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Community Healthcare Trust Inc
Form 10-K
February 26, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

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

Commission file number: 001-37401

Community Healthcare Trust Incorporated
(Exact Name of Registrant as Specified in Its Charter)

Maryland 46-5212033
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
3326 Aspen Grove Drive
Suite 150
Franklin, Tennessee 37067
(Address of Principal Executive Offices) (Zip Code)
(615) 771-3052
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
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Common stock, \$0.01 par value per share	New York Stock Exchange
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Securities Registered Pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

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

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

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

Indicate by check mark 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. ☐

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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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☒

Emerging growth company ☒

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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, 2018) of the Registrant held by non-affiliates (for purposes of this calculation, all of the Registrant's directors and executive officers are deemed affiliates of the Registrant) on June 30, 2018 was approximately \$516.3 million.

The Registrant had 18,719,192 shares of common stock, \$0.01 par value per share, outstanding as of February 20, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders are incorporated by reference into Part III of this Report. The Registrant expects to file its Definitive Proxy Statement with the Securities and Exchange Commission within 120 days after December 31, 2018.

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this Annual Report on Form 10-K that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts may be forward-looking statements. In particular, statements pertaining to our capital resources, property performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. When we use the words “may,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “estimates,” “seeks,” “assumes,” “projects,” “forecast,” “goal” or similar expressions or their negatives, as well as statements in future tense, we intend to identify forward-looking statements. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- defaults on or non-renewal of leases by tenants;
- adverse economic or real estate developments, either nationally or in the markets in which our properties are located;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying healthcare properties to acquire and completing acquisitions;
- our ability to make distributions on our shares of stock;
- our dependence upon key personnel whose continued service is not guaranteed;
- our ability to identify, hire and retain highly qualified personnel in the future;
- the degree and nature of our competition;
- general economic conditions;
- the availability, terms and deployment of debt and equity capital;
- general volatility of the market price of our common stock;
- changes in our business or strategy;
- changes in governmental regulations, tax rates and similar matters;
- new laws or regulations or changes in existing laws and regulations that may adversely affect the healthcare industry;
- trends or developments in the healthcare industry that may adversely affect our tenants;

- competition for acquisition opportunities;
- our failure to successfully develop, integrate and operate acquired properties and operations;
- our ability to operate as a public company;
- changes in accounting principles generally accepted in the United States of America ("GAAP");
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- fluctuations in interest rates and increased operating costs;
- our increased vulnerability economically due to the concentration of our investments in healthcare properties;
- a substantial portion of our revenue is derived from our largest tenants and thus, the bankruptcy, insolvency or weakened financial position of any one of them could seriously harm our operating results and financial condition;
- geographic concentrations in Illinois, Ohio, and Florida causes us to be particularly exposed to downturns in these local economies or other changes in local real estate market conditions;
- - lack of or insufficient amounts of insurance;
- other factors affecting the real estate industry generally;
- our failure to maintain our qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to maintain our status as a REIT for U.S. federal income tax purposes; and
- changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. You should not place undue reliance on any forward-looking statements, which speak only as of the date of this report. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes after the date of this Annual Report on Form 10-K, except as required by applicable law. For a further discussion of these and other factors that could impact our future results, performance or transactions, see "Part I, Item 1A. Risk Factors."

Unless the context otherwise requires or indicates, references above or in this report to "we," "us," "our," "the Company," "our Company," and "Community Healthcare Trust" refer to Community Healthcare Trust Incorporated, a Maryland corporation organized to qualify as a REIT for U.S. federal income tax purposes, together with its consolidated subsidiaries, including Community Healthcare OP, LP, a Delaware limited partnership, or our "operating partnership" or our "OP," of which we are the sole general partner and own 100% of its interests.

PART I.

ITEM 1. BUSINESS

We are a fully-integrated healthcare real estate company organized as a corporation in the State of Maryland on March 28, 2014. We own and acquire real estate properties that are leased to hospitals, doctors, healthcare systems or other healthcare service providers in our target submarkets.

Real Estate Investments

As of December 31, 2018, we had investments of approximately \$444.9 million in 103 real estate properties located in 29 states, totaling approximately 2.2 million square feet in the aggregate. The real estate properties were approximately 88.8% leased at December 31, 2018 with a weighted average remaining lease term of approximately 6.8 years. The Company's real estate investments by geographic area are detailed in Note 2 to the Consolidated Financial Statements. The following table details the Company's real estate investments at December 31, 2018:

(Dollars in thousands)	Number of Properties	Gross Investment
Medical office buildings	35	\$ 164,133
Physician clinics	20	49,625
Surgical centers and hospitals	15	75,788
Specialty centers	25	71,726
Behavioral facilities	7	66,551
Long-term acute care hospitals	1	14,928
	103	442,751
Corporate property	—	2,179
Total real estate investments	103	\$ 444,930

Our investments in healthcare real estate are considered a single reportable segment as further discussed in Note 1 of Item 8 in this Annual Report on Form 10-K setting forth the required financial information.

Customer Concentrations

Our real estate portfolio is leased to a diverse tenant base. For the year ended December 31, 2018, none of our tenants individually accounted for 10% or more of our consolidated revenues. We have no control over the success or failure of our tenants' businesses and, at any time, any of our tenants may experience a downturn in its business that may weaken its financial condition.

Geographic Concentrations

The Company's portfolio is currently located in 29 states with approximately 42.4% of our consolidated revenues for the year ended December 31, 2018 derived from properties located in Illinois (18.9%), Ohio (13.4%), and Florida (10.1%). Such geographic concentrations could expose the Company to certain downturns in the economics of those states or other changes in the such states' respective real estate market conditions. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in any of these areas could have an effect on our overall business results. In the event of negative economic or other changes in any of these markets, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be adversely affected. See each of the discussions under Item 1A, "Risk Factors," under the captions "Adverse economic or other conditions in the geographic markets in which we conduct

business could negatively affect our occupancy levels and rental rates and have a material

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adverse effect on our operating results," and "A large percentage of our properties are located in Illinois, Ohio, and Florida, and changes in these markets may materially adversely affect us."

