

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

HEALTHCARE REALTY TRUST INC

Form 10-Q

November 01, 2018

false--12-31Q320182018-09-300000899749falseLarge Accelerated

Filerfalse0.900.010.013000000003000000001251320001252370001251320001252370000.01100.010.0150000000500000000

0000899749 2018-01-01 2018-09-30 0000899749 2018-10-26 0000899749 2018-09-30 0000899749 2017-12-31

0000899749 2017-01-01 2017-09-30 0000899749 2018-07-01 2018-09-30 0000899749 2017-07-01 2017-09-30

0000899749 hr:CumulativeDividendsMember 2018-01-01 2018-09-30 0000899749

us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-09-30 0000899749 hr:CumulativeDividendsMember

2018-09-30 0000899749 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0000899749

hr:CumulativeNetIncomeMember 2018-09-30 0000899749 hr:CumulativeNetIncomeMember 2017-12-31

0000899749 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-09-30 0000899749

us-gaap:AdditionalPaidInCapitalMember 2018-09-30 0000899749 hr:CumulativeDividendsMember 2017-12-31

0000899749 us-gaap:CommonStockMember 2018-01-01 2018-09-30 0000899749

us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000899749

us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-09-30 0000899749 us-gaap:CommonStockMember

2017-12-31 0000899749 hr:CumulativeNetIncomeMember 2018-01-01 2018-09-30 0000899749

us-gaap:CommonStockMember 2018-09-30 0000899749 2016-12-31 0000899749 2017-09-30 0000899749

hr:ParkingIncomeMember 2018-07-01 2018-09-30 0000899749 hr:MiscellaneousMember 2018-07-01 2018-09-30

0000899749 hr:RentalLeaseGuarantyMember 2018-01-01 2018-09-30 0000899749 hr:ParkingIncomeMember

2018-01-01 2018-09-30 0000899749 hr:ParkingIncomeMember 2017-01-01 2017-09-30 0000899749

hr:ManagementFeeIncomeMember 2017-07-01 2017-09-30 0000899749 hr:RentalLeaseGuarantyMember

2018-07-01 2018-09-30 0000899749 hr:RentalLeaseGuarantyMember 2017-07-01 2017-09-30 0000899749

hr:RentalLeaseGuarantyMember 2017-01-01 2017-09-30 0000899749 hr:MiscellaneousMember 2017-07-01

2017-09-30 0000899749 hr:ManagementFeeIncomeMember 2018-01-01 2018-09-30 0000899749

hr:MiscellaneousMember 2018-01-01 2018-09-30 0000899749 hr:MiscellaneousMember 2017-01-01 2017-09-30

0000899749 hr:ManagementFeeIncomeMember 2017-01-01 2017-09-30 0000899749

hr:ManagementFeeIncomeMember 2018-07-01 2018-09-30 0000899749 hr:ParkingIncomeMember 2017-07-01

2017-09-30 0000899749 srt:ScenarioPreviouslyReportedMember 2017-01-01 2017-09-30 0000899749

srt:ScenarioPreviouslyReportedMember 2017-07-01 2017-09-30 0000899749 2018-01-01 2018-03-31 0000899749

hr:RealEstateDispositionsMember naics:ZZ812930 2018-06-29 2018-06-29 0000899749 2018-04-26 2018-04-26

0000899749 hr:RealEstateAcquisitionsMember str:CO 2018-05-18 2018-05-18 0000899749

hr:RealEstateAcquisitionsMember 2018-01-01 2018-09-30 0000899749 hr:RealEstateAcquisitionsMember

hr:LandHeldForDevelopmentMember 2018-06-29 0000899749 2018-06-27 2018-06-27 0000899749

hr:RealEstateDispositionsMember str:MI 2018-06-27 2018-06-27 0000899749 hr:RealEstateAcquisitionsMember

hr:MedicalOfficeBuildingMember 2018-06-29 0000899749 hr:RealEstateDispositionsMember naics:ZZ812930

2018-06-29 0000899749 hr:RealEstateDispositionsMember str:MI 2018-06-27 0000899749

us-gaap:SegmentDiscontinuedOperationsMember 2018-09-30 0000899749

us-gaap:SegmentDiscontinuedOperationsMember 2017-12-31 0000899749 hr:RealEstateAcquisitionsMember

str:WA 2018-05-03 2018-05-03 0000899749 hr:RealEstateAcquisitionsMember str:CO 2018-08-24 2018-08-24

0000899749 hr:RealEstateAcquisitionsMember str:CO 2018-05-18 0000899749 hr:RealEstateAcquisitionsMember

str:WA 2018-06-29 0000899749 hr:RealEstateAcquisitionsMember str:OK 2018-05-21 2018-05-21 0000899749

hr:RealEstateAcquisitionsMember str:WA 2018-06-29 2018-06-29 0000899749 hr:RealEstateAcquisitionsMember

2018-09-30 0000899749 hr:RealEstateAcquisitionsMember str:WA 2018-05-03 0000899749

hr:RealEstateAcquisitionsMember str:OK 2018-05-21 0000899749 hr:RealEstateAcquisitionsMember str:CO

2018-08-24 0000899749 hr:RealEstateDispositionsMember str:VA 2018-04-26 0000899749

hr:RealEstateDispositionsMember str:MO 2018-08-30 2018-08-30 0000899749 hr:RealEstateDispositionsMember

str:MO 2018-08-30 0000899749 hr:RealEstateDispositionsMember str:VA 2018-04-26 2018-04-26 0000899749

hr:RealEstateDispositionsMember 2018-09-30 0000899749 hr:RealEstateDispositionsMember 2018-01-01

2018-09-30 0000899749 hr:SeniorNotesdue2023Member us-gaap:SeniorNotesMember 2018-09-30 0000899749

hr:TermLoandue2022Member us-gaap:MediumTermNotesMember 2018-09-30 0000899749

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

hr:MortgageNotesPayableNetMember us-gaap:MortgagesMember 2017-12-31 0000899749
hr:SeniorNotesdue2025Member us-gaap:SeniorNotesMember 2018-09-30 0000899749
hr:SeniorNotesdue2028Member us-gaap:SeniorNotesMember 2018-09-30 0000899749 hr:TermLoandue2022Member
us-gaap:MediumTermNotesMember 2017-12-31 0000899749 hr:MortgageNotesPayableNetMember
us-gaap:MortgagesMember 2018-09-30 0000899749 hr:SeniorNotesdue2025Member us-gaap:SeniorNotesMember
2017-12-31 0000899749 hr:UnsecuredCreditFacilityDue2020Member us-gaap:LineOfCreditMember 2017-12-31
0000899749 hr:UnsecuredCreditFacilityDue2020Member us-gaap:LineOfCreditMember 2018-09-30 0000899749
hr:SeniorNotesdue2023Member us-gaap:SeniorNotesMember 2017-12-31 0000899749
hr:SeniorNotesdue2028Member us-gaap:SeniorNotesMember 2017-12-31 0000899749
hr:SeniorNotesdue2025Member us-gaap:InterestRateSwapMember us-gaap:SeniorNotesMember 2018-01-01
2018-09-30 0000899749 hr:TermLoandue2022Member us-gaap:InterestRateSwapMember
us-gaap:MediumTermNotesMember 2018-09-30 0000899749 hr:TermLoandue2022Member
us-gaap:MediumTermNotesMember 2018-01-01 2018-09-30 0000899749 us-gaap:OtherAssetsMember
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0000899749
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0000899749
us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-09-30 0000899749 us-gaap:InterestRateSwapMember
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2018-01-01 2018-09-30 0000899749 us-gaap:InterestRateContractMember
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-01-01 2018-09-30
0000899749 us-gaap:InterestRateContractMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestExpenseMember 2017-01-01 2017-09-30
0000899749 us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2017-01-01 2017-09-30 0000899749 us-gaap:InterestRateContractMember
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2018-01-01 2018-09-30 0000899749 us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-01-01 2018-09-30 0000899749
us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-01-01 2018-09-30 0000899749
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2018-01-01 2018-09-30 0000899749 us-gaap:InterestRateSwapMember
us-gaap:CashFlowHedgingMember us-gaap:DesignatedAsHedgingInstrumentMember
us-gaap:InterestExpenseMember 2017-01-01 2017-09-30 0000899749 hr:SettledInterestRateSwapMember
2018-09-30 0000899749 hr:ActiveInterestRateSwapsMember 2018-09-30 0000899749
hr:MedicalOfficeBuildingExpansionMember str:NC 2018-09-30 0000899749 hr:MedicalOfficeBuildingMember
str:CO 2018-09-30 0000899749 hr:MedicalOfficeBuildingMember str:NC 2018-09-30 0000899749
us-gaap:EmployeeStockMember 2017-07-01 2017-09-30 0000899749 us-gaap:EmployeeStockMember 2018-01-01
2018-09-30 0000899749 us-gaap:EmployeeStockMember 2018-07-01 2018-09-30 0000899749
us-gaap:EmployeeStockMember 2016-12-31 0000899749 us-gaap:EmployeeStockMember 2017-01-01 2017-09-30
0000899749 us-gaap:EmployeeStockMember 2018-09-30 0000899749 us-gaap:EmployeeStockMember 2018-06-30
0000899749 us-gaap:EmployeeStockMember 2017-09-30 0000899749 us-gaap:EmployeeStockMember 2017-12-31
0000899749 us-gaap:EmployeeStockMember 2017-06-30 0000899749 hr:StockIncentivePlanMember 2018-09-30
0000899749 hr:StockIncentivePlanMember 2018-01-01 2018-09-30 0000899749 hr:StockIncentivePlanMember
2017-01-01 2017-09-30 0000899749 hr:StockIncentivePlanMember 2017-07-01 2017-09-30 0000899749
hr:StockIncentivePlanMember 2017-12-31 0000899749 hr:StockIncentivePlanMember 2017-09-30 0000899749
hr:StockIncentivePlanMember 2018-06-30 0000899749 hr:StockIncentivePlanMember 2018-07-01 2018-09-30
0000899749 hr:StockIncentivePlanMember 2016-12-31 0000899749 hr:StockIncentivePlanMember 2017-06-30
0000899749 us-gaap:RestrictedStockMember hr:StockIncentivePlanMember 2017-01-01 2017-09-30 0000899749
hr:AtTheMarketEquityOfferingProgramMember us-gaap:SubsequentEventMember 2018-10-26 0000899749
us-gaap:RestrictedStockMember hr:StockIncentivePlanMember 2018-01-01 2018-09-30 0000899749
us-gaap:SubsequentEventMember 2018-10-30 2018-10-30 0000899749

