HEALTHCARE REALTY TRUST INC
Form 10-K
February 17, 2015

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

Form 10-K
(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period to

Commission File Number: 001-11852

HEALTHCARE REALTY TRUST INCORPORATED
(Exact name of Registrant as specified in its charter)

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

3310 West End Avenue
Suite 700
Nashville, Tennessee 37203
(Address of principal executive offices)
(615) 269-8175
(Registrant’s telephone number, including area code)
Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

(Do not check if a smaller reporting company)

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

The aggregate market value of the shares of common stock (based upon the closing price of these shares on the New York Stock Exchange, Inc. on June 30, 2014) of the Registrant held by non-affiliates on June 30, 2014 was approximately $2,414,583,343.

As of January 31, 2015, there were 99,409,062 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 12, 2015 are incorporated by reference into Part III of this Report.

HEALTHCARE REALTY TRUST INCORPORATED
FORM 10-K
December 31, 2014

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PART I

Item 1. Business

Overview

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

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

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

Real Estate Properties

The Company had investments of approximately $3.3 billion in 199 real estate properties, mortgages, land held for development and corporate property at December 31, 2014. The Company provided property management services for 135 healthcare-related properties nationwide, totaling approximately 9.5 million square feet as of December 31, 2014. The Company's real estate property investments by geographic area are detailed in Note 2 to the Consolidated Financial Statements.

(Dollars and square feet in thousands)	Number of Investments	Gross Investment Amount	%		Square Feet Footage	%	
Owned properties:							
Multi-tenant leases							
Medical office/outpatient	157	$2,443,784	74.9	%	11,433	80.4	%
Other	4	61,634	1.9	%	414	2.9	%
	161	2,505,418	76.8	%	11,847	83.3	%
Single-tenant net leases							
Medical office/outpatient	16	261,643	8.0	%	1,025	7.2	%
Inpatient	14	443,920	13.6	%	1,131	7.9	%
Other	7	24,768	0.8	%	226	1.6	%
	37	730,331	22.4	%	2,382	16.7	%
Land held for development	—	17,054	0.5	%	—	—	
Corporate property	—	5,476	0.2	%	—	—	
	—	22,530	0.7	%	—	—	
Total owned properties	198	3,258,279	99.9	%	14,229	100.0	%
Mortgage notes receivable:							
Medical office/outpatient	1	1,900	0.1	%	—	—	
	1	1,900	0.1	%	—	—	
Total real estate investments	199	$3,260,179	100.0	%	14,229	100.0	%

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The following table details occupancy of the Company's owned properties by facility type as of December 31, 2014 and 2013:

	Investment as of Dec. 31, 2014 (1) (in thousands)	Percentage of Square Feet (1)	Occupancy as of December 31, (1) 2014	2013
Medical office/outpatient	$ 2,705,427	87.6 %	85.2 %	83.8 %
Inpatient	443,920	7.9 %	100.0 %	100.0 %
Other	86,402	4.5 %	85.8 %	83.4 %
Total	$ 3,235,749	100.0 %	86.4 %	85.1 %

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(1) The investment and percentage of square feet columns include all owned real estate properties excluding land held for development and corporate property. The occupancy columns represent the percentage of total rentable square feet leased (including month-to-month and holdover leases), excluding properties classified as held for sale (two properties as of December 31, 2014 and three properties as of December 31, 2013). Properties under property operating or single-tenant net lease agreements are included at 100% occupancy. Upon expiration of these agreements, occupancy reflects underlying tenant leases in the building.

Revenue Concentrations

The Company's real estate portfolio is leased to a diverse tenant base. For the year ended December 31, 2014, the Company had one tenant that accounted for 10% or more of the Company's consolidated revenues including revenues from discontinued operations and that was Baylor Scott &White Health at 10%. The Company had approximately 144 leases with this tenant in 22 buildings throughout north and central Texas, including buildings at eight different hospital campuses.

Expiring Leases

As of December 31, 2014, the weighted average remaining years to maturity pursuant to the Company's long-term single-tenant net leases, property operating agreements, and multi-tenant occupancy leases were approximately 5.1 years, with expirations through 2033. The table below details the Company's lease maturities as of December 31, 2014, excluding two properties classified as held for sale.

Expiration Year	Annualized Minimum Rents (1) (in thousands)	Number of Leases: Multi-Tenant Properties	Single-Tenant Net Lease Properties	Average Percentage of Revenues	Total Square Feet
2015	$40,272	461	—	13.8 %	1,580,574
2016	28,809	309	2	9.9 %	1,089,280
2017	38,499	313	5	13.2 %	1,576,840
2018	29,758	243	—	10.2 %	1,179,933
2019	38,290	243	9	13.2 %	1,521,267
2020	16,957	79	1	5.8 %	632,184
2021	12,534	75	2	4.3 %	515,173
2022	15,362	63	2	5.3 %	628,481
2023	16,292	88	1	5.6 %	640,782
2024	10,615	50	2	3.7 %	450,941
Thereafter	43,820	24	12	15.0 %	1,384,835

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(1) Represents the annualized minimum rents on leases in-place as of December 31, 2014, excluding the impact of potential lease renewals, future increases in rent, property lease guaranty revenue under property operating agreements and straight-line rent that may be recognized relating to the leases.

Mortgage Note Receivable

The Company’s $1.9 million mortgage note receivable is classified as held-for-investment based on management’s intent and ability to hold the note until maturity. The loan is carried at amortized cost and the Company’s mortgage note receivable is secured by an existing building. See Note 5 to the Consolidated Financial Statements for details of this mortgage note.

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Business Strategy

The Company owns and operates healthcare properties that facilitate the delivery of care in a lower-cost, primarily outpatient setting. To execute its strategy, the Company integrates owning, managing, financing and developing such properties and provides a broad spectrum of real estate services including leasing, property management, acquisition and development. The Company generates stable, growing income and lowers the long-term risk profile of its portfolio of properties by focusing on facilities located on or near the campuses of large, acute care hospitals associated with leading health systems. The Company reduces financial and operational risk by owning properties in diverse geographic locations with a diversity of tenants, including over 30 physician specialties, as well as surgery, imaging, cancer and diagnostic centers.