2018 Real Estate Investments

In 2018, the Company acquired 19 properties totaling approximately 286,000 square feet for an aggregate purchase price of approximately \$55.1 million. The Company's expected returns on these investments range from approximately 9% to 11%. As part of a bankruptcy settlement involving a tenant, the Company also provided a \$23.0 million loan to a newly formed company, secured by all of the assets and ownership interests in seven long-term acute care hospitals and one inpatient rehabilitation hospital. See Notes 4 and 5 to the Consolidated Financial Statements for more detail on these investments.

Competitive Strengths

We believe our management team's significant healthcare, real estate and public REIT management experience distinguishes us from other REITs and real estate operators, both public and private. Specifically, our Company's competitive strengths include, among others:

Strong, Diversified Portfolio. Our focus is on investing in properties where we can develop strategic alliances with financially sound healthcare providers that offer need-based healthcare services in our target markets. Our tenant base includes many nationally recognized healthcare providers (or their affiliates) and our property portfolio has significant diversification with respect to healthcare provider, industry segment, and facility type.

Attractive and Disciplined Investment Focus. We focus on healthcare facilities in our target submarkets which are off-market or lightly marketed transactions at purchase prices generally between \$5 million and \$30 million. We believe there is significantly less competition from existing REITs and institutional buyers for assets in these target submarkets than for comparable urban assets, thereby increasing the potential for more attractive risk-adjusted returns. In addition, we believe that healthcare-related real estate rents and valuations are less susceptible to changes in the general economy than many other types of commercial real estate due to favorable demographic trends and the need-based rise in healthcare expenditures, even during economic downturns.

Extensive Relationships with Healthcare Providers, Intermediaries and Property Owners. We believe that our management team has a strong reputation among, and a deep understanding of the real estate needs of, healthcare providers in our target submarkets. In addition, we have strategic relationships which we believe gives us the ability to meet the needs of healthcare providers by structuring transactions that are mutually advantageous to sellers, our tenants and us. We believe this ability has, and will continue to, lead to strategic acquisition opportunities, which will, in turn, produce attractive risk-adjusted returns. None of our properties to date were acquired pursuant to "calls for offers" or other auction style bidding situations. We believe our relationships provide us with additional off-market or lightly marketed acquisition opportunities, thus providing us the opportunity to continue to purchase assets outside a competitive bidding process.

Experienced Management Team. Each of the members of our executive management team has over 30 years of healthcare, real estate and/or public REIT management experience. Led by Timothy G. Wallace, our Chairman, Chief Executive Officer and President, W. Page Barnes, our Executive Vice President and Chief Financial Officer, and Leigh Ann Stach, our Vice President-Financial Reporting and Chief Accounting Officer, our management team has significant experience in acquiring, owning, operating and managing healthcare facilities and providing full service real estate solutions for the healthcare industry. Prior to founding our company, Mr. Wallace was a co-founder and Executive Vice President of Healthcare Realty Trust (NYSE: HR). Between the initial public offering of HR in 1993 and his departure from HR in 2002, Mr. Wallace was integral in helping to grow HR to over \$2 billion in assets. Mr. Barnes has held executive positions with acute care and behavioral hospital companies and directed healthcare

lending for

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AmSouth Bank. Ms. Stach has experience in public healthcare REIT accounting and financial reporting.

Growth Oriented Capital Structure. At December 31, 2018, we had \$43.0 million outstanding on our revolving credit facility and had \$100.0 million outstanding on our term loans under our second amended and restated Credit Agreement (collectively, our "Credit Facility") with a 35.2% debt-to-book capitalization ratio. In the future, in addition to equity and debt issuances, we may also use OP units of our operating partnership as currency to acquire additional properties from owners seeking to defer their potential taxable gain and diversify their holdings. We believe that the borrowing capacity under our Credit Facility, combined with our ability to use OP units as acquisition currency, provides us with significant financial flexibility to make opportunistic investments and fund future growth.

Significant Alignment of Interests. We have structured the compensation of our board and management team to closely align their interests with the interests of our stockholders. The Company's named executive officers have elected to take 100% of their total compensation in restricted stock since the Company's initial public offering, or IPO, in May 2015, subject to an eight-year cliff-vesting period. The Company's board of directors have elected to take 88% of their total compensation in restricted stock since the Company's IPO, subject to a three-year cliff-vesting period. We believe that paying our board and management team with restricted stock that is subject to long-term cliff-vesting periods effectively aligns the interests of our board and management with those of our stockholders, creating significant incentives to maximize returns for our stockholders. In addition, concurrently with the completion of our IPO in May 2015 and our follow-on offering in 2016, Mr. Wallace purchased over \$2.6 million in shares of our common stock and certain of our officers and directors purchased an aggregate of \$450,000 in shares of our common stock in concurrent private placements in each case at a price per share equal to the price of the shares sold in the IPO or follow-on offering, as applicable. Further, Mr. Wallace has purchased 178,213 shares of our common stock under 10b5-1 plans that he had in place between 2016 and 2017, which we believe further aligns management's interests with our stockholders. Finally, we have adopted, and each officer and director has met, stock ownership guidelines that require our officers and directors to continuously own an amount of our common stock based on a multiple of such officer's annual base salary or such director's annual retainer, as applicable, other than one member of our board that joined the board during 2018.

Business Objective

Our principal business objective is to provide attractive risk-adjusted returns to our stockholders through a combination of (i) sustainable and increasing rental income and cash flow that generates reliable, increasing dividends and (ii) potential long-term appreciation in the value of our properties and common stock. Our primary strategies to achieve our business objective are to invest in, own and proactively manage a diversified portfolio of healthcare properties, which we believe will drive reliable, increasing rental revenue and cash flow.

Growth Strategy

We intend to continue to grow our portfolio of healthcare properties primarily through acquisitions of healthcare facilities in our target submarkets that provide stable revenue growth and predictable long-term cash flows. We generally focus on individual acquisition opportunities between \$5 million and \$30 million in off-market or lightly marketed transactions and do not intend to participate in competitive bidding or auctions of properties. We believe that there are abundant opportunities to acquire attractive healthcare properties in our target markets either from third-party owners of existing healthcare facilities or directly with healthcare providers through sale-leaseback transactions. We believe there is significantly less competition from existing REITs and institutional buyers for assets in these target submarkets than for comparable urban assets, thereby increasing the potential for attractive risk-adjusted returns. Furthermore, we may acquire healthcare properties on a non-cash basis in a tax efficient manner through the issuance of OP units as consideration for the transaction.