hr:AtTheMarketEquityOfferingProgramMember 2018-01-01 2018-09-30 0000899749
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2018-01-01 2018-09-30
0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-12-31
0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2018-09-30
0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-01-01
2017-09-30 0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember
2017-09-30 0000899749 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember
2016-12-31 0000899749 us-gaap:CommonStockMember 2017-01-01 2017-09-30 0000899749
us-gaap:CommonStockMember 2016-12-31 0000899749
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-09-30
0000899749 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
hr:AmountReclassifiedfromAOCIforSettledDerivativesAttributabletoParentMember 2018-01-01 2018-09-30
0000899749 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
hr:AmountReclassifiedfromAOCIforCurrentDerivativesAttributabletoParentMember 2018-01-01 2018-09-30
0000899749 us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31 0000899749
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2017-12-31 0000899749
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2018-09-30 0000899749
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-09-30 xbrli:pure hr:building iso4217:USD
xbrli:shares xbrli:shares utreg:acre iso4217:USD utreg:sqft hr:state hr:property hr:swap_agreement
[Table of Contents](#)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 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)

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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

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

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

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

As of October 26, 2018, the Registrant had 125,237,283 shares of Common Stock outstanding.

Table of Contents

HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-Q
September 30, 2018

TABLE OF CONTENTS

	Page
<u>Part I—Financial Information</u>	
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Condensed Consolidated Statement of Equity</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>28</u>
<u>Item 4. Controls and Procedures</u>	<u>28</u>
<u>Part II—Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>29</u>
<u>Item 1A. Risk Factors</u>	<u>29</u>
<u>Item 2. Unregistered Sales of Equity and Use of Proceeds</u>	<u>29</u>
<u>Item 6. Exhibits</u>	<u>30</u>
<u>Signature</u>	<u>31</u>

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	<i>(Unaudited)</i>	
	September 30, 2018	December 31, 2017
ASSETS		
Real estate properties:		
Land	\$ 217,322	\$ 201,283
Buildings, improvements and lease intangibles	3,669,852	3,601,460
Personal property	10,454	10,314
Construction in progress	26,960	5,458
Land held for development	24,645	20,123
	3,949,233	3,838,638
Less accumulated depreciation and amortization	(989,585)	(897,430)
Total real estate properties, net	2,959,648	2,941,208
Cash and cash equivalents	10,027	6,215
Assets held for sale, net	8,826	33,147
Other assets, net	222,582	213,015
Total assets	\$ 3,201,083	\$ 3,193,585
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes and bonds payable	\$ 1,344,759	\$ 1,283,880
Accounts payable and accrued liabilities	72,927	70,995
Liabilities of properties held for sale	141	93
Other liabilities	43,004	48,734
Total liabilities	1,460,831	1,403,702
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value per share; 50,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value per share; 300,000 shares authorized; 125,237 and 125,132 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,252	1,251
Additional paid-in capital	3,181,263	3,173,429
Accumulated other comprehensive income (loss)	473	(1,299)
Cumulative net income attributable to common stockholders	1,071,804	1,018,348
Cumulative dividends	(2,514,540)	(2,401,846)
Total stockholders' equity	1,740,252	1,789,883
Total liabilities and stockholders' equity	\$ 3,201,083	\$ 3,193,585

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Healthcare Realty Trust Incorporated
 Condensed Consolidated Statements of Income
 For the Three and Nine Months Ended September 30, 2018 and 2017
 (Amounts in thousands, except per share data)
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES				
Rental income	\$ 111,452	\$ 105,078	\$ 331,247	\$ 311,171
Other operating	2,010	1,947	5,973	5,816
	113,462	107,025	337,220	316,987
EXPENSES				
Property operating	44,135	40,628	127,691	116,663
General and administrative	8,504	8,021	25,977	24,720
Acquisition and pursuit costs	141	507	538	1,878
Depreciation and amortization	42,061	35,873	121,764	105,148
Bad debts, net of recoveries	(62	) 4	42	175
	94,779	85,033	276,012	248,584
OTHER INCOME (EXPENSE)				
Gain (loss) on sales of real estate assets	1,288	(7	) 30,879	39,525
Interest expense	(13,464	) (14,107	) (39,202	) (42,694
Impairment of real estate assets	—	(5,059	) —	(5,387
Interest and other income, net	41	354	571	396
	(12,135	) (18,819	) (7,752	) (8,160
NET INCOME	\$ 6,548	\$ 3,173	\$ 53,456	\$ 60,243
Basic earnings per common share	\$ 0.05	\$ 0.02	\$ 0.42	\$ 0.50
Diluted earnings per common share	\$ 0.05	\$ 0.02	\$ 0.42	\$ 0.50
Weighted average common shares outstanding - basic	123,300	119,098	123,281	116,181
Weighted average common shares outstanding - diluted	123,352	119,181	123,336	116,277
Dividends declared, per common share, during the period	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.90

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Healthcare Realty Trust Incorporated
 Condensed Consolidated Statements of Comprehensive Income
 For the Three and Nine Months Ended September 30, 2018 and 2017
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
NET INCOME	\$6,548	\$3,173	\$53,456	\$60,243
Other comprehensive income:				
Interest rate swaps:				
Reclassification adjustments for losses included in net income (interest expense)	95	43	369	127
Gains arising during the period on interest rate swaps	374	—	1,403	—
Total other comprehensive income	469	43	1,772	127
COMPREHENSIVE INCOME	\$7,017	\$3,216	\$55,228	\$60,370

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Healthcare Realty Trust Incorporated
 Condensed Consolidated Statement of Equity
 For the Nine Months Ended September 30, 2018
 (Dollars in thousands, except per share data)
 (Unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Net Income	Cumulative Dividends	Total Stockholders' Equity
Balance at December 31, 2017	\$ 1,251	\$3,173,429	\$ (1,299)	\$ 1,018,348	\$(2,401,846)	\$ 1,789,883
Issuance of common stock	—	464	—	—	—	464
Common stock redemptions	—	(719)	—	—	—	(719)
Share-based compensation	1	8,089	—	—	—	8,090
Net income	—	—	—	53,456	—	53,456
Reclassification adjustments for losses included in net income (interest expense)	—	—	369	—	—	369
Gains arising during the period on interest rate swaps	—	—	1,403	—	—	1,403
Dividends to common stockholders (\$0.90 per share)	—	—	—	—	(112,694)	(112,694)
Balance at September 30, 2018	\$ 1,252	\$3,181,263	\$ 473	\$ 1,071,804	\$(2,514,540)	\$ 1,740,252

