early adoption permitted. The Company is in the initial stages of evaluating the impact from the adoption of this new standard on the Consolidated Financial Statements and related notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Accounting Standards Update No. 2016-15

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

This standard is effective for the Company for annual and interim periods beginning on January 1, 2018 with early adoption permitted on a retrospective transition method to each period presented. The Company adopted this standard effective January 1, 2017. In connection with the adoption of this update, the Company elected to use the cumulative earnings approach to classify distributions when received related to the Company's equity method investments. There was not a material impact on the Company's Consolidated Financial Statements and related notes resulting from the adoption of this standard. However, the Company made the following reclassification of accrued interest related to the early extinguishment of debt on its Statements of Cash Flows for the year ended December 31, 2015:

	Year Ended December 31, 2015	
(in thousands)	As Previously Reported	As Reclassified
Cash flows used in financing activities	\$(94,010)	\$ (87,618)
Cash flows provided by operating activities	\$ 160,375	\$ 153,983

Accounting Standards Update No. 2017-01

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

Accounting Standards Update No. 2017-04

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

adoption of this standard.

Accounting Standards Update No. 2017-05

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

Accounting Standards Update No. 2017-09

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Accounting Standards Update No. 2017-12

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities." The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The transition guidance allows for early adoption of the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. The modified retrospective transition method will require the Company to recognize the cumulative effect of initially applying this standard as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the update. The Company adopted this standard in the fourth quarter of 2017. The Company entered into two interest rate swaps in December 2017 in which the Company elected hedge accounting in compliance with this standard. The Company had no active hedging relationships upon the adoption of this standard and therefore, the adoption of the standard did not have an impact on the Company's Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2. Property Investments

The Company invests in healthcare-related properties located throughout the United States. The Company provides management, leasing, development and redevelopment services, and capital for the construction of new facilities as well as for the acquisition of existing properties. The Company had gross investments of approximately \$3.8 billion in 201 real estate properties, land held for development and corporate property as of December 31, 2017. The following table summarizes the Company's investments at December 31, 2017.

(Dollars in thousands)	Number of Facilities	Land	Buildings, Improvements, and Lease Intangibles	Personal Property	Total	Accumulated Depreciation
Medical office/outpatient:						
Seattle, Washington	17	\$24,560	\$ 403,614	\$ 378	\$428,552	\$(52,457)
Dallas, Texas	24	12,472	365,657	416	378,545	(128,557)
Atlanta, Georgia	8	1,015	187,042	—	188,057	(1,203)
Los Angeles, California	11	27,709	141,681	277	169,667	(71,808)
Charlotte, North Carolina	16	4,200	163,603	95	167,898	(56,355)
Nashville, Tennessee	5	3,143	149,859	278	153,280	(43,000)
Richmond, Virginia	7	—	146,176	98	146,274	(32,299)
Honolulu, Hawaii	3	8,327	132,847	159	141,333	(30,066)
Denver, Colorado	6	4,086	122,689	271	127,046	(18,736)
San Francisco, California	3	14,054	103,938	43	118,035	(12,223)
Oklahoma City, Oklahoma	2	7,673	101,432	6	109,111	(10,890)
Washington, D.C.	4	—	100,570	—	100,570	(15,826)
Austin, Texas	4	12,756	85,961	105	98,822	(17,498)
San Antonio, Texas	7	6,647	88,129	370	95,146	(34,514)
Memphis, Tennessee	7	5,241	88,517	160	93,918	(31,675)
Des Moines, Iowa	6	12,665	79,214	94	91,973	(18,263)
Chicago, Illinois	3	5,859	79,295	200	85,354	(15,476)
Indianapolis, Indiana	3	3,299	71,641	—	74,940	(18,742)
Other (22 markets)	52	38,598	678,196	1,163	717,957	(206,844)
	188	192,304	3,290,061	4,113	3,486,478	(816,432)
Inpatient:						
Springfield, Missouri	1	1,989	109,304	—	111,293	(12,046)
Dallas, Texas	1	4,442	92,990	—	97,432	(19,538)
Erie, Pennsylvania	1	—	21,355	—	21,355	(15,152)
Los Angeles, California	1	—	12,688	—	12,688	(7,606)
Denver, Colorado	1	623	10,788	—	11,411	(1,781)
	5	7,054	247,125	—	254,179	(56,123)
Other:						
Des Moines, Iowa	1	—	40,354	5	40,359	(7,704)
Johnson City, Tennessee	1	253	7,319	408	7,980	(2,798)
Austin, Texas	1	1,480	3,872	2	5,354	(164)
Fenton, Michigan	1	40	3,468	32	3,540	(2,738)
Ovid, Michigan	1	62	3,188	49	3,299	(2,096)
Fremont, Michigan	1	7	3,242	35	3,284	(2,565)
St. Louis, Michigan	1	31	1,735	33	1,799	(1,341)
Detroit, Michigan	1	52	1,096	34	1,182	(829)
	8	1,925	64,274	598	66,797	(20,235)

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Land Held for Development	—	20,123	—	—	20,123	(239)
Construction in Progress	—	—	5,458	—	5,458	—	
Corporate Property	—	—	—	5,603	5,603	(4,401)
	—	20,123	5,458	5,603	31,184	(4,640)
Total real estate investments	201	\$221,406	\$ 3,606,918	\$ 10,314	\$3,838,638	\$ (897,430)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

3. Real Estate Leases

Real Estate Leases

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

Future minimum lease payments under the non-cancelable operating leases and guaranteed amounts payable to the Company under property operating agreements as of December 31, 2017 are as follows (in thousands):

2018	\$330,526
2019	282,910
2020	236,454
2021	196,346
2022	168,183
2023 and thereafter	544,677
	\$1,759,096

Revenue Concentrations

The Company's real estate portfolio is leased to a diverse tenant base. The Company's largest revenue concentration is with Baylor Scott & White Health and its affiliates which accounted for 9.7%, 9.8% and 9.8% of the Company's consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively.

Purchase Option Provisions

Certain of the Company's leases include purchase option provisions. The provisions vary by agreement but generally allow the lessee to purchase the property covered by the agreement at fair market value or an amount equal to the Company's gross investment. The Company expects that the purchase price from its purchase options will be greater than its net investment in the properties at the time of potential exercise by the lessee. The Company had approximately \$95.2 million in four real estate properties as of December 31, 2017 that were subject to purchase options that were exercisable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

4. Acquisitions, Dispositions and Mortgage Repayments

2017 Real Estate Acquisitions

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

(Dollars in millions)	Type ⁽¹⁾	Date Acquired	Purchase Price	Mortgage Notes Payable Assumed ⁽²⁾	Cash Consideration ⁽³⁾	Real Estate ⁽⁴⁾	Other ⁽⁴⁾	Square Footage (Unaudited)
Real estate acquisitions								
St. Paul, Minnesota	MOB	3/6/17	\$ 13.5	\$ —	\$ 13.5	\$13.3	\$0.2	34,608
San Francisco, California	MOB	6/12/17	26.8	—	26.8	26.8	—	75,649
Washington, D.C.	MOB	6/13/17	24.0	(12.1)	12.5	24.8	(0.2)	62,379
Los Angeles, California	MOB	7/31/17	16.3	—	16.7	16.9	(0.2)	42,780
Atlanta, Georgia	MOB	11/1/17	25.5	—	25.5	26.3	(0.8)	76,944
Atlanta, Georgia	MOB	11/1/17	30.3	—	30.7	30.7	—	74,024
Atlanta, Georgia ⁽⁵⁾	MOB	11/1/17	49.7	—				