We intend for our investment portfolio to be diversified among healthcare facility type and segments such as medical office buildings, physician clinics, ambulatory surgery centers, behavioral facilities, dialysis clinics,

oncology centers, acute care hospitals, assisted living facilities, post-acute care hospitals, skilled nursing facilities, and specialty hospitals, as well as being diverse both geographically and with respect to our tenant base. We seek to invest in properties where we can develop strategic alliances with financially-sound healthcare providers that offer need-based healthcare services in our target markets.

In connection with our review and consideration of healthcare real estate acquisition opportunities, we generally take into account a variety of considerations, including but not limited to:

- whether the property will be leased to a financially-sound healthcare tenant;
- the historical performance of the market and its future prospects;
- property location, with an emphasis on proximity to a population base;
- demand for healthcare related services and facilities;
- current and future supply of competing properties;
- occupancy and rental rates in the market;
- population density and growth potential;
- anticipated capital expenditures;
- anticipated future acquisition opportunities; and
- existing and potential competition from other healthcare real estate owners and tenants.

We currently have no intention to invest in companies that provide healthcare services structured to comply with the REIT Investment Diversification and Empowerment Act of 2007, or RIDEA.

We operate so as to maintain our status as a REIT for federal income tax purposes. As a REIT, we are not subject to corporate federal income tax with respect to taxable income distributed to our stockholders. We have also elected one subsidiary to be treated as a taxable REIT subsidiary ("TRS"), which is subject to federal and state income taxes.

Tax Status

We have qualified as a REIT for U.S. federal income tax purposes since 2015, the year we began operations, and we expect that we will remain qualified as a REIT for U.S. federal income tax purposes for the year ending December 31, 2019. Our qualification as a REIT depends upon our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code of 1986, as amended, or the Code, relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code and that our manner of operations will enable us to continue to meet the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes for the year ending December 31, 2019.

As a REIT, we generally will not be subject to U.S. federal income tax on our taxable income that we distribute currently to our stockholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute on an annual basis at least 90% of their REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If we fail to qualify for taxation as a REIT in any taxable year and do not qualify for certain statutory relief provisions, our income for that year will be subject to tax at regular corporate income tax rates, and we would be disqualified from

taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. Even if we qualify as a REIT for U.S. federal income tax purposes, we may still be subject to state and local taxes on our income and assets and to U.S. federal income and excise taxes on our undistributed income. Additionally, any income earned by Community Healthcare Trust Services, Inc., our TRS, and any other TRSs that we form or acquire in the future will be fully subject to U.S. federal, state and local corporate income tax. See Government Regulation and Legislative Developments below for a discussion of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act") and Note 15 to the Consolidated Financial Statements for a discussion of the Tax Cuts and Jobs Act ("TCJA"), enacted on December 22, 2017, which reduced the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018.

Government Regulation

Our healthcare tenants and their operators are subject to extensive federal, state and local government legislation and regulation. Federal laws, including but not limited to the Affordable Care Act; laws intended to combat fraud and waste such as the Anti-Kickback Statute, Stark Law, False Claims Act; Medicare and Medicaid laws and regulations; and the Health Insurance Portability and Accountability Act of 1996 may limit our tenants operational flexibility and compensation arrangements. Many states have analogous laws which may be broader than their federal counterparts, including state licensure laws, privacy rules, and Medicaid requirements. Compliance with these regulatory requirements can increase operating costs and, thereby, adversely affect the financial viability of our tenants' businesses. Our tenants' failure to comply with these laws and regulations could adversely affect their ability to successfully operate our properties, which could negatively impact their ability to satisfy their contractual obligations to us. As a landlord, we intend for all of our business activities and operations to conform in all material respects with all applicable laws and regulations, including healthcare laws and regulations. Our leases require the tenants and operators to comply with all applicable laws, including healthcare laws. However, we do not have any ability to audit nor do we independently verify such information.

These laws subject tenant healthcare facilities and practices to requirements related to reimbursement, licensing and certification policies, ownership of facilities, addition or expansion of facilities and services, pricing and billing for services, compliance obligations (including those governing the security, use and disclosure of confidential patient information) and fraud and abuse laws. These laws and regulations are wide-ranging and complex, may vary or overlap from jurisdiction to jurisdiction, and are subject frequently to change. Healthcare facilities may also be affected by changes in accreditation standards or in the procedures of the accrediting agencies that are recognized by governments in the certification process. In addition, expansion (including the addition of new beds or services or the acquisition of medical equipment) and occasionally the discontinuation of services of healthcare facilities may be subject to state regulatory approval through certificate of need programs. This may impact the ability of our tenants to expand their businesses. Different tenants may be more or less subject to certain types of regulation, some of which are specific to the type of facility or provider. We cannot predict the degree to which these changes, or changes to the federal healthcare programs in general, may affect the economic performance of some or all of our tenants, positively or negatively. We expect 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.

There are various state and federal laws that may apply to investors including U.S. federal and state anti-kickback and fee-splitting statutes, which limit physician referrals to entities in which the physician has a financial relationship. States vary in the types of entities, if any, that their laws cover. Investment interests in those facilities may, in certain instances, prohibit referrals to the entity by physician investors. Physician investors may also face disciplinary action from licensure boards for referrals to entities in which the physician has an investment interest. Some states require disclosure of the financial relationship before referral by any physician investors, while others prohibit referrals entirely. These state laws and regulations may be broader than their federal counterparts and are the subject of state enforcement. Many state laws contain exemptions for investments in publicly traded companies provided certain requirements are met. These exemption requirements may include listing on a national stock exchange or maintaining

a minimum asset value. Meeting some of these requirements may be dependent on market forces or otherwise outside our control.

Changes in laws and regulations, reimbursement enforcement activity and regulatory non-compliance by our tenants and operators can all have a significant effect on their operations and financial condition, which in turn may adversely impact us, as detailed below and set forth under Item 1A, "Risk Factors," under the caption "The healthcare industry is heavily regulated and new laws or regulations, changes to existing laws or regulations, changes to reimbursement models or structure, loss of licensure or failure to obtain licensure could adversely impact our company and result in the inability of our tenants to make rent payments to us." We highlight below several of the more complex laws; however this is an overview, as the complexities of the laws impacting tenants are varied and extensive.