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Healthcare Realty Trust Incorporated
 Condensed Consolidated Statements of Cash Flows
 For the Nine Months Ended September 30, 2018 and 2017
 (Dollars in thousands)
 (Unaudited)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	\$53,456	\$60,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	121,764	105,148
Other amortization	2,113	3,056
Share-based compensation	8,090	7,496
Amortization of straight-line rent receivable	(3,599)	(4,867)
Amortization of straight-line rent liability	1,147	492
Gain on sales of real estate assets	(30,879)	(39,525)
Impairment of real estate assets	—	5,387
Equity from unconsolidated joint ventures (income)	(15)	—
Distributions from unconsolidated joint ventures	182	—
Provision for bad debts, net	42	175
Changes in operating assets and liabilities:		
Other assets	(6,891)	(6,037)
Accounts payable and accrued liabilities	5,908	(3,301)
Other liabilities	(638)	1,098
Net cash provided by operating activities	150,680	129,365
INVESTING ACTIVITIES		
Acquisitions of real estate	(67,445)	(72,934)
Development of real estate	(21,059)	(11,753)
Additional long-lived assets	(59,802)	(52,305)
Proceeds from sales of real estate	64,271	119,425
Proceeds from notes receivable repayments	8	15
Net cash used in investing activities	(84,027)	(17,552)
FINANCING ACTIVITIES		
Net borrowings (repayments) on unsecured credit facility	56,000	(107,000)
Repayments of notes and bonds payable	(3,808)	(4,654)
Dividends paid	(112,694)	(104,860)
Net proceeds from issuance of common stock	459	248,384
Common stock redemptions	(2,673)	(1,125)
Debt issuance and assumption costs	(125)	(84)
Net cash (used in) provided by financing activities	(62,841)	30,661
Increase in cash and cash equivalents	3,812	142,474
Cash and cash equivalents at beginning of period	6,215	54,507
Cash and cash equivalents at end of period	\$10,027	\$196,981
Supplemental Cash Flow Information:		
Interest paid	\$30,463	\$42,136
Invoices accrued for construction, tenant improvements and other capitalized costs	\$5,680	\$6,842
Mortgage notes payable assumed upon acquisition (adjusted to fair value)	\$7,995	\$12,460
Capitalized interest	\$684	\$681

The accompanying notes, together with the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are an integral part of these financial statements.

[Table of Contents](#)**Healthcare Realty Trust Incorporated****Notes to the Condensed Consolidated Financial Statements****September 30, 2018****(Unaudited)****Note 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. As of September 30, 2018, the Company had gross investments of approximately \$3.9 billion in 201 real estate properties located in 27 states totaling approximately 14.8 million square feet. The Company provided leasing and property management services to approximately 11.1 million square feet nationwide.

Basis of Presentation

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements. However, except as disclosed herein, management believes there has been no material change in the information disclosed in the Notes to the Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017. All material intercompany transactions and balances have been eliminated in consolidation.

This interim financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Management believes that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. In addition, the interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2018 for many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effects of other trends, risks and uncertainties.

Use of Estimates in the Condensed Consolidated Financial Statements

Preparation of the Condensed Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

Revenue from Contracts with Customers (Topic 606)

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

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

<i>(in thousands)</i>	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
Type of Revenue	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Parking income	\$1,752	\$1,669	\$5,197	\$4,907
Rental lease guaranty	168	168	488	545
Management fee income	68	70	205	237

Miscellaneous

22	40	83	127
\$2,010	\$1,947	\$5,973	\$5,816

6

Table of Contents

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

Reclassifications**Condensed Consolidated Statements of Income**

Certain reclassifications have been made on the Company's Condensed Consolidated Statements of Income. After the adoption of Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," the Company's dispositions have not met the updated definition to be reported as discontinued operations. The Company had some residual impact from properties that were identified as discontinued operations prior to the adoption of ASU 2014-08. These amounts are considered immaterial and have been reclassified for the prior year presentation on the Company's Condensed Consolidated Statements of Income.

	Three months ended September 30, 2017		Nine months ended September 30, 2017	
	As Previously Reported	As Reclassified	As Previously Reported	As Reclassified
<i>(in thousands)</i>				
EXPENSES				
Property operating expense	\$40,626	\$ 40,628	\$116,644	\$ 116,663
Bad debt, net	14	4	185	175
OTHER INCOME (EXPENSE)				
Gain on sales of properties	(7	) (7	) 39,519	39,525
INCOME FROM CONTINUING OPERATIONS	\$3,165	\$ 3,173	\$60,247	\$ 60,243
DISCONTINUED OPERATIONS				
Income (loss) from discontinued operations	\$8	\$ —	\$(9) \$ —
Gain on sales of properties	—	—	5	—
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	\$8	\$ —	\$(4) \$ —

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 was effective for the Company for annual and interim periods beginning after December 15, 2017 with early adoption permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year.

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 determined that parking income, rental lease guaranty income and management fee income are within the scope of Topic 606. However, these items were determined to have the same pattern of revenue recognition that the Company had historically recognized. The Company reclassified these amounts along with all other items that are accounted for within the scope of Topic 606 into the Other operating line item on the Company's Condensed 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.

Table of Contents

The following table represents the impact of the adoption of this standard on the Company's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017:

<i>(in thousands)</i>	Three months ended		Nine months ended	
	September 30, 2017		September 30, 2017	
	As	As	As	As
	Reported	Reclassified	Reported	Reclassified
REVENUES				
Rental income	\$ 106,561	\$ 105,078	\$ 315,519	\$ 311,171
Other operating	392	1,947	1,249	5,816
	\$ 106,953	\$ 107,025	\$ 316,768	\$ 316,987
OTHER INCOME (EXPENSE)				
Interest and other income, net	\$ 426	\$ 354	\$ 616	\$ 396
NET INCOME	\$ 3,173	\$ 3,173	\$ 60,243	\$ 60,243

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

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

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

For lessees, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the income statement. The Company expects that most of the leases where the Company is the lessee will be recorded on the Company's balance sheet as operating leases. These leases are primarily ground leases, but also include the Company's corporate office lease, management office leases in third party buildings and certain copier and postage machine leases. The impact to the Company's Consolidated Balance Sheets has not yet been determined. The Company is in the process of working with consultants to determine the appropriate discount rate required to calculate the present value of the future lease payments for ground leases that have lease terms longer than typical secured financing allows.

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

practical expedient allowing the Company to not separate these components when certain conditions are met. The Company does not expect a material impact from the adoption of Topic 842 related to leases where the Company is the lessor.

The new standard is effective for the Company on January 1, 2019. Topic 842 provides two transition alternatives. The Company expects to choose the optional transition method available to apply the guidance in Accounting Standards Codification Topic 840 in the comparative periods presented in the year Topic 842 is adopted. Topic 842 includes extensive quantitative and qualitative disclosures as compared to Topic 840, Leases, for both lessees and lessors. The Company is continuing to evaluate the impact from the adoption of this new standard on the Consolidated Financial Statements and related notes.

Table of Contents

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.

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 exceptions to the financial asset derecognition model and clarifies the accounting for contributions of nonfinancial assets to joint ventures. The Company adopted this standard as of January 1, 2018 on the full retrospective adoption method. The adoption of this standard did not have a material impact to the Consolidated Financial Statements and related notes.

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. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact to the Consolidated Financial Statements and related notes.

Table of Contents**Note 2. Real Estate Investments****2018 Acquisitions**

The following table details the Company's acquisitions for the nine months ended September 30, 2018:

<i>(Dollars in millions)</i>	Type ⁽¹⁾	Date Acquired	Purchase Price	Mortgage Notes Payable Assumed ⁽²⁾	Cash Consideration ⁽³⁾	Real Estate	Other ⁽⁴⁾	Square Footage <i>(Unaudited)</i>
Seattle, Washington	MOB	5/4/18	\$ 7.8	\$ —	\$ 7.8	\$7.8	\$—	13,314
Denver, Colorado ⁽⁵⁾	MOB, OFC	5/18/18	25.0	(8.0)	16.6	25.1	(0.4)	187,861
Oklahoma City, Oklahoma	MOB	5/21/18	11.4	—	11.4	11.5	(0.1)	82,647
Seattle, Washington	MOB	6/29/18	26.2	—	26.2	26.7	(0.5)	86,942
Denver, Colorado	MOB	8/24/18	4.1	—	4.2	4.2	—	17,084
			\$ 74.5	\$ (8.0)	\$ 66.2	\$75.3	\$(1.0)	387,848

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

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

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

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

(5) Includes two properties.