2014 Acquisitions and Dispositions

The Company acquired six properties during 2014 for a total purchase price of $83.1 million including cash consideration of $64.9 million and the assumption of debt of $18.2 million (excluding $1.4 million fair value adjustment premiums recorded upon acquisition). In addition, the Company acquired ownership of a multi-tenanted office building in Iowa in satisfaction of a $40.0 million note receivable and purchased an $85.4 million property in Oklahoma. The purchase price for the property in Oklahoma was offset by the repayment of an $81.2 million construction mortgage note receivable provided by the Company to fund the development of the property prior to acquisition and is further discussed in "Investing Activities" in "Liquidity and Capital Resources".

The Company disposed of nine medical office buildings during 2014 for a total sales price of $34.9 million, including cash consideration of $32.3 million, the origination of a $1.9 million Company-financed mortgage note receivable and $0.7 million of closing costs and adjustments.

See the Company's discussion regarding the 2014 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements.

Competition

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

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

Government Regulation

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

The Medicare and Medicaid programs are highly regulated and subject to frequent evaluation and change. Government healthcare spending has increased over time; however, changes from year to year in reimbursement methodology, rates and other regulatory requirements have resulted in a challenging operating environment for healthcare providers. Aggregate spending on government reimbursement programs for healthcare services is expected to continue to rise significantly over the next 20 years with population growth and the anticipated expansion of public insurance programs for the uninsured and senior populations. However, the profitability of providing care to the rising number of Medicare and Medicaid patients may decline, which could adversely affect tenants' ability to make lease payments to the Company.

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In March 2010, the Health Reform Law was signed into law to provide for comprehensive reform of the United States' healthcare system and extend health insurance benefits to the uninsured population, with the potential to alleviate high uncompensated care expense to healthcare providers. However, the law also increases regulatory scrutiny of providers by federal and state administrative authorities, lowers annual increases in Medicare payment rates and will gradually implement broad cost-saving measures and shared risk-and-reward payment models. This may slow the growth of healthcare spending, while also requiring providers to expand access and quality of care, presenting the industry and its individual participants with uncertainty and greater financial risk.

The Supreme Court of the United States continues to hear legal challenges to certain items included in the Health Reform Law. The implementation or repeal of the Health Reform Law, in whole or in part, could affect the economic performance of some or all of the Company's tenants and borrowers. The Company cannot predict the degree to which these changes may affect indirectly the economic performance of the Company, positively or negatively.

The Protecting Access to Medicare Act of 2014 was signed into law on April 1, 2014 and delayed a scheduled cut in Medicare payment rates for physician and outpatient services and provided stable rates through March 31, 2015. Currently, there is widespread support in Congress to revise the current formula that determines Medicare physician-payment rates and provide long-term visibility for stable physician reimbursement. If these measures or other federal budget negotiations ultimately require cuts to other healthcare providers' Medicare reimbursement rates or the federal healthcare programs in general, the Company cannot predict the degree to which these changes may affect the economic performance of some or all of the Company's tenants, positively or negatively.

The Company expects healthcare providers to continue to adjust to new operating and reimbursement challenges, as they have in the past, by increasing operating efficiency and modifying their strategies to profitably grow operations.

Legislative Developments

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

- the Health Reform Law and proposed amendments and repeal measures and related actions at the federal and state level;
- quality control, cost containment, and payment system reforms for Medicaid, Medicare and other public funding, such as expansion of pay-for-performance criteria and value-based purchasing programs, bundled provider payments, accountable care organizations, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;
- implementation of state health insurance exchanges and regulations governing their operation, whether run by the state or by the federal government, whereby individuals and small businesses will purchase health insurance, including government-funded plans, many assisted by federal subsidies that are currently under legal challenge before the Supreme Court;
- reform of the Medicare physician fee-for-service reimbursement formula that dictates annual updates in Medicare payment rates for physician services, which in recent years has called for reductions in its “Sustainable Growth Rate.” As part of The Protecting Access to Medicare Act of 2014, Congress continued its practice of extending physician Medicare rates, currently through March 31, 2015, at which time Congress must pass another fix to avoid a substantial cut in Medicare rates to physicians; and
- tax law changes affecting non-profit providers.

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

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Environmental Matters

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

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

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

Insurance

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

Employees

At December 31, 2014, the Company employed 239 people. The employees are not members of any labor union, and the Company considers its relations with its employees to be excellent.

Available Information

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

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

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Corporate Governance Principles

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

Committee Charters

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

Executive Officers

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

Item 1A. Risk Factors

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

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

Risk relating to our business and operations

The Company's expected results may not be achieved.

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

The Company's long-term single-tenant net leases may not be extended.

While the Company has no long-term single-tenant net leases expiring in 2015, such leases expiring in future years may not be extended. To the extent these properties have vacancies or subleases at lower rates upon expiration, income may decline if the Company is not able to re-let the properties at rental rates that are as high as the former rates. For more specific information concerning the Company's expiring long-term single-tenant net leases, see "Single-Tenant Net Leases" in "Trends and Matters Impacting Operating Results" section of this report.

The Company's revenues depend on the ability of its tenants under its leases to generate sufficient income from their operations to make rent, loan and lease guaranty payments to the Company.

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

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impairment charges, which could decrease net income attributable to common stockholders and equity, and reduce cash flows from operations.

The Company may decide or may be required under purchase options to sell certain properties. The Company may not be able to reinvest the proceeds from sale at rates of return equal to the return received on the properties sold.

The Company had approximately $162.2 million, or 5.0% of the Company's real estate property investments, that were subject to purchase options held by lessees that were exercisable as of December 31, 2014 or could become exercisable in 2015. Other properties have purchase options that will become exercisable in future periods. Properties with options exercisable in 2015 produced aggregate net operating income (operating revenues, such as property operating revenue, single-tenant net lease revenue, and property lease guaranty revenue, less property operating expense) of approximately $18.8 million in 2014. The exercise of these purchase options exposes the Company to reinvestment risk and a reduction in investment return. Certain properties subject to purchase options are producing returns above the rates of return the Company expects to achieve with new investments. If the Company is unable to reinvest the sale proceeds at rates of return equal to the return received on the properties that are sold, it may experience a decline in lease revenues and profitability and a corresponding material adverse effect on the Company's business and financial condition, the Company's ability to make distributions to its stockholders, and the market price of its common stock.

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

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

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

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

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

A portion of the Company's leases will expire over the course of any year. For more specific information concerning the Company's expiring leases, see the "Trends and Matters Impacting Operating Results" section. The Company may not be able to re-let space on terms that are favorable to the Company or at all. Further, the Company may be required to make significant capital expenditures to renovate or reconfigure space to attract new tenants. If it is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than the previous rates, or if the Company is required to undertake significant capital expenditures in connection with re-letting units, the Company's business, consolidated financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

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

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

The Company has, and may have more in the future, exposure to fixed rent escalators, which could impact its growth and profitability.