The Affordable Care Act has continued to change how healthcare services are covered, delivered and reimbursed. The Affordable Care Act includes payment reform provisions intended to drive Medicare towards more value-based purchasing which, in turn, increases accountability for healthcare providers for the quality and costs of the healthcare services they provide. While more individuals now carry healthcare coverage as a result of the Affordable Care Act, the full effects of the changes to reimbursement models for both public and commercial coverage continue to evolve. Each kind of healthcare provider tenant has a different and complex set of laws related to reimbursement and reimbursement models, which may affect the tenant's ability to collect revenues and meet the terms of their leases. Such varying reimbursement models and laws impact each kind of provider as well as the healthcare system as a whole. For example, for physicians, the Centers for Medicare and Medicaid Services sets an annual Medicare Sustainable Growth Rate and updates a related physician fee schedule to control spending by Medicare on physician services. The implementation of this physician fee schedule can be suspended or adjusted by Congress, as has been done regularly in the past. In addition, for ambulatory service centers, the Affordable Care Act introduced provisions that reduce the annual inflation update for payment rates by a "productivity adjustment," which may result in a decrease in Medicare payment rates for the same procedures in a given year compared to the prior year. Other changes brought about by the Affordable Care Act could negatively impact reimbursement for any one of the kind of provider tenants as outlined below.

The Affordable Care Act also altered reimbursement from private insurers and managed care organizations. Networks continue to readjust, and all providers must ensure adequate market share in their respective areas to remain in the network created by many of the managed care organizations. Under the Affordable Care Act prior to the Trump Administration, individuals were required to obtain coverage or pay a penalty resulting in millions of more Americans obtaining coverage, usually through the healthcare exchanges (called the Marketplace) established to provide coverage in each state. The Trump Administration and Congress removed this mandate beginning in 2019. The Administration has also loosened rules to allow greater flexibility among insurers in the benefits offered, both lowering the costs of some plans but also limiting the coverage such plans offer. It is unclear at this time if increased competition from lowcost plans will damage the Marketplace, and how these changes will affect coverage rates in any particular state or locale. While the Trump Administration had decreased its focus on repealing the Affordable Care Act, a December 2018 federal court ruled the law unconstitutional. This decision is still being appealed by several states. There is continued uncertainty with respect to the impact the Trump Administration and the federal judiciary may have on the Affordable Care Act, and it could impact coverage and reimbursement for healthcare items and services covered by plans that were authorized by the Affordable Care Act. However, we cannot predict the ultimate content, timing or effect of any healthcare reform legislation or the impact of potential legislation on us and/or our tenants.

Section 603 of the Bipartisan Budget Act of 2015 lowered Medicare rates, effective January 1, 2017, for services provided in off-campus, provider-based outpatient departments, to the same level of rates for physician-office settings. Section 603 does not apply to facilities that billed at the lower Medicare rates on or before November 2, 2015 (the "grandfather clause") or that had a binding written agreement in place for the construction of the off-campus site before November 2, 2015 (the "mid-build exemption"). Section 603 reflects movement by the Congress and the Center for Medicare and Medicaid Services ("CMS") toward "site-neutral reimbursement" where Medicare rates across different facility-type settings are equalized. CMS finalized rules in 2018 to implement these changes. While changes such as Section 603 are expected to lower overall Medicare spending, our medical office buildings located on hospital campuses could become more valuable as hospital tenants keep their higher Medicare rates for on-campus outpatient

services. However, we cannot predict the amount of benefit from these measures or if current

and future federal budget negotiations will ultimately require similar site neutral changes in Medicare reimbursement rates for services provided in other facility-type settings.

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 Affordable Care Act and proposed amendments and any further repeal measures and related actions at the federal and state level;

- the repeal of a portion of the Affordable Care Act (effective in 2019) for the mandate that all individual's purchase health insurance or pay a tax penalty;

- 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 health insurance exchanges and regulations governing their operation, whether run by the state or by the federal government, whereby individuals and small businesses purchase health insurance, including government-funded plans, many assisted by federal subsidies that are under ongoing legal challenges;

- equalization of Medicare payment rates across different facility-type settings (i.e.; the Bipartisan Budget Act of 2015, Section 603, lowered Medicare payment rates, effective January 1, 2017, for services provided in off-campus, provider-based outpatient departments to the same level of rates for physician-office settings for those facilities not grandfathered-in under the current Medicare rates as of the law's date of enactment, November 2, 2015);

- the continued adoption by providers of federal standards for, and the associated audits of, the meaningful-use of electronic health records and the transition to ICD-10 coding;

- an increased flexibility from the Trump Administration to grant Medicaid waivers, including work and job training requirements, which could decrease Medicaid coverage;

- a continuing trend of provider consolidation and associated antitrust scrutiny; and

- tax law changes affecting non-profit providers, including the 2017 act's effect on charitable contributions.

Environmental Matters

As an owner of real estate, we are subject to various federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties as a result of environmental contamination or noncompliance at our properties even if we no longer own such properties. See the discussion under Item 1A, "Risk Factors," under the caption "Environmental compliance costs and liabilities associated with owning and leasing our properties may affect our results of operations."

Competition

We compete with many other entities engaged in real estate investment activities for acquisitions of healthcare properties, including national, regional and local operators, acquirers and developers of healthcare-related real estate

properties. The competition for healthcare-related real estate properties may significantly increase the price that we must pay for healthcare properties or other assets that we seek to acquire, and our competitors may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger REITs that target healthcare properties may enjoy significant competitive advantages that result from, among other things, a lower cost of capital, enhanced operating efficiencies, more personnel and market penetration and familiarity with markets. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. Increased competition would result in increased demand for the same assets and therefore increase prices paid for them. Those higher prices for healthcare properties or other assets may adversely affect our returns from our investments.

Insurance

We carry comprehensive liability insurance and property insurance covering our properties. In addition, tenants under long-term single-tenant net leases are required to carry property insurance covering our interest in the buildings.

Employees

At December 31, 2018, we employed 16 people. The employees are not members of any labor union, and we consider our relations with our employees to be excellent.

Seasonality

Our business has not been, and we do not expect it to become subject to, material seasonal fluctuations.

Available Information

The Company makes available to the public free of charge through its internet website the Company's Definitive 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.chct.reit.

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.

Corporate Governance Guidelines

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

Committee Charters

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

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Our real estate investments are concentrated in healthcare properties, making us more vulnerable economically than if our investments were diversified in other segments of the economy.