2018 Dispositions

The following table details the Company's dispositions for the nine months ended September 30, 2018:

<i>(Dollars in millions)</i>	Type ⁽¹⁾	Date Disposed	Sales Price	Closing Adjustments	Net Proceeds	Net Real Estate Investment	Other (including receivables) ⁽²⁾	Gain	Square Footage <i>(Unaudited)</i>
Virginia ^{(3) (4)}	MOB, OFC	4/26/18	\$46.2	\$ —	\$ 46.2	\$ 23.9	\$ —	\$22.3	460,881
Michigan ^{(3) (5)}	SNF	6/27/18	9.5	(0.7)	8.8	3.4	—	5.4	121,672
Missouri	MOB	8/30/18	9.8	(0.5)	9.3	7.5	0.5	1.3	70,893
Total dispositions			\$65.5	\$ (1.2)	\$ 64.3	\$ 34.8	\$ 0.5	\$29.0	653,446

(1) MOB = medical office building; OFC = office; SNF = skilled nursing facility

(2) Includes straight-line rent receivables and leasing commissions.

(3) Previously classified as held for sale.

(4) Includes seven properties, comprised of five single-tenant net lease buildings and two multi-tenant buildings. These buildings were sold pursuant to the exercise of a fixed-price purchase option.

(5) Includes five skilled nursing facilities. Sales price includes \$0.5 million of forfeited earnest money from a prior terminated transaction.

Non-monetary Exchange

On June 29, 2018, the Company completed the swap of a non-revenue producing garage that was built by the Company in 2012 located in Denver, Colorado for 20.5 acres of land adjacent to the Catholic Health Initiative's St. Anthony Hospital campus. A portion of this land, approximately 4.6 acres, has been allocated to an existing medical office building that was developed by the Company in 2017. This building is located on land previously ground leased from the hospital. The remaining land has been recorded in land held for development. The land acquired was appraised for \$5.8 million. The Company had a net investment of \$3.9 million in the parking garage and recognized a gain of \$1.9 million in connection with this transaction.

Table of Contents**Assets Held for Sale**

As of December 31, 2017, the Company had eight properties classified as held for sale. The following changes to assets held for sale have occurred during 2018:

The Company reclassified five single-tenant net leased properties to held for sale as of March 31, 2018.

In April 2018, the Company sold seven properties, comprised of five single-tenant net leased properties and two multi-tenanted properties. The Company recognized a gain on disposition of approximately \$22.3 million.

In June 2018, the Company sold five single-tenant net leased properties. The Company recognized a gain on disposition of approximately \$5.4 million.

As of September 30, 2018, the Company had one property remaining classified as held for sale.

The table below reflects the assets and liabilities of the properties classified as held for sale as of September 30, 2018 and December 31, 2017:

<i>(Dollars in thousands)</i>	September 30, 2018	December 31, 2017
Balance Sheet data:		
Land	\$ 1,125	\$ 4,636
Buildings, improvements and lease intangibles	18,231	63,654
Personal property	—	82
	19,356	68,372
Accumulated depreciation	(10,657)	(35,790)
Real estate assets held for sale, net	8,699	32,582
Other assets, net	127	565
Assets held for sale, net	\$ 8,826	\$ 33,147
Accounts payable and accrued liabilities	\$ 119	\$ 38
Other liabilities	22	55
Liabilities of properties held for sale	\$ 141	\$ 93

Table of Contents**Note 3. Notes and Bonds Payable**

The table below details the Company's notes and bonds payable.

	Maturity Dates	Balance as of		Effective Interest Rate as of	
		September 30, 2018	December 31, 2017	September 30, 2018	
<i>(Dollars in thousands)</i>					
Unsecured Credit Facility	7/20	\$245,000	\$189,000	3.26	%
Unsecured Term Loan Facility, net of issuance costs ⁽¹⁾	12/22	149,132	148,994	3.41	%
Senior Notes due 2023, net of discount and issuance costs	4/23	248,013	247,703	3.95	%
Senior Notes due 2025, net of discount and issuance costs ⁽²⁾	5/25	248,219	248,044	4.08	%
Senior Notes due 2028, net of discount and issuance costs	1/28	295,087	294,757	3.84	%
Mortgage notes payable, net of discounts and issuance costs and including premiums	12/18-5/40	159,308	155,382	4.83	%
		\$1,344,759	\$1,283,880		

(1) The effective interest rate includes the impact of interest rate swaps on \$25.0 million and \$50.0 million of the outstanding balance at a rate of 2.18% and 2.46%, respectively (plus the applicable margin rate, currently 110 basis points).

(2) The effective interest rate includes the impact of the \$1.7 million settlement of a forward-starting interest rate swap that is included in Accumulated other comprehensive income (loss) on the Company's Condensed Consolidated Balance Sheets.

Table of Contents**Note 4. Derivative Financial Instruments****Risk Management Objective of Using Derivatives**

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

Cash Flow Hedges of Interest Rate Risk

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

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

As of September 30, 2018, the Company had four outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Derivative Instrument	Number of Instruments	Notional Amount (in millions)
Interest rate swaps	4	\$75.0

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

The table below presents the fair value of the Company's derivative financial instruments, as well as their classification on the Condensed Consolidated Balance Sheet as of September 30, 2018.

<i>(Dollars in thousands)</i>	Asset Derivatives	
	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments		
Interest rate swaps	Other assets	\$1,579
Total derivatives designated as hedging instruments		\$1,579

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

The table below presents the effect of cash flow hedge accounting on Accumulated Other Comprehensive Income (Loss) ("OCI") during the nine months ended September 30, 2018 and 2017 related to the Company's outstanding

interest rate swaps.

	Amount of Gain Recognized in OCI on Derivative 2018		Amount of Loss Reclassified from OCI into Income 2018 2017	
<i>(Dollars in thousands)</i>				
Interest rate products	\$ 1,403	Interest expense	\$243	\$—
Settled interest rate swaps	—	Interest expense	126	127
	\$ 1,403	Total interest expense	\$369	\$127

13

Table of Contents**Credit-risk-related Contingent Features**

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

The Company estimates that \$0.2 million related to active interest rate swaps will be reclassified from OCI as a decrease to interest expense over the next 12 months, and that \$0.2 million related to settled interest rate swaps will be amortized from OCI as an increase to interest expense over the next 12 months.

Note 5. Commitments and Contingencies**Legal Proceedings**

The Company is, from time to time, involved in litigation arising in the ordinary course of business. 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.

Redevelopment Activity

The Company is redeveloping a medical office building in Charlotte, North Carolina, which includes a 38,000 square foot vertical expansion. As of September 30, 2018, the Company has funded approximately \$9.2 million on the redevelopment of this property. The project is expected to be completed in the first quarter of 2019.

Development Activity

The Company began the development of a 151,000 square foot medical office building in Seattle, Washington during 2017. As of September 30, 2018, the Company has funded approximately \$18.0 million on the development. The Company expects the project to be completed in the second quarter of 2019.

Note 6. Stockholders' Equity**Common Stock**

The following table provides a reconciliation of the beginning and ending shares of common stock outstanding for the nine months ended September 30, 2018 and the year ended December 31, 2017:

	September 30, 2018	December 31, 2017
Balance, beginning of period	125,131,593	116,416,900
Issuance of common stock	20,395	8,395,607
Nonvested share-based awards, net of withheld shares	85,196	319,086
Balance, end of period	125,237,184	125,131,593

At-The-Market Equity Offering Program

No shares were sold under the Company's At-the-Market Equity Offering Program during the nine months ended September 30, 2018. The Company had 5,868,697 authorized shares remaining available to be sold under the current sales agreements as of October 26, 2018.

Common Stock Dividends

During the nine months ended September 30, 2018, the Company declared and paid common stock dividends totaling \$0.90 per share. On October 30, 2018, the Company declared a quarterly common stock dividend in the amount of \$0.30 per share payable on November 30, 2018 to stockholders of record on November 15, 2018.