The Company receives a significant portion of its revenues by leasing assets in which the rental rate is generally fixed with annual escalations. Most of these annual increases are based upon fixed percentage increases while some are based on increases in the Consumer Price Index. If the fixed percentage increases begin to lag behind inflation, the Company's growth and profitability would be negatively impacted.

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

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

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

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

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

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

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

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

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

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

The Company is exposed to risks associated with entering new geographic markets.

The Company's acquisition and development activities may involve entering geographic markets where the Company has not previously had a presence. The construction and/or acquisition of properties in new geographic areas involves risks, including the risk that the property will not perform as anticipated and the risk that any actual costs for site development and improvements identified in the pre-construction or pre-acquisition due diligence process will exceed estimates. There is, and it

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is expected that there will continue to be, significant competition for investment opportunities that meet management's investment criteria, as well as risks associated with obtaining financing for acquisition activities, if necessary.

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

As of December 31, 2014, the Company had 93 properties, representing an aggregate net investment of approximately $1.1 billion, that were held under ground leases. The Company's ground lease agreements with hospitals and health systems typically contain restrictions that limit building occupancy to physicians on the medical staff of an affiliated hospital and prohibit tenants from providing services that compete with the services provided by the affiliated hospital. Ground leases may also contain consent requirements or other restrictions on sale or assignment of the Company's leasehold interest, including rights of first offer and first refusal in favor of the lessor. These ground lease provisions may limit the Company's ability to lease, sell, or obtain mortgage financing secured by such properties which, in turn, could adversely affect the income from operations or the proceeds received from a sale. As a ground lessee, the Company is also exposed to the risk of reversion of the property upon expiration of the ground lease term, or an earlier breach by the Company of the ground lease, which may have a material adverse effect on the Company's business, consolidated financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

The Company may experience uninsured or underinsured losses related to casualty or liability.

The Company carries comprehensive liability insurance and property insurance covering its owned and managed properties. In addition, tenants under long-term single-tenant net leases are required to carry property insurance covering the Company's interest in the buildings. Some types of losses, such as cyber breaches, however, either may be uninsurable or too expensive to insure against. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital it has invested in a property, as well as the anticipated future revenue from the property. In such an event, the Company might remain obligated for any mortgage debt or other financial obligation related to the property. The Company cannot give assurance that material losses in excess of insurance proceeds will not occur in the future.

The Company is subject to cyber security risks.

A cyber-attack that bypasses the Company's information technology ("IT") security systems causing an IT security breach, may lead to a material disruption of the Company's IT business systems and/or the loss of business information resulting in an adverse business impact. Risks may include:

- future results could be adversely affected due to the theft, destruction, loss, misappropriation or release of confidential data or intellectual property;

- operational or business delays resulting from the disruption of IT systems and subsequent clean-up and mitigation activities; and/or

- negative publicity resulting in reputation or brand damage with the Company's tenants, sponsoring health systems or other operators.

Risks relating to our capital structure and financings

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

As of December 31, 2014, the Company had approximately $1.4 billion of outstanding indebtedness and the Company's leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was 42.4%. Covenants under the unsecured credit facility due 2017 ("Unsecured Credit Facility"), the Term Loan Agreement, dated as of February 27, 2014, among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders that are party thereto (the "Unsecured Term Loan due 2019 ") and the indentures governing the Company's senior notes permit the Company to incur substantial, additional debt, and the Company may borrow additional funds, which may include secured borrowings. A high level of indebtedness would require the Company to dedicate a substantial portion of its cash flows from operations to service the debt, thereby reducing the funds available to implement the Company's business strategy and to make distributions to stockholders.

A high level of indebtedness could also:

- limit the Company's ability to adjust rapidly to changing market conditions in the event of a downturn in general economic conditions or in the real estate and/or healthcare industries;
- impair the Company's ability to obtain additional debt financing or require potentially dilutive equity to fund obligations and carry out its business strategy; and
- result in a downgrade of the rating of the Company's debt securities by one or more rating agencies, which would increase the costs of borrowing under the Unsecured Credit Facility and the cost of issuance of new debt securities, among other things.

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

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

The terms of the Unsecured Credit Facility, the Unsecured Term Loan due 2019, the indentures governing the Company’s outstanding senior notes and other debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. These provisions include, among other things: a limitation on the incurrence of additional indebtedness; limitations on mergers, investments, acquisitions, redemptions of capital stock, transactions with affiliates; and maintenance of specified financial ratios. The Company’s continued ability to incur debt and operate its business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in defaults under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit the Company’s operational flexibility, as well as defaults resulting from a breach of any of these covenants in its debt instruments, could have a material adverse effect on the Company’s consolidated financial condition and results of operations.

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

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

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

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

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

A REIT is required by the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”) to make dividend distributions, thereby retaining less of its capital for growth. As a result, a REIT typically grows through steady investments of new capital in real estate assets. However, there may be times when the Company will have limited access to capital from the equity and/or debt markets. Changes in the Company’s debt ratings could have a material adverse effect on its interest costs and financing sources. The Company’s debt rating can be materially influenced by a number of factors including, but not limited to, acquisitions, investment decisions, and capital management activities. In recent years, the capital and credit markets have experienced volatility and at times have limited the availability of funds. The Company’s ability to access the capital and credit markets may be limited by these or other factors, which could have an impact on its ability to refinance maturing debt, fund dividend payments and operations, acquire healthcare properties and complete construction projects. If the Company is unable to refinance or extend principal payments due at maturity of its various debt instruments, its cash flow may not be sufficient to repay maturing debt and, consequently, make dividend payments to stockholders. If the Company defaults in paying any of its debts or honoring its debt covenants, it could experience cross-defaults among debt instruments, the debts could be accelerated and the Company could be forced to liquidate assets for less than the values it would otherwise receive.

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

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

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The Company may enter into swap agreements from time to time that may not effectively reduce its exposure to changes in interest rates.