We acquire, own, manage, operate and selectively develop properties for lease primarily to physicians and healthcare delivery systems. We are subject to risks inherent in concentrating investments in real estate, and the risks resulting from a lack of diversification is even greater as a result of our business strategy to concentrate our investments in the healthcare sector. Any adverse effects that result from these risks could be more pronounced than if we diversified our investments outside of healthcare properties. Given our concentration in this sector, our tenant base is especially concentrated and dependent upon the healthcare industry generally, and any industry downturn could adversely affect the ability of our tenants to make lease payments and our ability to maintain current rental and occupancy rates. Our tenant mix could become even more concentrated if a significant portion of our tenants practice in a particular medical field or are reliant upon a particular healthcare delivery system. Accordingly, a downturn in the healthcare industry generally, or in the healthcare related facility specifically, could adversely affect our business, financial condition and results of operations, our ability to make distributions to our shareholders and the market price of our common shares.

We may be unable to source off-market or lightly marketed deal flow in the future, which may have a material adverse effect on our growth.

A key component of our investment strategy is to acquire additional healthcare properties in off-market or lightly marketed transactions, relying on our officers' relationships with healthcare providers and real estate brokers. We seek to acquire properties before they are widely marketed by real estate brokers. As we expect to compete with many national, regional and local acquirers of healthcare properties, properties that are acquired in off-market or lightly marketed transactions are typically more attractive to us as a purchaser because of the absence of a formal sales process, which could lead to higher prices. In the formal sales process, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger REITs, including publicly traded and privately held REITs, private equity investors or institutions investment funds who are targeting healthcare properties may enjoy significant competitive advantages that result from, among other things, a lower cost of capital, enhanced operating efficiencies, more risk tolerance, more personnel and market penetration and familiarity with markets. As such, if we do not have access to off-market or lightly marketed deal flow in the future, our ability to locate and acquire additional properties in our target submarkets at attractive prices could be materially and adversely affected, which could materially impede our growth, and, as a result, adversely affect our operating results.

Our business could be harmed if key personnel terminate their employment with us or if we are unsuccessful in integrating new personnel into our operations.

Our success depends, to a significant extent, on the continued services of Mr. Timothy G. Wallace, our Chairman, Chief Executive Officer and President, Mr. W. Page Barnes, our Executive Vice President and Chief Financial Officer, and Ms. Leigh Ann Stach, our Vice President of Financial Reporting and Chief Accounting Officer. Each executive officer has significant experience in the healthcare and/or real estate industry and have all developed significant relationships with various healthcare providers and real estate brokers throughout the United States. Our ability to continue to acquire and develop healthcare properties in off market or lightly marketed transactions depends upon the significant relationships that our senior management team has developed over many years.

Although we have entered into employment agreements with Messrs. Wallace and Barnes and Ms. Stach, we cannot provide any assurance that any of them will remain employed by us. Our ability to retain our executive officers, or to

attract suitable replacements should any member of the senior management team leave, is dependent on the

competitive nature of the employment market. The loss of services of, or the failure to successfully integrate one or more new members of, our senior management team could adversely affect our business and our prospects.

We may be unable to complete any pending acquisitions, which would adversely affect our ability to make distributions to our stockholders and could have a material adverse impact on our results of operations, earnings and cash flow.

We cannot assure you that we will complete any pending acquisitions on the terms described in this report or other reports the Company may file or furnish in future SEC filings, because these transactions are subject to a variety of conditions, including, in the case of properties under contract, the execution of a mutually agreed-upon lease between us and the proposed tenant, our satisfactory completion of due diligence and the satisfaction of customary closing conditions. These transactions, whether or not successful, require substantial time and attention from management. Furthermore, the pending acquisitions require significant expense, including expenses for due diligence, legal and accounting fees and other costs. If we are unable to complete any potential acquisitions, we would still incur the costs associated with pursuing those investments, but would not generate the revenues and net operating income that we currently anticipate, which would adversely affect our ability to make distributions to our stockholders and could have a material adverse impact on our financial condition, results of operations and the market price of our common shares.

We may be unable to successfully acquire properties and expand our operations into new or existing target submarkets.

A component of our strategy is to pursue acquisitions of properties in new and existing target submarkets. These acquisitions could divert our officers' attention from other pending and/or potential acquisitions, and we may be unable to retain key employees or attract highly qualified new employees in those markets. In addition, we may not possess familiarity with the dynamics and prevailing conditions of any new target submarkets, which could adversely affect our ability to successfully expand into or operate within those markets. For example, new target submarkets may have different insurance practices, reimbursement rates and local real estate zoning regulations than those with which we are familiar. We may find ourselves more dependent on third parties in new target submarkets because our physical distance could hinder our ability to directly and efficiently manage and otherwise monitor new properties in new target submarkets. In addition, our expansion into new target submarkets could result in unexpected costs or delays as well as lower occupancy rates and other adverse consequences. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions on satisfactory terms or at all for a number of reasons, including, among other things, significant competition from other prospective purchasers in new target submarkets, unsatisfactory results of our due diligence investigations, failure to obtain financing for the acquisition on favorable terms or at all, and our misjudgment of the value of the opportunities. We may also be unable to successfully integrate the operations of acquired properties, maintain consistent standards, controls, policies and procedures, or realize the anticipated benefits of the acquisitions within the anticipated timeframe or at all. If we are unsuccessful in expanding into new or our existing target submarkets, it could materially and adversely affect our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

The bankruptcy, insolvency or weakened financial position of our tenants, and particularly our largest tenants, could materially and adversely affect our operating results and financial condition.

We receive substantially all of our revenue from rent payments from tenants under leases of space in our healthcare properties. We have no control over the success or failure of our tenants' businesses and, at any time, any of our tenants may experience a downturn in its business that may weaken its financial condition. Additionally, private or governmental payers may lower the reimbursement rates paid to our tenants for their healthcare services. For example, the Affordable Care Act provides for significant reductions to Medicare and Medicaid payments. As a result, our tenants may delay lease commencement or renewal, fail to make rent payments when due or declare bankruptcy. Any

leasing delays, tenant failures to make rent payments when due or tenant bankruptcies could result in the termination of the tenant's lease and, particularly in the case of a large tenant, or a significant number of tenants, may have a material adverse effect on our business, financial condition and results of operations, our ability

to make distributions to our stockholders and the market price of our common stock. In addition, to the extent a tenant vacates specialized space in one of our properties (such as imaging space, ambulatory surgical space, or inpatient hospital space), re-leasing the vacated space could be more difficult than re-leasing less specialized office space, as there are fewer users for such specialized healthcare space in a typical market than for more traditional office space.