Accumulated Other Comprehensive Income (Loss)

As of September 30, 2018, the Company had four outstanding interest rate swaps to hedge the variable cash flows associated with existing variable-rate debt. The Company continues to amortize the 2015 settlement of

forward-starting interest rate swaps that were entered into in connection with the issuance of the Company's Senior Notes due 2025. This amount will be reclassified out of OCI impacting net income over the 10-year term of the associated senior note issuance. See Note 4 for more information regarding the Company's derivative instruments.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

The following table represents the changes in balances of each component and the amounts reclassified out of OCI related to the Company during the nine months ended September 30, 2018 and 2017:

<i>(Dollars in thousands)</i>	Forward-starting Interest Rate Swaps	
	2018	2017
Beginning balance	\$ (1,299)	\$ (1,401)
Gains arising during the period related to active interest rate swaps	1,403	—
Amounts reclassified from accumulated other comprehensive (income) loss	369	127
Net accumulated other comprehensive income	1,772	127
Ending balance	\$ 473	\$ (1,274)

The following table represents the details regarding the reclassifications from OCI during the nine months ended September 30, 2018:

Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive income (loss)	Affected line item in the statement where net income is presented
<i>(Dollars in thousands)</i>		
Amounts reclassified from accumulated other comprehensive income (loss) related to settled interest rate swaps	\$ 126	Interest Expense
Amounts reclassified from accumulated other comprehensive income (loss) related to current interest rate swaps	243	Interest Expense
	\$ 369	

Earnings Per Common Share

The Company uses the two-class method of computing net earnings per common shares. The Company's nonvested share-based awards are considered participating securities pursuant to the two-class method. The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2018 and 2017.

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average Common Shares outstanding				
Weighted average Common Shares outstanding	125,233,462	120,895,835	125,206,342	127,981,159
Nonvested shares	(1,933,653)	(1,797,686)	(1,925,589)	(1,800,180)
Weighted average Common Shares outstanding—Basic	123,299,809	119,098,149	123,280,753	126,180,979
Weighted average Common Shares outstanding—Basic	123,299,809	119,098,149	123,280,753	126,180,979
Dilutive effect of employee stock purchase plan	52,147	83,242	54,763	96,260
Weighted average Common Shares outstanding—Diluted	123,351,956	119,181,391	123,335,516	126,277,239
Net Income	\$ 6,548	\$ 3,173	\$ 53,456	\$ 60,243
Dividends paid on nonvested share-based awards	(580)	(538)	(1,740)	(1,609)
Net income applicable to common stockholders	\$ 5,968	\$ 2,635	\$ 51,716	\$ 58,634
Basic earnings per common share - Net income	\$ 0.05	\$ 0.02	\$ 0.42	\$ 0.50
Diluted earnings per common share - Net income	\$ 0.05	\$ 0.02	\$ 0.42	\$ 0.50

Table of Contents**Incentive Plans**

A summary of the activity under the Company's share-based incentive plans for the three and nine months ended September 30, 2018 and 2017 is included in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Share-based awards, beginning of period	1,938,100	1,797,686	1,907,645	1,786,497
Granted	—	—	107,751	103,615
Vested	(5,051)	—	(82,347)	(92,426)
Share-based awards, end of period	1,933,049	1,797,686	1,933,049	1,797,686

During the nine months ended September 30, 2018 and 2017, the Company withheld 22,555 and 16,581 shares of common stock, respectively, from participants to pay estimated withholding taxes related to shares that vested.

In addition to the share-based incentive plans, the Company maintains the 2000 Employee Stock Purchase Plan (the "Purchase Plan"). A summary of the activity under the Purchase Plan for the three and nine months ended September 30, 2018 and 2017 is included in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Outstanding and exercisable, beginning of period	350,535	344,572	318,100	316,321
Granted	—	—	203,836	206,824
Exercised	(2,531)	(5,452)	(13,236)	(24,482)
Forfeited	(9,583)	(9,291)	(34,489)	(36,524)
Expired	—	—	(135,790)	(132,310)
Outstanding and exercisable, end of period	338,421	329,829	338,421	329,829

Note 7. Fair Value of Financial Instruments

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

Cash and cash equivalents - The carrying amount approximates fair value due to the short term maturity of these investments.

Borrowings under the unsecured credit facility due 2020 and unsecured term loan facility due 2022 - The carrying amount approximates fair value because the borrowings are based on variable market interest rates.

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

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

The table below details the fair values and carrying values for notes and bonds payable at September 30, 2018 and December 31, 2017.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

<i>(Dollars in millions)</i>	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes and bonds payable ⁽¹⁾	\$ 1,344.8	\$ 1,300.2	\$ 1,283.9	\$ 1,269.7

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

Table of Contents

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

Disclosure Regarding Forward-Looking Statements

This report and other materials the Company has filed or may file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made, or to be made, by management of the Company, contain, or will contain, disclosures that are "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "target," "intend," "plan," "estimate," "project," "continue," "should," "could," "budget" 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, including the risks described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, that could significantly affect the Company's current plans and expectations and future financial condition and results.

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.

For a detailed discussion of the Company's risk factors, please refer to the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2017.

Liquidity and Capital Resources

Sources and Uses of Cash

The Company's primary sources of cash include rent receipts from its real estate portfolio based on contractual arrangements with its tenants and sponsors, borrowings under the Company's unsecured credit facility due 2020, proceeds from the sales of real estate properties and proceeds from public or private debt or equity offerings.

The Company expects to continue to meet its liquidity needs, including funding additional investments, paying dividends, and funding debt service, through cash on hand, cash flows from operations, and the cash flow sources described above. The Company had unencumbered real estate assets with a gross book value of approximately \$3.5 billion at September 30, 2018, of which a portion could serve as collateral for secured mortgage financing. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

Investing Activities

Cash flows used in investing activities for the nine months ended September 30, 2018 were approximately \$84.0 million. Below is a summary of significant investing activities.

2018 Acquisitions

The following table details the Company's acquisitions for the nine months ended September 30, 2018:

<i>(Dollars in millions)</i>	Health System Affiliation	Date Acquired	Purchase Price	Mortgage Notes Payable Assumed	Square Footage	Cap Rate	Hospital Campus Location ⁽¹⁾
Seattle, Washington	Overlake Health	5/4/18	\$ 7.8	\$ —	13,314	5.0	% ADJ
Denver, Colorado ⁽²⁾	CHI	5/18/18	25.0	(8.0)	187,861	6.4	% ADJ
Oklahoma City, Oklahoma	Integrus Health	5/21/18	11.4	—	82,647	5.9	% ADJ
Seattle, Washington	MultiCare Health	6/29/18	26.2	—	86,942	5.7	% On
Denver, Colorado	CHI	8/24/18	4.1	—	17,084	6.0	% ADJ
			\$ 74.5	\$ (8.0)	387,848	5.9	%

(1) On = Located on a hospital campus; ADJ = adjacent to a hospital campus. The Company defines an adjacent property as being no more than 0.25 miles from a hospital campus.

(2) Includes two properties (a medical office building and an office building).

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Capital Funding

The following table details the Company's capital funding for the nine months ended September 30, 2018:

<u>(Dollars in millions)</u>	Nine Months Ended September 30, 2018
Redevelopment and development	\$ 28.7
1st generation tenant improvements & planned capital expenditures for acquisitions	9.7
2nd generation tenant improvements	20.6
Capital expenditures	17.5
Total capital funding	\$ 76.5

2018 Dispositions

The Company disposed of 13 properties during the nine months ended September 30, 2018 for a total sales price of \$65.5 million, including cash proceeds of \$64.3 million and \$1.2 million of closing costs and related adjustments. The following table details these dispositions for the nine months ended September 30, 2018:

<u>(Dollars in millions)</u>	<u>Date Disposed</u>	<u>Sales Price</u>	<u>Square Footage</u>	<u>3Q 2018 NOI</u>	<u>Disposition Cap Rate</u>	<u>Property Type ⁽¹⁾</u>
Virginia ⁽²⁾	4/26/18	\$46.2	460,881	\$—	13.3 %	MOB, OFC
Michigan ⁽³⁾	6/27/18	9.5	121,672	—	25.5 %	SNF
Missouri	8/30/18	9.8	70,893	0.1	4.3 %	MOB
Total dispositions		\$65.5	653,446	\$0.1	13.7 %	

(1) MOB = medical office building; OFC = office; SNF = skilled nursing facility

(2) Includes seven properties, comprised of five single-tenant net lease buildings and two multi-tenant buildings. These buildings were sold pursuant to the exercise of a fixed-price purchase option.

(3) Includes five skilled nursing facilities. Sales price includes \$0.5 million of forfeited earnest money from a prior terminated transaction.