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

Risks relating to government regulations

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

If the Company loses a tenant or sponsor health system and is unable to attract another healthcare provider on a timely basis and on acceptable terms, the Company's cash flows and results of operations could suffer. Transfers of operations of healthcare facilities are often subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

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

The healthcare service industry may be affected by the following:

- trends in the method of delivery of healthcare services;
- competition among healthcare providers;
- lower reimbursement rates from government and commercial payors, high uncompensated care expense, investment losses and limited admissions growth pressuring operating profit margins for healthcare providers;
- availability of capital;
- credit downgrades;
- liability insurance expense;
- regulatory and government reimbursement uncertainty resulting from the Health Reform Law;
- health reform initiatives to address healthcare costs through expanded value-based purchasing programs, bundled provider payments, health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, lower payments for hospital readmissions, and shared risk-and-reward payment models such as accountable care organizations;
- Supreme Court decisions on several cases challenging the legality of certain aspects of the Health Reform Law, in particular, federal subsidies to individuals enrolled in the federal health insurance exchange in states where a state-based exchange has not been established;
- federal and state government plans to reduce budget deficits and address debt ceiling limits by lowering healthcare provider Medicare and Medicaid payment rates, while requiring increased patient access to care;
- congressional efforts to repeal the Health Reform Law in whole or in part;

- congressional efforts to reform the Medicare physician fee-for-service formula that dictates annual updates in payment rates for physician services, including significant reductions in the Sustainable Growth Rate, whether through a short-term fix or a more long-term solution;

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

- potential tax law changes affecting non-profit providers.

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

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

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

If the Company were to fail to qualify as a REIT in any taxable year, the Company would be subject to federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates and possibly increased state and local taxes (and the Company might need to borrow money or sell assets in order to pay any such tax). Further, dividends paid to the Company's stockholders would not be deductible by the Company in computing its taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to the Company's stockholders, which in turn could have an adverse impact on the value of, and trading prices for, the Company's common stock. In addition, in such event the Company would no longer be required to pay dividends to maintain REIT status, which could adversely affect the value of the Company's common stock. Unless the Company were entitled to relief under certain provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), the Company also would continue to be disqualified from taxation as a REIT for the four taxable years following the year in which the Company failed to qualify as a REIT.

Even if the Company remains qualified for taxation as a REIT, the Company is subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed taxable income, and state or local income, franchise, property and transfer taxes. These tax liabilities would reduce the Company's cash flow and could adversely affect the value of the Company's common stock. For more specific information on state income taxes paid, see Note 16 to the Consolidated Financial Statements.

The Company's Articles of Incorporation contain limits and restrictions on transferability of the Company's common stock which may have adverse effects on the value of the Company's common stock.

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

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The federal tax rate applicable to income from “qualified dividends” payable to certain domestic stockholders that are individuals, trusts and estates is currently the preferential tax rate applicable to long-term capital gains. Dividends payable by REITs, however, are generally not qualified dividends and do not qualify for the preferential tax rate. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including the Company’s common stock.

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Complying with the REIT requirements may cause the Company to forego otherwise attractive opportunities.
To qualify as a REIT for federal income tax purposes, the Company must continually satisfy tests concerning, among other things, the sources of its income, the nature of its assets, the amounts it distributes to its stockholders and the ownership of its stock. The Company may be unable to pursue investments that would be otherwise advantageous to the Company in order to satisfy the source-of-income, or distribution requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder the Company’s ability to make certain attractive investments.
Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.
Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize the Company’s REIT qualification. The Company’s continued qualification as a REIT will depend on the Company’s satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, the Company’s ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which the Company has no control or only limited influence, including in cases where the Company owns an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.
New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for the Company to qualify as a REIT.
The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in the Company. The federal income tax rules that affect REITs are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in federal tax laws and interpretations thereof could cause the Company to change its investments and commitments and affect the tax considerations of an investment in the Company. There can be no assurance that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to the Company’s qualification as a REIT or with respect to the federal income tax consequences of qualification.
Item 1B. Unresolved Staff Comments
None.
Item 2. Properties
In addition to the properties described in Item 1, “Business,” in Note 2 to the Consolidated Financial Statements, and in Schedule III of Item 15 of this Annual Report on Form 10-K, the Company leases office space from an unrelated third party for its headquarters, which are located at 3310 West End Avenue in Nashville, Tennessee. The Company’s corporate office lease currently covers approximately 36,653 square feet of rented space and expires on October 31, 2020. Annual base rent on the corporate office lease increases approximately 3.25% annually. The Company’s base rent for 2014 was approximately $0.8 million.
Item 3. Legal Proceedings
The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.
Item 4. Mine Safety Disclosures
Not applicable.

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PART II

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

Shares of the Company’s common stock are traded on the New York Stock Exchange under the symbol “HR.” At December 31, 2014, there were approximately 1,093 stockholders of record. The following table sets forth the high and low sales prices per share of common stock and the dividends declared and paid per share of common stock related to the periods indicated.

	High	Low	Dividends Declared and Paid per Share
2014			
First Quarter	$24.66	$20.85	$0.30
Second Quarter	26.03	23.88	0.30
Third Quarter	25.96	23.41	0.30
Fourth Quarter (Payable on February 27, 2015)	28.00	23.50	0.30
2013			
First Quarter	$28.50	$24.07	$0.30
Second Quarter	30.59	23.40	0.30
Third Quarter	27.37	21.78	0.30
Fourth Quarter	24.77	20.91	0.30

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

Equity Compensation Plan Information

The following table provides information as of December 31, 2014 about the Company’s common stock that may be issued upon grants of restricted stock and the exercise of options, warrants and rights under all of the Company’s existing compensation plans, including the 2007 Employees Stock Incentive Plan and the 2000 Employee Stock Purchase Plan.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	393,902	—	662,187
Equity compensation plans not approved by security holders	—	—	—
Total	393,902	—	662,187

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

date applicable to such offering period, whichever is lower.

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Issuer Purchases of Equity Securities

During the year ended December 31, 2014, the Company withheld shares of Company common stock to satisfy employee tax withholding obligations payable upon the vesting of non-vested shares, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31	5,780	$22.89	—	—
February 1 - February 28	4,194	22.63	—	—
March 1 - March 31	—	—	—	—
April 1 - April 30	2,925	25.15	—	—
May 1 - May 31	3,271	24.69	—	—
June 1 - June 30	—	—	—	—
July 1 - July 31	—	—	—	—
August 1 - August 31	—	—	—	—
September 1 - September 30	—	—	—	—
October 1 - October 31	—	—	—	—
November 1 - November 30	—	—	—	—
December 1 - December 31	354,847	27.31	—	—
Total	371,017			

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Item 6. Selected Financial Data