Any bankruptcy filings by or relating to one of our tenants could bar all efforts by us to collect pre-bankruptcy debts from that tenant or seize its property, unless we receive an order permitting us to do so from a bankruptcy court, which we may be unable to obtain. A tenant bankruptcy could also delay our efforts to collect past due balances under the relevant leases and could ultimately preclude full collection of these sums. Furthermore, if a tenant rejects the lease while in bankruptcy, we would have only a general unsecured claim for pre-petition damages. Any unsecured claim that we hold may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims. It is possible that we may recover substantially less than the full value of any unsecured claims that we hold, if any, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock. Furthermore, dealing with a tenant bankruptcy or other default may divert management's attention and cause us to incur substantial legal and other costs, which could adversely affect our ability to execute our business strategies, financial condition, and results of operations, as well as our ability to make distributions to our stockholders and the market price of our common stock. See Note 5 to the Consolidated Financial Statements regarding the bankruptcy filed by one of the Company's borrowers.

We may have difficulty finding suitable replacement tenants in the event of a tenant default or non-renewal of our leases, especially for our properties located in smaller markets.

We cannot predict whether our tenants will renew existing leases beyond their current terms. At December 31, 2018, we had 38 leases scheduled to expire in 2019 and 37 leases scheduled to expire in 2020, which represent 9.6% and 9.1% of our total annualized lease revenue, respectively, for the year ended December 31, 2018. If any of our leases are not renewed, or are terminated prior to the contractual expiration date, we would attempt to lease those properties to another tenant at then-current market rates. However, following expiration of a lease term or if we exercise our right to replace a tenant in default, rental payments on the related properties could decline or cease altogether while we reposition the properties with a suitable replacement tenant. As such, we may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of, and avoid the imposition of liens on, our properties while they are being repositioned. Furthermore, our ability to reposition our properties with a suitable tenant could be significantly delayed or limited by state licensing, receivership, certificate of need, or CON, or other laws, as well as by the Medicare and Medicaid change-of-ownership rules. We could also incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. In addition, our ability to locate suitable replacement tenants could be impaired by the specialized healthcare uses or contractual restrictions on use of the properties, and we may be required to spend substantial amounts to adapt the properties to other uses. Any such delays, limitations and expenses could adversely impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for tenant default and could have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

All of these risks may be greater in the target submarkets on which we focus, where there may be fewer potential replacement tenants, making it more difficult to replace tenants, especially for specialized space, like hospital or outpatient treatment facilities located in our properties, and could have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

Adverse economic or other conditions in the geographic markets in which we conduct business could negatively affect our occupancy levels and rental rates and have a material adverse effect on our operating results.

Our operating results depend upon our ability to maintain and improve the anticipated occupancy levels and rental rates at our properties. Adverse economic or other conditions in the geographic markets in which we operate, including periods of economic slowdown or recession, industry slowdowns, periods of deflation, relocation of businesses, changing demographics, water pollution, earthquakes and other natural disasters, fires, terrorist acts, civil disturbances or acts of war and other man-made disasters which may result in uninsured or underinsured losses, and changes in tax, real estate, zoning and other laws and regulations, may lower our occupancy levels and limit our ability to increase rents or require us to offer rental concessions. The failure of our properties to generate revenues sufficient to meet our cash requirements, including operating and other expenses, debt service and capital expenditures, may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

A large percentage of our properties are located in Illinois, Ohio, and Florida, and changes in these markets may materially adversely affect us.

Of our investments in 103 properties, the properties located in Illinois, Ohio, and Florida provide, in the aggregate, approximately 42.4% of our annualized rent as of December 31, 2018. As a result of this geographic concentration, we are particularly exposed to downturns in the economies of those states or other changes in such states' respective real estate market conditions. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in these states could have a disproportionate effect on our overall business results. In the event of negative economic or other changes in these markets, our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock may be materially and adversely affected.

We will rely upon external sources of capital to fund future capital needs, and, if we encounter difficulty in obtaining such capital, we may not be able to make future acquisitions necessary to grow our business or meet maturing obligations.

In order to maintain our status as a REIT under the Code, we are required, among other things, to distribute each year to our stockholders at least 90% of our REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains. In addition, we are subject to income tax at regular corporate rates to the extent we distribute less than 100% of our REIT taxable income, including any net capital gains. Because of this distribution requirement, we will not likely be able to fund all of our future capital needs from cash retained from operations, including capital needed to make investments and to satisfy or refinance maturing obligations. As a result, we expect to rely upon external sources of capital, including debt and equity financing, to fund future capital needs. If we are unable to obtain needed capital on satisfactory terms or at all, we may not be able to make the investments needed to expand our business or to meet our obligations and commitments as they mature. Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions, the market's perception of our current and potential future earnings and cash distributions and the market price of our common stock. We may not be in a position to take advantage of attractive acquisition opportunities for growth if we are unable to access the capital markets on a timely basis on favorable terms.

We may not be able to control our expenses or our expenses may remain constant or increase, even if our revenue does not increase, which could cause our results of operations to be adversely affected.

There are factors beyond our control that may adversely affect our ability to control our expenses. Certain costs associated with real estate investments (e.g., real estate taxes, debt costs and maintenance expenses) required to preserve the value of the property may not be reduced even if a healthcare related facility is not occupied or other

circumstances cause our revenues to decrease. If our expenses increase as a result of any of the foregoing factors, our results of operations may be adversely affected.

Our ability to issue equity to expand our business will depend, in part, upon the market price of our common stock, and our failure to meet market expectations with respect to our business could adversely affect the market price of our common stock and thereby limit our ability to raise capital.