Financing Activities

Cash flows used in financing activities for the nine months ended September 30, 2018 were approximately \$62.8 million. Inflows from equity related to the Company's common stock issuances, dividend reinvestment program, and employee stock purchase plan and net borrowings totaled \$56.5 million, net of issuance costs incurred. Aggregate cash outflows totaled approximately \$119.3 million primarily associated with dividends paid to common stockholders. See Notes 3 and 6 to the Condensed Consolidated Financial Statements for more information about capital markets and financing activities.

Operating Activities

Cash flows provided by operating activities increased from \$129.4 million for the nine months ended September 30, 2017 to \$150.7 million for the nine months ended September 30, 2018. Items impacting cash flows from operations include, but are not limited to, cash generated from property operations, interest payments and the timing related to the payment of invoices and other expenses and receipts of tenant rent.

The Company may, from time to time, 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 results of operations and cash flows could be adversely affected.

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 the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

New Accounting Pronouncements

See Note 1 to the Company's Condensed Consolidated Financial Statements accompanying this report for information on new accounting standards.

Table of Contents

Trends and Matters Impacting Operating Results

Management monitors factors and trends important to the Company and the REIT industry to gauge the potential impact on the operations of the Company. In addition to the matters discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, below are some of the factors and trends that management believes may impact future operations of the Company.

Expiring Leases

The Company expects that approximately 15% to 20% of the leases in its multi-tenanted portfolio will expire each year in the ordinary course of business. There are 195 leases totaling 0.6 million square feet in the Company's multi-tenant portfolio that will expire during the remainder of 2018. Approximately 92% of the leases expiring in 2018 are located in buildings on or adjacent to hospital campuses, are distributed throughout the portfolio, and are not concentrated with any one tenant, health system or market area. The Company typically expects to retain 75% to 90% of multi-tenant property tenants upon expiration, and the retention ratio for the first nine months of the year has been within this range.

The Company has two single-tenant net leased, on-campus inpatient rehabilitation facilities with lease terms scheduled to expire in the third quarter of 2019. The Company expects that the lessee will exercise its third renewal option related to one of the leases, representing 0.9% of the total cash NOI for the trailing twelve months ended September 30, 2018. The other lease, representing 0.8% of total cash NOI for the same period, is not expected to renew; however, the Company expects that the hospital ground lessor will either exercise its option to purchase the building at fair market value, or if not, the Company will exercise its option to purchase the land at fair market value.

Property Operating Agreement Expirations

One of the Company's owned real estate properties as of September 30, 2018 was covered under a property operating agreement between the Company and a sponsoring health system. This agreement contractually obligates the sponsoring health system to provide to the Company a minimum return on the Company's investment in the property in exchange for the right to be involved in the operating decisions of the property, including tenancy. If the minimum return is not achieved through normal operations of the property, the Company calculates and accrues to property lease guaranty revenue, each quarter, any shortfalls due from the sponsoring health systems under the terms of the property operating agreement. This agreement expires in February 2019. The Company recognized \$0.2 million in property operating guaranty revenue during the third quarter of 2018 related to this agreement. See Note 1 to the Company's Condensed Consolidated Financial Statements accompanying this report for additional information on rental lease guaranty income.

Operating Expenses

The Company has historically experienced increases in property taxes throughout its portfolio as a result of increasing assessments and tax rates levied across the country. The Company continues its efforts to appeal property tax increases and manage the impact of the increases. In addition, the Company has historically incurred variability in portfolio utilities expense based on seasonality, with the first and third quarters usually reflecting greater amounts. The effects of these operating expense increases are mitigated in leases that have provisions for operating expense reimbursement. As of September 30, 2018, leases for 87% of the Company's multi-tenant leased square footage allow for some recovery of operating expenses, with 32% having modified gross lease structures and 55% having net lease structures.

Table of Contents**Purchase Options**

Information about the Company's unexercised purchase options and 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 September 30, 2018		
		Fair Market Value	Non Fair Market Value	Total
		Method ⁽¹⁾	Method ⁽²⁾	
Current	4	\$95,569	\$—	\$95,569
2019	1	21,355	—	21,355
2020	—	—	—	—
2021	1	—	14,984	14,984
2022	—	—	—	—
2023	—	—	—	—
2024	—	—	—	—
2025	5	19,760	221,929	241,689
2026	—	—	—	—
2027	—	—	—	—
2028 and thereafter	4	119,165	—	119,165
Total	15	\$255,849	\$236,913	\$492,762

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

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

Non-GAAP Financial Measures and Key Performance Indicators

Management believes that net income, as defined by GAAP, is the most appropriate earnings measurement. However, 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 historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Set forth below are descriptions of the non-GAAP financial measures and key performance indicators 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 (determined in accordance with GAAP), as indicators of the Company's financial performance, or as alternatives to cash flow from operating activities (determined in accordance with GAAP) 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 consolidated historical operating results, these measures should be examined in conjunction with net income as presented in the Condensed Consolidated Financial Statements and other financial data included elsewhere in this report.

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 related to real estate properties, leasing commission amortization and after adjustments for unconsolidated partnerships and joint ventures." The Company follows the

NAREIT definition in calculating and presenting FFO and FFO per share.

20

Table of Contents

Management believes FFO and FFO per share to be supplemental measures of a REIT's performance because they 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 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, FFO and FFO per share can facilitate comparisons of operating performance between periods. The Company reports FFO and FFO per share 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 and because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs. For these reasons, management has deemed it appropriate to disclose and discuss FFO and FFO per share. However, FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income attributable to common stockholders as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity.

In addition to FFO and FFO per share, the Company presents Normalized FFO, Normalized FFO per share, 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.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

The table below reconciles net income to FFO, Normalized FFO and FAD for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(Amounts in thousands, except per share data)</i>				
Net Income	\$6,548	\$3,173	\$53,456	\$60,243
(Gain) loss on sales of real estate assets	(1,288)	7	(30,879)	(39,525)
Impairment of real estate assets	—	5,059	—	5,387
Real estate depreciation and amortization	42,723	36,478	123,475	107,453
Total adjustments	41,435	41,544	92,596	73,315
FFO Attributable to Common Stockholders	\$47,983	\$44,717	\$146,052	\$133,558
Acquisition and pursuit costs ⁽¹⁾	141	507	538	1,878
Revaluation of awards upon retirement	70	—	70	—
Forfeited earnest money received	—	—	(466)	—
Normalized FFO Attributable to Common Stockholders	\$48,194	\$45,224	\$146,194	\$135,436
Non-real estate depreciation and amortization	1,506	1,388	4,453	4,112
Provision for bad debt, net	(62)	4	42	175
Straight-line rent, net	(413)	(1,156)	(2,426)	(4,374)
Stock-based compensation	2,605	2,429	8,020	7,496
Total non-cash items	3,636	2,665	10,089	7,409
2nd generation TI	(6,950)	(4,481)	(20,572)	(13,438)
Leasing commissions paid	(1,139)	(1,826)	(4,937)	(4,394)
Capital additions	(6,229)	(4,203)	(17,530)	(12,390)
FAD	\$37,512	\$37,379	\$113,244	\$112,623
FFO per Common Share—Diluted	\$0.39	\$0.37	\$1.18	\$1.14
Normalized FFO per Common Share—Diluted	\$0.39	\$0.38	\$1.18	\$1.16
FFO weighted average common shares outstanding - Diluted ⁽²⁾	124,192	120,081	124,051	117,109

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

(2) Diluted weighted average common shares outstanding for the three and nine months ended September 30, 2018 includes the dilutive effect of nonvested share-based awards outstanding of 839,990 and 715,562, respectively.

Cash Net Operating Income ("NOI") and Same Store Cash NOI

Cash NOI and Same Store Cash NOI are key performance indicators. Management considers these to be supplemental measures that allow investors, analysts and Company management to measure unlevered property-level operating results. The Company defines Cash NOI as rental income and property lease guaranty income less property operating expenses. Cash NOI excludes non-cash items such as above and below market lease intangibles, straight-line rent, lease inducements, lease terminations, tenant improvement amortization and leasing commission amortization. Cash NOI is historical and not necessarily indicative of future results.

Same Store Cash NOI compares Cash NOI for stabilized properties. Stabilized properties are properties that have been included in operations for the duration of the year-over-year comparison period presented and include redevelopment projects. 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

Table of Contents

immediately upon completion. Any property included in the reposition property group will be included in the same store analysis once occupancy has increased to 60% or greater with positive net operating income and has remained at that level for eight full quarters.