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

	Year Ended December 31,				
(Amounts in thousands except per share data)	2014	2013 (1)	2012 (1)	2011 (1)	2010 (1)
Statement of Operations Data:					
Total revenues	$370,855	$330,949	$297,682	$272,077	$229,721
Total expenses	267,100	243,331	224,592	207,303	173,513
Other income (expense)	(69,776)	(100,710)	(73,982)	(77,125)	(63,692)
Income (loss) from continuing operations	$33,979	$(13,092)	$(892)	$(12,351)	$(7,484)
Discontinued operations	$(1,779)	$20,075	$6,427	$12,167	$15,728
Net income (loss) attributable to common stockholders	$31,887	$6,946	$5,465	$(214)	$8,200
Diluted earnings per common share:					
Income (loss) from continuing operations	$0.35	$(0.14)	$(0.01)	$(0.17)	$(0.12)
Discontinued operations	(0.02)	0.22	0.08	0.17	0.25
Net income attributable to common stockholders	$0.33	$0.08	$0.07	$(0.00)	$0.13
Weighted average common shares outstanding - Diluted	96,759	90,941	78,845	72,720	61,723
Balance Sheet Data (as of the end of the period):					
Real estate properties, gross	$3,258,279	$3,067,187	$2,821,323	$2,778,903	$2,562,570
Real estate properties, net	$2,557,608	$2,435,078	$2,240,706	$2,266,777	$2,081,608
Mortgage notes receivable	$1,900	$125,547	$162,191	$97,381	$36,599
Assets held for sale and discontinued operations, net	$9,146	$6,852	$3,337	$28,650	$23,915
Total assets	$2,757,510	$2,729,662	$2,539,972	$2,521,022	$2,357,309
Notes and bonds payable	$1,403,692	$1,348,459	$1,293,044	$1,393,537	$1,407,855
Total equity	$1,221,054	$1,245,286	$1,120,944	$1,004,806	$842,740
Other Data:					
Funds from operations - Diluted (2)	$143,493	$90,153	$104,665	$84,682	$79,084
Funds from operations per common share - Diluted (2)	$1.48	$0.98	$1.31	$1.15	$1.26
Cash flows from operations	$125,370	$120,797	$116,397	$107,852	$87,756
Dividends paid	$116,371	$111,571	$96,356	$89,270	$75,821
Dividends declared and paid per common share	$1.20	$1.20	$1.20	$1.20	$1.20

(1) The years ended December 31, 2013, 2012, 2011, and 2010 are restated to conform to the discontinued operations presentation for 2014. See Note 6 to the Consolidated Financial Statements for more information on the Company's discontinued operations as of December 31, 2014.

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

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

Disclosure Regarding Forward-Looking Statements

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

Such risks and uncertainties include, among other things, the following:

- The Company's expected results may not be achieved;
- The Company's long-term single-tenant net leases may not be extended;
- The Company’s revenues depend on the ability of its tenants to generate sufficient income from their operations to make rent, loan and lease guaranty payments to the Company;
- The Company may decide or may be required under purchase options to sell certain properties. The Company may not be able to reinvest the proceeds from sale at rates of return equal to the return received on the properties sold;
- Owning real estate and indirect interests in real estate is subject to inherent risks;
- The Company may incur impairment charges on its real estate properties or other assets;
- If the Company is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than the previous rates or if the Company is required to undertake significant expenditures to attract new tenants, then the Company’s business, financial condition and results of operations would be adversely affected;
- Certain of the Company’s properties are special purpose healthcare facilities and may not be easily adaptable to other uses;
- The Company has, and may have more in the future, exposure to fixed rent escalators, which could impact its growth and profitability;
- The Company’s real estate investments are illiquid and the Company may not be able to sell properties strategically targeted for disposition;
- The Company is subject to risks associated with the development and redevelopment of properties;
- The Company may make material acquisitions and undertake developments that may involve the expenditure of significant funds and may not perform in accordance with management’s expectations;
- The Company is exposed to risks associated with entering new geographic markets;
- Many of the Company’s properties are held under ground leases. These ground leases contain provisions that may limit the Company’s ability to lease, sell, or finance these properties;
- The Company may experience uninsured or underinsured losses related to casualty or liability;
- The Company is subject to cyber security risks;
- The Company has incurred significant debt obligations and may incur additional debt and increase leverage in the future;
- Covenants in the Company’s debt instruments limit its operational flexibility, and a breach of these covenants could materially affect the Company’s financial condition and results of operations;
- A change to the Company’s current dividend payment may have an adverse effect on the market price of the Company’s common stock;
- If lenders under the Unsecured Credit Facility fail to meet their funding commitments, the Company’s operations and consolidated financial position would be negatively impacted;

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- The unavailability of equity and debt capital, volatility in the credit markets, increases in interest rates, or changes in the Company’s debt ratings could have an adverse effect on the Company’s ability to meet its debt payments, make dividend payments to stockholders or engage in acquisition and development activity;
- The Company is exposed to increases in interest rates, which could adversely impact its ability to refinance existing debt, sell assets or engage in acquisition and development activity;
- The Company may enter into swap agreements from time to time that may not effectively reduce its exposure to changes in interest rates;
- If a healthcare tenant loses its licensure or certification, becomes unable to provide healthcare services, cannot meet its financial obligations to the Company or otherwise vacates a facility, the Company would have to obtain another tenant for the affected facility;
- Adverse trends in the healthcare service industry may negatively affect the Company’s lease revenues and the value of its investments;
- If the Company fails to remain qualified as a REIT, the Company will be subject to significant adverse consequences, including adversely affecting the value of its common stock;
- The Company's Articles of Incorporation contain limits and restrictions on transferability of the Company's common stock which may have adverse effects on the value of the Company's common stock;
- Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends;
- Complying with the REIT requirements may cause the Company to forego otherwise attractive opportunities;
- Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code; and
- New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for the Company to qualify as a REIT.

Other risks, uncertainties and factors that could cause actual results to differ materially from those projected are detailed in Item 1A “Risk Factors” of this report and in other reports filed by the Company with the SEC from time to time.

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

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

- Overview
- Liquidity and Capital Resources
- Trends and Matters Impacting Operating Results
- Non-GAAP Measures
- Results of Operations
- Off-balance Sheet Arrangements
- Contractual Obligations
- Application of Critical Accounting Policies

Overview

The Company owns and operates healthcare properties that facilitate the delivery of care in a lower-cost, primarily outpatient setting. To execute its strategy, the Company integrates owning, managing, financing and developing such properties and provides a broad spectrum of real estate services including leasing, property management, acquisition and development. The Company generates stable, growing income and lowers the long-term risk profile of its portfolio of properties by focusing on facilities located on or near the campuses of large, acute care hospitals associated with leading health systems. The Company reduces financial and operational risk by owning properties in diverse geographic locations with a diversity of tenants, including over 30 physician specialties, as well as surgery, imaging, cancer and diagnostic centers.