The availability of equity capital to us will depend, in part, upon the market price of our common stock, which, in turn, will depend upon various market conditions and other factors that may change from time to time, including:

- the extent of investor interest in our Company and our assets;
- our ability to satisfy the distribution requirements applicable to REITs;
- the general reputation of REITs and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our financial performance and that of our tenants;
- analyst reports about us and the REIT industry;
- macroeconomic conditions generally and conditions affecting the healthcare and real estate industry in particular;
- general stock and bond market conditions, including changes in interest rates on fixed income securities, which may lead prospective purchasers of our common stock to demand a higher annual yield from future distributions;
- a failure to maintain or increase our dividend which is dependent, in large part, upon funds from operations, or FFO, which, in turn, depends upon increased revenue from additional acquisitions and rental increases; and
- other factors such as governmental regulatory action and changes in REIT tax laws.

Our failure to meet the market's expectations with regard to future earnings and cash distributions could materially and adversely affect the market price of our common stock and, as a result, the cost and availability of equity capital to us.

We have now, and may have in the future, exposure to contingent rent escalators, which can hinder our growth and profitability.

We receive a significant portion of our revenues by acquiring and leasing our assets under long-term net leases in which the rental rate is generally fixed with annual fixed rate rental rate escalations or rental rate escalators based upon changes in the Consumer Price Index, or CPI. Properties which we acquire in the future may contain CPI escalators or escalators that are contingent upon our tenant's achievement of specified revenue parameters. If, as a result of weak economic conditions or other factors, the revenues generated by our net leased properties do not meet the specified parameters or CPI does not increase, our growth and profitability will be hindered by these leases.

Our investments in development projects may not yield anticipated returns which could directly affect our operating results and reduce the amount of funds available for distributions.

A component of our growth strategy is exploring development opportunities, some of which may arise through strategic joint ventures. In deciding whether to make an investment in a particular development, we make certain assumptions regarding the expected future performance of that property. To the extent that we consummate development opportunities, our investment in these projects will be subject to the following risks:

•we may be unable to obtain financing for development projects on favorable terms or at all;

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• we may not complete development projects on schedule or within budgeted amounts;

• we may encounter delays in obtaining or fail to obtain all necessary zoning, land use, building, occupancy, environmental and other governmental permits and authorizations, or underestimate the costs necessary to develop the property to market standards;

• development or construction delays may provide tenants the right to terminate preconstruction leases or cause us to incur additional costs;

• volatility in the price of construction materials or labor may increase our development costs;

• hospitals or health systems may maintain significant decision-making authority with respect to the development schedule;

• we may incorrectly forecast risks associated with development in new geographic regions;

• tenants may not lease space at the quantity or rental rate levels projected;

• demand for our development project may decrease prior to completion, including due to competition from other developments; and

• lease rates and rents at newly developed properties may fluctuate based on factors beyond our control, including market and economic conditions.

If our investments in development projects do not yield anticipated returns for any reason, including those set forth above, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the market price of our common shares may be adversely affected.

Mortgage notes in which we have invested or may invest may be impacted by unfavorable real estate market conditions, which could decrease their value.

Our investments in mortgage notes involve special risks relating to the particular borrower, and we will be at risk of loss on that investment, including losses as a result of a default on the mortgage note. These losses may be caused by many conditions beyond our control, including economic conditions affecting real estate values, tenant defaults and lease expirations, interest rate levels, adverse rulings of bankruptcy courts, and the other economic and liability risks associated with real estate. We do not know whether the values of the property securing any of our real estate related investments will remain at the levels existing on the dates we initially make the related investment. If the values of the underlying properties drop, our risk will increase and the values of our interests may decrease.

Delays in liquidating defaulted mortgage note investments could reduce our investment returns.

Delays in liquidating defaulted mortgage note investments could reduce our investment returns. If there are defaults under our mortgage note investments, we may not be able to foreclose on or obtain a suitable remedy with respect to such investments. Specifically, we may not be able to repossess and sell the underlying properties quickly, which could reduce the value of our investment. For example, an action to foreclose on a property securing a mortgage note is regulated by state statutes and rules and is subject to many of the delays and expenses of lawsuits if the defendant raises defenses or counterclaims. Additionally, in the event of default by a mortgagor, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due to us on the mortgage note.

Cybersecurity incidents could disrupt our business and result in the unavailability or compromise of confidential information.

Our business is at risk from and may be impacted by information security incidents, including attempts to gain unauthorized access to our confidential data, ransomware, malware, and other electronic security events. Such incidents can range from individual attempts to gain unauthorized access to our information technology systems to more sophisticated security threats. They can also result from internal compromises, such as human error or malicious acts. While we employ a number of measures to prevent, detect and mitigate these threats, there is no guarantee such efforts will be successful in preventing a cyber event. Cybersecurity incidents could disrupt our business and compromise confidential information of ours and third parties, including our tenants.

Risks Related to the Healthcare Industry

The healthcare industry is heavily regulated and new laws or regulations, changes to existing laws or regulations, changes to reimbursement models or structure, loss of licensure or failure to obtain licensure could adversely impact our company and result in the inability of our tenants to make rent payments to us.

The healthcare industry is heavily regulated by U.S. federal, state and local governmental authorities. Our tenants generally will be subject to laws and regulations covering, among other things, licensure, certification for participation in government programs, billing for services, breaches of privacy and security of health information and relationships with physicians and other referral sources. In addition, new laws and regulations, changes in existing laws and regulations or changes in the interpretation of such laws or regulations could negatively affect our financial condition and the financial condition of our tenants. These changes, in some cases, could apply retroactively. The enactment, timing or effect of legislative or regulatory changes cannot be predicted.

The Affordable Care Act's passage changed how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals and reduced Medicare program spending. The law reformed certain aspects of health insurance, expanded existing efforts to tie Medicare and Medicaid payments to performance and quality and contained provisions intended to strengthen fraud and abuse enforcement. In addition, the law requires skilled nursing facilities and nursing facilities to implement a compliance and ethics program for all employees and agents. The complexities and ramifications of the Affordable Care Act continue to unfold within our industry. Our revenues and financial condition, and those of our tenants, could be impacted by the current law's complexity, lack of implementing regulations or interpretive guidance, gradual implementation and possible additional changes to the law. Further, we are unable to foresee how individuals and businesses will respond to the uncertain landscape or that landscape's effect on the reimbursement rates received by our tenants, the financial success of our tenants and strategic partners, and consequently the effect on us.