The following table reflects the Company's same store cash NOI for the three months ended September 30, 2018 and 2017.

<i>(Dollars in thousands)</i>	Number of Properties	Gross Investment at September 30, 2018	Same Store Cash NOI for the Three Months Ended September 30,	
			2018	2017
Multi-tenant Properties	145	\$2,833,607	\$51,508	\$49,995
Single-tenant Net Lease Properties	15	482,727	10,967	10,578
Total	160	\$3,316,334	\$62,475	\$60,573

The following tables reconcile net income to same store NOI and the same store property count to the total owned real estate portfolio for the three months ended September 30, 2018 and 2017:

Reconciliation of Same Store Cash NOI:

<i>(Dollars in thousands)</i>	Three Months Ended September 30,	
	2018	2017
Net income	\$6,548	\$3,173
Other (income) expense	12,135	18,819
General and administrative expense	8,504	8,021
Depreciation and amortization expense	42,061	35,873
Other expenses ⁽¹⁾	1,855	1,922
Straight-line rent revenue	(802)	(1,332)
Other revenue ⁽²⁾	(1,173)	(1,327)
Cash NOI	69,128	65,149
Cash NOI not included in same store	(6,653)	(4,576)
Same store cash NOI	\$62,475	\$60,573

(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 expense.

(2) Includes management fee 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 September 30, 2018
Same Store Properties	160
Acquisitions	26
Development Conversion	1
Reposition	14
Total Owned Real Estate Properties	201

Table of Contents**Results of Operations****Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017**

The Company's results of operations for the three months ended September 30, 2018 compared to the same period in 2017 were impacted by acquisitions, developments, dispositions, gains, impairments recorded and capital markets transactions.

Revenues

Total revenues increased \$6.4 million, or 6.0%, to approximately \$113.5 million for the three months ended September 30, 2018 compared to \$107.0 million in the prior year period. This increase is comprised of the following:

	Three Months Ended September 30,		Change	
	2018	2017	\$	%
<i>(Dollars in thousands)</i>				
Property operating	\$99,367	\$90,935	\$8,432	9.3 %
Single-tenant net lease	11,283	12,811	(1,528)	(11.9)%
Straight-line rent	802	1,332	(530)	(39.8)%
Rental income	111,452	105,078	6,374	6.1 %
Other operating	2,010	1,947	63	3.2 %
Total Revenues	\$113,462	\$107,025	\$6,437	6.0 %

Property operating revenue increased \$8.4 million, or 9.3%, from the prior year period primarily as a result of the following activity:

- ▲ Acquisitions and developments in 2017 and 2018 contributed \$7.3 million.
- ▲ Leasing activity, including contractual rent increases, contributed \$1.7 million.
- ▼ The conversion of one property to single-tenant net lease resulted in a decrease of \$0.2 million.
- ▼ Dispositions in 2017 and 2018 resulted in a decrease of \$0.4 million.

Single-tenant net lease revenue decreased \$1.5 million, or 11.9%, from the prior year period primarily as a result of the following activity:

- ▼ Dispositions in 2018 resulted in a decrease of \$2.1 million.
- ▲ Leasing activity including contractual rent increases contributed \$0.4 million.
- ▲ An acquisition in 2017 resulted in an increase of \$0.1 million.
- ▲ The conversion of one property from multi-tenant resulted in an increase of \$0.1 million.

Straight-line rent revenue decreased \$0.5 million, or 39.8%, from the prior year period primarily as a result of net leasing activity and contractual rent increases of \$0.7 million, partially offset by an increase from acquisitions and developments in 2017 and 2018 of \$0.2 million.

Expenses

Property operating expenses increased \$3.5 million, or 8.6%, for the three months ended September 30, 2018 compared to the prior year period primarily as a result of the following activity:

- ▲ Acquisitions and developments in 2017 and 2018 resulted in an increase of \$3.0 million.
- ▲ Portfolio property tax increases of \$0.5 million.
- ▲ Compensation expense increased \$0.3 million.
- ▼ Dispositions in 2017 and 2018 and resulted in a decrease of \$0.3 million.

General and administrative expenses increased approximately \$0.5 million, or 6.0%, for the three months ended September 30, 2018 compared to the prior year period primarily as a result of increases in payroll compensation

expense of \$0.3 million and performance-based compensation expense of \$0.2 million.

24

Table of Contents

Depreciation and amortization expense increased \$6.2 million, or 17.2%, for the three months ended September 30, 2018 compared to the prior year period primarily as a result of the following activity:

- Acquisitions and developments in 2017 and 2018 resulted in an increase of \$5.2 million.
- Various building and tenant improvement expenditures resulted in an increase of \$3.0 million.
- Dispositions in 2017 and 2018 resulted in a decrease of \$0.6 million.
- Assets that became fully depreciated resulted in a decrease of \$1.4 million.

Other income (expense)

In the third quarter of 2018, the Company recorded a gain of approximately \$1.3 million on the sale of a property. Interest expense decreased \$0.6 million, or 4.6%, for the three months ended September 30, 2018 compared to the prior year period. The components of interest expense are as follows:

	Three Months Ended		Change	
	September 30,			
(Dollars in thousands)	2018	2017	\$	%
Contractual interest	\$ 13,016	\$ 13,603	\$(587)	(4.3)%
Net discount/premium accretion	8	44	(36)	(81.8)%
Deferred financing costs amortization	611	615	(4)	(0.7)%
Interest rate swap amortization	42	42	—	—%
Interest cost capitalization	(213)	(197)	(16)	8.1%
Total interest expense	\$ 13,464	\$ 14,107	\$(643)	(4.6)%

Contractual interest expense decreased \$0.6 million, or 4.3%, primarily due to the following activity:

- The Company's unsecured senior notes due 2021 ("Senior Notes due 2021") were repaid in the fourth quarter of 2017 and accounted for a decrease of \$5.8 million.
- The Company's unsecured senior notes due 2028 ("Senior Notes due 2028") were issued in the fourth quarter of 2017 and accounted for an increase of \$2.7 million.
- The Unsecured Credit Facility balance and interest rate increases accounted for an increase of approximately \$1.8 million.
- The Company's unsecured term loan due 2022 (the "Unsecured Term Loan") interest rate increase accounted for an increase of \$0.3 million.
- Mortgage notes assumed upon acquisition of real properties accounted for an increase of \$0.4 million.

Table of Contents**Results of Operations****Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017**

The Company's results of operations for the nine months ended September 30, 2018 compared to the same period in 2017 were impacted by acquisitions, developments, dispositions, gains, impairments recorded and capital markets transactions.

Revenues

Total revenues increased \$20.2 million, or 6.4%, to approximately \$337.2 million for the nine months ended September 30, 2018 compared to \$317.0 million in the prior year period. This increase is comprised of the following:

	Nine Months Ended September 30,		Change	
	2018	2017	\$	%
<i>(Dollars in thousands)</i>				
Property operating	\$291,079	\$266,485	\$24,594	9.2 %
Single-tenant net lease	36,569	39,819	(3,250)	(8.2)%
Straight-line rent	3,599	4,867	(1,268)	(26.1)%
Rental income	331,247	311,171	20,076	6.5 %
Other operating	5,973	5,816	157	2.7 %
Total Revenues	\$337,220	\$316,987	\$20,233	6.4 %

Property operating revenue increased \$24.6 million, or 9.2%, from the prior year period primarily as a result of the following activity:

- Acquisitions and developments in 2017 and 2018 contributed \$20.9 million.
- Leasing activity, including contractual rent increases, contributed \$5.9 million.
- Dispositions in 2017 and 2018 resulted in a decrease of \$1.9 million.
- The conversion of one property to single-tenant net lease resulted in a decrease of \$0.3 million.

Single-tenant net lease revenue decreased \$3.3 million, or 8.2%, from the prior year period primarily as a result of the following activity:

- Dispositions in 2017 and 2018 resulted in a decrease of \$5.1 million.
- Acquisitions in 2017 resulted in an increase of \$0.5 million.
- Leasing activity, including contractual rent increases, contributed \$1.1 million.
- The conversion of one property from multi-tenant resulted in an increase of \$0.2 million.

Straight-line rent revenue decreased \$1.3 million, or 26.1%, from the prior year period primarily as a result of the following activity:

- Net leasing activity, including contractual rent increases, resulted in a decrease of \$1.7 million.
- Dispositions in 2017 and 2018 resulted in a decrease of \$0.3 million.
- Acquisitions and developments in 2017 and 2018 resulted in an increase of \$0.7 million.