Liquidity and Capital Resources

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

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

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

Sources and Uses of Cash

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

The Company expects to continue to meet its liquidity needs, including capital for additional investments, dividend payments and debt service funds through cash on hand, cash flows from operations and the cash flow sources addressed above. The Company also had unencumbered real estate assets with a gross book value of approximately $2.9 billion at December 31, 2014, of which a portion could serve as collateral for secured mortgage financing. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company cannot, however, be certain that these sources of funds will be available at a time and upon terms acceptable to the Company in sufficient amounts to meet its liquidity needs.

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

Operating Activities

Cash flows provided by operating activities for the three years ended December 31, 2014, 2013 and 2012 were $125.4 million, $120.8 million and $116.4 million, respectively. Several items impact cash flows from operating activities including, but not limited to, cash generated from property operations, interest payments and the timing related to the payment of invoices and other expenses and receipts of tenant rent.

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

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

Security Deposits and Letters of Credit

As of December 31, 2014, the Company held approximately $9.6 million in letters of credit and security deposits for the benefit of the Company in the event the obligated tenant fails to perform under the terms of its respective lease. Generally, the Company may, at its discretion and upon notification to the tenant, draw upon these instruments if there are any defaults under the leases.

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Investing Activities

The following table details the Company's cash flows used in investing activities for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,		
(Dollars in thousands)	2014	2013	2012
Acquisitions of real estate	$(71,899)	$(177,744)	$(89,640)
Development of real estate	—	—	(7,833)
Additional long-lived assets	(70,670)	(72,784)	(62,251)
Funding of mortgages and notes receivable	(1,244)	(58,731)	(78,297)
Proceeds from acquisition of real estate upon mortgage note receivable default	204	—	—
Proceeds from sales of real estate	32,398	96,132	74,817
Proceeds from sale of cost method investment in real estate	—	2,717	—
Proceeds from mortgage repayment by previously consolidated VIE	—	—	35,057
Proceeds from mortgages and notes receivable repayments	5,623	2,464	14,893
Net cash used in investing activities	$(105,588)	$(207,946)	$(113,254)

A summary of the significant transactions impacting investing activities for the year ended December 31, 2014 is listed below. In addition, see Notes 4 and 5 to the Consolidated Financial Statements for more detail on these activities.

- The Company acquired six medical office buildings during 2014 for a total purchase price of $83.1 million, including cash consideration of $64.9 million and the assumption of mortgage notes payable of $18.2 million.
- In March 2014, the Company also acquired ownership of a 93% leased multi-tenanted office building in Iowa in satisfaction of a $40.0 million mortgage note receivable that matured on January 10, 2014.
- In May 2014, the Company purchased a build-to-suit facility in Oklahoma which is 100% leased to Missouri-based Mercy Health through 2028 for a purchase price of $85.4 million. The purchase price was credited by an outstanding construction mortgage note receivable of $81.2 million and the Company paid an additional $4.2 million in cash consideration. The Company funded $1.2 million on the outstanding construction mortgage note prior to purchasing the facility upon completion. Subsequent to the purchase, the Company funded an additional $5.0 million and anticipates funding approximately $0.8 million to complete the $91.2 million development during 2015.
- The Company disposed of nine medical office buildings in 2014 for a total sales price of $34.9 million, including cash consideration of $32.3 million, the origination of a $1.9 million Company-financed mortgage note receivable and $0.7 million of closing costs and related adjustments.
- The Company funded $40.0 million in tenant improvements at its owned properties during 2014, including $22.4 million in first generation tenant improvements.
- The Company funded $15.6 million in capital additions at its owned properties during 2014, including $4.1 million related to ongoing redevelopment of properties.

Subsequent Acquisition

In January 2015, the Company acquired a 110,679 square foot medical office building in California for a purchase price and cash consideration of $39.3 million. The property is located adjacent to two hospital campuses, one affiliated with Kaiser Permanente, a 106-bed hospital, and another affiliated with Washington Hospital Healthcare System, a 353-bed hospital. This property was 97% leased, with leases to the two hospitals comprising 59% of the rentable square footage.

Development Opportunities

The Company is in the planning stages with several health systems and developers regarding new development opportunities, and management expects one or more developments to begin in 2015. Individual properties developed by the Company typically range in size from 50,000 to 150,000 square feet, depending largely on the demand for hospital-based outpatient services and third-party medical office use. Total costs to develop these properties can vary greatly depending on the scope and location of the facility, but typically range from $200 to $300 per square foot. Construction of new buildings generally takes 12 months or longer, and any development that starts in 2015 is not expected to have a material impact on 2015 results. The

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Company considers pursuing developments in light of existing obligations, the acquisition environment, capital availability, leasing activity, and cost, among other factors.

Financing Activities

The following table details the Company's cash flows provided by (used in) financing activities for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,		
(Dollars in thousands)	2014	2013	2012
Net borrowings (repayments) on unsecured credit facility	$(153,000)	$128,000	$(102,000)
Borrowings on term loan	200,000	—	—
Borrowings on notes and bonds payable	—	247,948	—
Repayments on notes and bonds payable	(12,357)	(19,984)	(4,990)
Redemption of notes and bonds payable	—	(371,839)	—
Dividends paid	(116,371)	(111,571)	(96,356)
Net proceeds from issuance of common stock	76,856	220,252	202,352
Common stock redemptions	(10,074)	(454)	(68)
Capital contributions received from noncontrolling interests	—	1,806	—
Distributions to noncontrolling interest holders	(541)	(32)	(40)
Purchase of noncontrolling interests	(8,189)	—	—
Debt issuance and assumption costs	(1,258)	(5,082)	(3)
Net cash provided by (used in) financing activities	$(24,934)	$89,044	$(1,105)

Below is a summary of the significant financing activity for the year ended December 31, 2014. See Notes 10 and 11 to the Consolidated Financial Statements for more information on the capital markets and financing activities.