Expenses

Property operating expenses increased \$11.0 million, or 9.5%, for the nine months ended September 30, 2018 compared to the prior year period primarily as a result of the following activity:

- Acquisitions and developments in 2017 and 2018 resulted in an increase of \$8.8 million.
- Increases in portfolio operating expenses as follows:
 - property tax of approximately \$1.4 million;
 - maintenance and repair expense of approximately \$0.3 million;

janitorial expense of approximately \$0.3 million;

26

Table of Contents

compensation-related expenses of approximately \$1.0 million; and other expenses of \$0.3 million.

Dispositions in 2017 and 2018 resulted in a decrease of \$0.9 million.

Utilities expense decreased \$0.2 million.

General and administrative expenses increased approximately \$1.3 million, or 5.1%, for the nine months ended September 30, 2018 compared to the prior year period primarily as a result of increases in compensation and other administrative costs.

Depreciation and amortization expense increased \$16.6 million, or 15.8%, for the nine months ended September 30, 2018 compared to the prior year period primarily as a result of the following activity:

Acquisitions and developments in 2017 and 2018 resulted in an increase of \$14.6 million.

Various building and tenant improvement expenditures resulted in an increase of \$8.8 million.

Dispositions in 2017 and 2018 resulted in a decrease of \$2.7 million.

Assets that became fully depreciated resulted in a decrease of \$4.1 million.

Other income (expense)

For the nine months ended September 30, 2018 the Company recorded gains of approximately \$30.9 million on the sale of 13 properties including a gain recognized on the non-monetary exchange in the second quarter of 2018. See Note 2 to the Condensed Consolidated Financial Statements for additional information regarding the non-monetary exchange. For the nine months ended September 30, 2017, the Company recorded gains of approximately \$39.5 million on the sale of eight properties and impairment charges of approximately \$5.4 million on two properties. In the first quarter of 2018, the Company recorded \$0.5 million of other income related to the termination fee of a purchase and sale agreement. The third quarter of 2017 includes approximately \$0.2 million of interest income for restricted cash.

Interest expense decreased \$3.5 million, or 8.2%, for the nine months ended September 30, 2018 compared to the prior year period. The components of interest expense are as follows:

	Nine Months Ended		Change	
	September 30,			
(Dollars in thousands)	2018	2017	\$	%
Contractual interest	\$37,927	\$41,259	\$(3,332)	(8.1)%
Net discount/premium accretion	10	149	(139)	(93.3)%
Deferred financing costs amortization	1,823	1,840	(17)	(0.9)%
Interest rate swap amortization	126	127	(1)	(0.8)%
Interest cost capitalization	(684)	(681)	(3)	0.4%
Total interest expense	\$39,202	\$42,694	\$(3,492)	(8.2)%

Contractual interest expense decreased \$3.3 million, or 8.1%, primarily due to the following activity:

The Senior Notes due 2021 were repaid in the fourth quarter of 2017 and accounted for a decrease of \$17.3 million.

The Senior Notes due 2028 were issued in the fourth quarter of 2017 and accounted for an increase of \$8.2 million.

Unsecured Credit Facility balance and interest rate increases accounted for an increase of approximately \$3.6 million.

Unsecured Term Loan interest rate increase accounted for an increase of \$1.1 million.

- Mortgage notes assumed upon acquisition of real properties accounted for an increase of \$1.3 million, offset by Mortgage notes repayments decrease of approximately \$0.2 million.

Table of Contents

Item 3. 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. Management uses regular monitoring of market conditions and analysis techniques to manage this risk. During the nine months ended September 30, 2018, there were no material changes in the quantitative and qualitative disclosures about market risks presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports it files or submits under the Exchange Act.

Changes in Internal Control over Financial Reporting

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

Table of Contents**PART II—OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is, from time to time, involved in litigation arising in the ordinary course of business. 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 1A. Risk Factors

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect the Company's business, financial condition or future results. The risks, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company's business, financial condition, operating results or cash flows.

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

During the three months ended September 30, 2018, the Company withheld shares of Company common stock to satisfy employee tax withholding obligations payable upon the vesting of nonvested stock, 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
July 1 - July 31	1,359	\$ 29.04	—	—
August 1 - August 31	—	—	—	—
September 1 - September 30	—	—	—	—
Total	1,359			

Authorized Repurchases of Equity Securities by the Issuer

On May 1, 2018, the Company's Board of Directors authorized the repurchase of up to \$50 million of outstanding shares of the Company's common stock either in the open market or through privately negotiated transactions, subject to market conditions, regulatory constraints, and other customary conditions. The Company is not obligated under this authorization to repurchase any specific number of shares. As of the date of this report, the Company has not repurchased any shares of its common stock under this authorization.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

Table of Contents

Item 6. Exhibits

Exhibit	Description
<u>Exhibit 3.1</u>	<u>Second Articles of Amendment and Restatement of the Company, as amended</u> ⁽¹⁾
<u>Exhibit 3.2</u>	<u>Amended and Restated Bylaws of the Company, as amended</u> ⁽²⁾
Exhibit 4.1	Specimen Stock Certificate ⁽³⁾
<u>Exhibit 4.2</u>	<u>Indenture, dated as of May 15, 2001, by and between the Company and Branch Banking and Trust Company, as trustee (as successor to the trustee named therein)</u> ⁽⁴⁾
<u>Exhibit 4.3</u>	<u>Fifth Supplemental Indenture, dated March 26, 2013, by and between the Company and Branch Banking and Trust Company, as Trustee (as successor to the trustee named therein)</u> ⁽⁵⁾
<u>Exhibit 4.4</u>	<u>Form of 3.75% Senior Notes due 2023 (set forth in Exhibit B to the Fifth Supplemental Indenture filed as Exhibit 4.7 thereto)</u> ⁽⁵⁾
<u>Exhibit 4.5</u>	<u>Sixth Supplemental Indenture, dated April 24, 2015, by and between the Company and Branch Banking and Trust Company, as Trustee (as successor to the trustee named therein)</u> ⁽⁶⁾
<u>Exhibit 4.6</u>	<u>Form of 3.875% Senior Notes due 2025 (set forth in Exhibit B to the Sixth Supplemental Indenture filed as Exhibit 4.9 thereto)</u> ⁽⁶⁾
<u>Exhibit 4.7</u>	<u>Seventh Supplemental Indenture, dated December 11, 2017, by and between the Company and Branch Banking and Trust Company, as Trustee.</u> ⁽⁷⁾
<u>Exhibit 4.8</u>	<u>Form of 3.625% Senior Note due 2028 (set forth in Exhibit B to the Seventh Supplemental Indenture filed as Exhibit 4.11 hereto).</u> ⁽⁷⁾
<u>Exhibit 11</u>	<u>Statement re: Computation of per share earnings (filed herewith in Note 6 to the Condensed Consolidated Financial Statements)</u>
<u>Exhibit 31.1</u>	<u>Certification of the Chief Executive Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
<u>Exhibit 31.2</u>	<u>Certification of the Chief Financial Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
<u>Exhibit 32</u>	<u>Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)</u>
Exhibit 101.INS	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document (furnished electronically herewith)
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (furnished electronically herewith)
Exhibit 101.LAB	XBRL Taxonomy Extension Labels Linkbase Document (furnished electronically herewith)
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (furnished electronically herewith)
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (furnished electronically herewith)

(1) Filed as an exhibit to the Company's Form 8-K filed May 5, 2017 and hereby incorporated by reference.

Edgar Filing: HEALTHCARE REALTY TRUST INC - Form 10-Q

- (2) Filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2015 and hereby incorporated by reference.
- (3) Filed as an exhibit to the Company's Registration Statement on Form S-11 (Registration No. 33-60506) filed April 2, 1993 and hereby incorporated by reference.
- (4) Filed as an exhibit to the Company's Form 8-K filed May 17, 2001 and hereby incorporated as reference.
- (5) Filed as an exhibit to the Company's Form 8-K filed March 26, 2013 and hereby incorporated by reference.
- (6) Filed as an exhibit to the Company's Form 8-K filed April 24, 2015 and hereby incorporated by reference.
- (7) Filed as an exhibit to the Company's Form 8-K filed December 11, 2017 and hereby incorporated by reference.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTHCARE REALTY TRUST INCORPORATED

By: /s/ J. CHRISTOPHER DOUGLAS

J. Christopher Douglas

Executive Vice President and Chief Financial Officer

Date: November 1, 2018