Changes in Debt Structure

- In February 2014, the Company entered into a $200.0 million unsecured term loan facility ("Unsecured Term Loan due 2019") with a syndicate of nine lenders that matures on February 26, 2019. The Unsecured Term Loan due 2019 bears interest at a rate equal to (x) LIBOR plus (y) a margin ranging from 1.00% to 1.95% (currently 1.45%) based upon the Company's unsecured debt ratings. Payments under the Unsecured Term Loan due 2019 are interest only, with the full amount of the principal due at maturity. The Unsecured Term Loan due 2019 may be prepaid at any time, without penalty. The proceeds from the Unsecured Term Loan due 2019 were used by the Company to repay borrowings on its unsecured revolving credit facility due 2017 ("Unsecured Credit Facility"). The Unsecured Term Loan due 2019 has various financial covenant provisions that are required to be met on a quarterly and annual basis that are equivalent to those of the Unsecured Credit Facility.
- In July 2014, upon the acquisition of a real estate property in Minnesota, the Company assumed a series 2010B Bond due 2017 totaling $0.5 million, a Series 2010A Bond due 2022 totaling $1.2 million, a Series 2010A Bond due 2030 totaling $2.8 million and a Series 2010A Bond due 2040 totaling $7.0 million. The aggregate outstanding balance of these bonds is approximately $11.4 million excluding a fair value adjustment premium recorded upon acquisition of approximately $1.0 million. The mortgage notes payable have a weighted average contractual interest rate of 6.67% (effective rate of 4.79%). The Series 2010A Bonds can be repaid without penalty on or after May 1, 2020. See Note 4 of the Consolidated Financial Statements for more information regarding this transaction.
- In October 2014, upon the acquisition of a real estate property, the Company assumed a mortgage note payable totaling $6.8 million excluding the fair value premium of $0.4 million recorded upon acquisition. This note bears a contractual interest rate of 6.10% (effective rate of 4.86%) and matures on August 1, 2020. See Note 4 of the Consolidated Financial Statements for more information regarding this transaction.
- In October 2014, the Company repaid three mortgage notes payable totaling $6.3 million bearing a weighted average contractual interest rate of 6.08% (effective rate of 4.06%) that encumbered two medical office buildings in Virginia.

As of December 31, 2014, 96.4% of the Company's debt balances were due after 2015. Also, as of December 31, 2014, the Company's stockholders' equity totaled approximately $1.2 billion and its leverage ratio [debt divided by (debt plus stockholders' equity less intangible assets plus accumulated depreciation)] was approximately 42.4%. The Company's fixed charge ratio, calculated in accordance with Item 503 of Regulation S-K, includes only income from continuing operations

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which is reduced by depreciation and amortization and the operating results of properties currently classified as held for sale, as well as other income from discontinued operations (see Note 6 to the Consolidated Financial Statements). In accordance with this definition, the Company's earnings from continuing operations as of December 31, 2014 were sufficient to cover its fixed charges with a ratio of 1.46 to 1.00. Calculated in accordance with the fixed charge covenant ratio under its Unsecured Credit Facility, the Company's earnings covered its fixed charges 2.8 times.

The Company's various debt agreements contain certain representations, warranties, and financial and other covenants customary in such debt agreements. Among other things, these provisions require the Company to maintain certain financial ratios and minimum tangible net worth and impose certain limits on the Company's ability to incur indebtedness and create liens or encumbrances. At December 31, 2014, the Company was in compliance with the financial covenant provisions under all of its various debt instruments.

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

Common Stock Issuances

The following table summarizes the sales of common stock under the Company's at-the-market equity program:

	Shares Sold	Sales Price Per Share	Net Proceeds (in millions)
2014	3,009,761	$24.35 - $27.53	$75.7
2013	5,207,871	$24.19 - $30.49	$140.6

The Company used the net proceeds from the at-the-market equity offering program for general corporate purposes, including the acquisition and development of healthcare facilities, funding of mortgage loans and the repayment of debt.

Dividends Payable

The Company is required to pay dividends to its stockholders at least equal to 90% of its taxable income in order to maintain its qualification as a REIT. Common stock cash dividends paid during or related to 2014 are shown in the table below:

Quarter	Quarterly Dividend	Date of Declaration	Date of Record	Date Paid/*Payable
4th Quarter 2013	$0.30	February 4, 2014	February 18, 2014	February 28, 2014
1st Quarter 2014	$0.30	April 29, 2014	May 16, 2014	May 30, 2014
2nd Quarter 2014	$0.30	July 29, 2014	August 14, 2014	August 29, 2014
3rd Quarter 2014	$0.30	November 4, 2014	November 14, 2014	November 28, 2014
4th Quarter 2014	$0.30	February 3, 2015	February 17, 2015	* February 27, 2015

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

Noncontrolling Interest Purchase

In April 2014, the Company purchased the outstanding 40% noncontrolling equity interest in a consolidated partnership that owns a medical office building and parking garage in Texas, which were developed by the partnership, for an aggregate purchase price and cash consideration of $8.2 million. The book value of the noncontrolling interest prior to the equity purchase was $1.6 million. The remaining $6.6 million was recorded as a decrease to additional paid-in capital on the Company's Consolidated Balance Sheets.

Trends and Matters Impacting Operating Results

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

Acquisitions and Dispositions

The Company acquired six properties during 2014 for a total purchase price of $83.1 million including cash consideration of $64.9 million and the assumption of debt of $18.2 million (excluding $1.4 million fair value adjustment premiums recorded upon acquisition). In addition, the Company acquired ownership of a multi-tenanted office building in Iowa in satisfaction of a $40.0 million note receivable and purchased an $85.4 million property in Oklahoma. The purchase price for the property in Oklahoma was offset by the repayment of an $81.2 million construction mortgage note receivable provided by the Company to fund the development of the property prior to acquisition and is discussed in Development Activity below. The Company will continue to make selective acquisitions as it monitors the availability of properties that meet its criteria, capitalization rates, and cost of capital. The Company disposed of nine medical office buildings during 2014 for a total purchase price of $34.9 million, including cash consideration of $32.3 million, the origination of a $1.9 million Company-financed mortgage receivable and $0.7 million of closing costs and adjustments.

See the Company's discussion regarding the 2014 acquisitions and dispositions activity in Note 4 to the Consolidated Financial Statements.

Development Activity

In 2014, the Company had one development project in Oklahoma that was affiliated with Mercy Health, which is based in St. Louis, Missouri. On May 22, 2014, the Company acquired a 100%-leased, medical office building in Oklahoma for $85.4 million, including the elimination of the construction mortgage note receivable totaling $81.2 million. During the second half of 2014, the Company recognized single-tenant net lease rental income of $3.5 million from this property. See "Investing Activities" in "Liquidity and Capital Resources" for more detailed information on the Company’s activities related to this development projects.

No new development projects were started in 2014. During 2014, the Company saw steady leasing and occupancy improvement at the 12 properties categorized as development conversions. These properties were 80% occupied at December 31, 2014, compared to 63% occupied at the beginning of 2014. The Company has additional executed leases beyond the current occupancy and expects leasing momentum for these properties to continue throughout 2015. NOI for these properties increased from $2.3 million in the fourth quarter of 2013 to $4.2 million in the fourth quarter of 2014. During 2014, the Company funded $17.4 million toward first generation tenant improvements and related capital improvements at these properties. The Company estimates it will need an incremental investment of at least $11.1 million for tenant improvements as these properties continue to lease up. Given the current level of occupancy and executed leases, the Company has moved these properties into its stabilized portfolio as of January 1, 2015. These 12 properties will be included in the Company’s same store properties beginning in the first quarter of 2015.

The Company is in the process of redeveloping two properties in Tennessee and is in discussions to expand the scope and budget of those projects. The Company has spent approximately $4.1 million toward these projects through December 31, 2014. In the first quarter of 2015, the Company expects to commence the redevelopment of a property in Alabama, including the construction of a parking garage. The total redevelopment budget for this property is $15.4 million and it is expected that construction will be completed near the end of 2015.

Multi-Tenant Leases

The Company expects that approximately 15% to 20% of the leases in its multi-tenant portfolio will expire each year. During 2014, 499 leases in the Company's multi-tenant portfolio expired, of which 397 were renewed or the tenants continue to occupy the space. Demand for well-located real estate with complementary practice types and services remains consistent and the Company's 2014 quarterly tenant retention statistics ranged from 76% to 87%. In 2015, 411 leases in the Company's multi-tenant portfolio are scheduled to expire. Of those leases, 89% are physician practices in on-campus buildings, which tend to have a higher tenant retention rate.

Multi-tenant Rental Rates and Lease Management

The Company continues to emphasize revenue growth for its in-place leases. In 2014, the Company experienced contractual rental rate growth which averaged 2.9% for in-place leases compared to 3.1% in 2013. The Company saw increases in its quarterly weighted average rental rate growth for renewing leases, unadjusted for rent abatements. For the years ended December 31, 2014 and 2013, quarterly weighted average rental rate growth ("cash releasing spread") for renewing leases ranged from 1.1% to 4.4% and 0.5% to 2.5%, respectively.

In a further effort to maximize revenue growth and reduce its exposure to uncontrollable expenses such as taxes and utilities, the Company carefully manages its balance of lease types. Gross leases, wherein the Company has full exposure to all operating expenses, comprise 17% of its lease portfolio. Generally, the Company seeks higher rental increases for gross leases to compensate for its exposure to all operating expenses. Modified gross or base year leases, in which the Company and tenant both pay a share of operating expenses, comprise 35% of the Company's leased portfolio. Net leases, in which tenants pay all allowable operating expenses, total 48% of the leased portfolio.

Tenant Improvements

The Company may provide a tenant improvement allowance in new or renewal leases for the purpose of refurbishing or renovating tenant space. Shorter-term leases (one to two years) generally do not include a tenant improvement allowance. In instances where the Company negotiates a renewal lease but does not increase the rental rate in the first year of the renewal term, it limits or eliminates a tenant's improvement allowance.

Tenant improvements totaled approximately $40.0 million, or $2.81 per square foot in 2014, of which $22.4 million pertained to first generation space. Tenant improvements in 2013 totaled $46.1 million, or $3.31 per square foot, of which $34.9 million pertained to first generation space. If tenants spend more than the allowance, the Company generally offers the tenant the option to either amortize the overage over the lease term, with interest, or reimburse the overage to the Company in a lump sum. In either case, such overages are amortized by the Company as rental income over the term of the lease. Interest earned on tenant overages is included in other operating income in the Company's Consolidated Statements of Operations and totaled approximately $0.7 million in 2014 and $0.5 million in 2013. The tenant overage amount amortized to rent totaled approximately $4.2 million in 2014 and $3.9 million in 2013.

Leasing Commissions

In certain markets, the Company may pay leasing commissions to real estate brokers who represent either the Company's properties or prospective tenants, with commissions generally equating to 4% to 6% of the gross lease value for new leases and 2% to 4% of the gross lease value for renewal leases. In 2014, the Company paid leasing commissions of approximately $7.0 million, or $0.49 per square foot, of which $2.5 million pertained to the leases for first generation space. In 2013, the Company paid leasing commissions of approximately $7.8 million, or $0.56 per square foot, of which $4.1 million pertained to the leases for first generation space. The amount of leasing commissions amortized over the term of the applicable leases and included in property operating expense in the Company's Consolidated Statements of Operations totaled $3.0 million, $2.0 million and $1.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Rent Abatements

Rent abatements, which generally take the form of deferred rent, are sometimes used to help induce a potential tenant to lease space in the Company's properties. Such abatements, when made, are amortized by the Company on a straight-line basis against rental income over the lease term. Rent abatements for 2014 totaled approximately $3.8 million, or $0.27 per square foot, of which $2.4 million pertained to leases for first generation space. Rent abatements for 2013 totaled approximately $4.1 million, or $0.29 per square foot, of which $1.7 million pertained to leases for first generation space.

Single-Tenant Net Leases

Leases on eight single-tenant net lease properties expired in the second half of 2014. These leases generated approximately $6.4 million in net operating income for the year ended December 31, 2014. Seven of these leases renewed at favorable rates. The remaining lease relates to an 45,548 square foot on-campus medical office building 83% occupied by subtenants. The Company is in the process of executing leases with the subtenants.

There are no single-tenant net leases with expiration dates in 2015. The Company has a total of 36 single-tenant net leases with a weighted average remaining lease term of 10.5 years.

Operating Leases

As of December 31, 2014, the Company was obligated under operating lease agreements consisting primarily of the Company’s corporate office lease and ground leases related to 45 real estate investments, excluding those ground leases the Company has prepaid. These operating leases have expiration dates through 2105. Rental expense relating to the operating leases for the years ended December 31, 2014, 2013 and 2012 was $4.9 million, $4.4 million and $4.3 million, respectively.

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Capital Additions

As a part of the Company's leasing practice, the Company generates a return on capital additions by setting lease rates for each property based on the Company's gross investment, inclusive of any actual or expected capital additions. The Company invested \$15.6 million, or \$1.10 per square foot, in capital additions in 2014 of which \$4.0 million pertained to the redevelopment of two properties in Tennessee and \$11.9 million, or \$0.85 per square foot, in 2013 of