The Trump Administration has attempted to repeal portions of the Affordable Care Act and replace the current legislation with new legislation. While the Administration's efforts in 2017 and 2018 were largely unsuccessful, there is continued uncertainty with respect to the impact the Trump Administration may have, and it could impact coverage and reimbursement for healthcare items and services covered by plans that were authorized by the Affordable Care Act. Further, a federal district court has recently ruled the Affordable Care Act unconstitutional, and the fate of the legislation remains subject to further appeal before federal appellate courts and perhaps the U.S. Supreme Court.

We cannot predict the ultimate content, timing or effect of any further healthcare reform legislation or the impact of potential legislation on us. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for medical products once approved or additional pricing pressures, and may adversely affect our operating results.

Many states also regulate the construction of healthcare facilities, the expansion of healthcare facilities, the construction or expansion of certain services, including by way of example specific bed types and medical equipment, as well as certain capital expenditures through CON laws. Under such laws, the applicable state

regulatory body must determine a need exists for a project before the project can be undertaken. If one of our tenants seeks to undertake a CON-regulated project, but is not authorized by the applicable regulatory body to proceed with the project, the tenant would be prevented from operating in its intended manner.

Failure to comply with these laws and regulations could adversely affect us directly and our tenants' ability to make rent payments to us which may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

Adverse trends in healthcare provider operations may negatively affect our lease revenues and our ability to make distributions to our stockholders.

The healthcare industry is currently experiencing, among other things:

- changes in the demand for and methods of delivering healthcare services;
- changes in third party reimbursement methods and policies;
- increased attention to compliance with regulations designed to safeguard protected health information and cyber-attacks on entities;
- consolidation and pressure to integrate within the healthcare industry through acquisitions and joint ventures; and
- increased scrutiny of billing, referral and other practices by U.S. federal and state authorities.

These factors may adversely affect the economic performance of some or all of our tenants and, in turn, our lease revenues, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

Reductions in reimbursement from third-party payers, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent payments to us or renew their lease.

Sources of revenue for our tenants typically include Medicare, Medicaid, private insurance payers and health maintenance organizations. Healthcare providers continue to face increased government and private payer pressure to control or reduce healthcare costs and significant reductions in healthcare reimbursement, including reduced reimbursements and changes to payment methodologies under the Affordable Care Act. In some cases, private insurers rely upon all or portions of the Medicare payment systems to determine payment rates which may result in decreased reimbursement from private insurers. The Affordable Care Act and associated regulations continue to encourage increasing enrollment in plans offered by private insurers who choose to participate in state-run exchanges, but recent changes by the Trump Administration affecting Medicaid and the availability of lower cost, lower coverage plans creates uncertainty around private insurer costs and, thereby, payment rates to providers.

Efforts by payers to reduce healthcare costs will likely continue which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. A reduction in reimbursements to our tenants from third-party payers for any reason could adversely affect our tenants' ability to make rent payments to us which may have a material adverse effect on our businesses, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

Our tenants and our Company are subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant's ability to make rent payments to us.

There are various federal and state laws prohibiting fraudulent and abusive business practices by healthcare providers who participate in, receive payments from or are in a position to make referrals in connection with

government-sponsored healthcare programs, including the Medicare and Medicaid programs. Our lease arrangements with certain tenants may also be subject to these fraud and abuse laws.

These laws include without limitation:

- the federal Anti-Kickback Statute, which prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of any federal or state healthcare program patients;

- the Stark Law, which, subject to specific exceptions, restricts physicians who have financial relationships with healthcare providers from making referrals for designated health services for which payment may be made under Medicare or Medicaid programs to an entity with which the physician, or an immediate family member, has a financial relationship;

- the federal False Claims Act, which prohibits any person from knowingly presenting false or fraudulent claims for payment to the federal government, including under the Medicare and Medicaid programs;

- the federal Civil Monetary Penalties Law, which authorizes the Department of Health and Human Services, or HHS, to impose monetary penalties for certain fraudulent acts; and

- state anti-kickback, anti-inducement, anti-referral and insurance fraud laws which may be generally similar to, and potentially more expansive than, the federal laws set forth above.

Other laws that impact how our tenants conduct their operations include: state and local licensure laws; laws protecting consumers against deceptive practices; laws generally affecting our tenants' management of property and equipment and how our tenants generally conduct their operations, such as fire, health and safety and environmental laws (including medical waste disposal); federal and state laws affecting assisted living facilities mandating quality of services and care, mandatory reporting requirements regarding the quality of care and quality of food service; resident rights (including abuse and neglect laws); and health standards set by the federal Occupational Safety and Health Administration.

Violations of these laws may result in criminal and/or civil penalties that range from punitive sanctions, damage assessments, penalties, imprisonment, denial of Medicare and Medicaid payments and/or exclusion from the Medicare and Medicaid programs. In addition, the Affordable Care Act clarifies that the submission of claims for items or services generated in violation of the Anti-Kickback Statute constitutes a false or fraudulent claim under the False Claims Act. The federal government has taken the position, and some courts have held that violations of other laws, such as the Stark Law, can also be a violation of the False Claims Act. Additionally, certain laws, such as the False Claims Act, allow for individuals to bring whistleblower actions on behalf of the government for violations thereof. Imposition of any of these penalties upon one of our tenants or strategic partners could jeopardize that tenant's ability to operate or to make rent payments or affect the level of occupancy in our healthcare properties, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock. Further, we enter into leases and other financial relationships with healthcare delivery systems that are subject to or impacted by these laws.

Our tenants may be subject to compliance issues and cyber-attack associated with the protection of personal information.

Breaches of personal information can result from deliberate attacks or unintentional events. More recently, there has been an increased level of attention focused on cyber-attacks focused on healthcare providers because of the vast amount of personally identifiable information they possess. Public awareness of privacy and security issues is increasing. Most healthcare providers, including all who accept Medicare and Medicaid, must comply with the Health

Insurance Portability and Accountability Act, as amended (HIPAA), regulations regarding the privacy and security of protected health information. All 50 states also maintain laws focused on the privacy, security and notification requirements with regard to personally identifiable information, including health information. The

HIPAA regulations impose extensive administrative requirements on our tenants and their business associate vendors with regard to how such protected health information may be used and disclosed. Further, the regulations include extensive and complex regulations which require providers to establish reasonable and appropriate administrative, technical and physical safeguards to ensure the confidentiality, integrity and availability of protected health information. Providers are obligated under HIPAA and state law to notify individuals and the government if personal information is compromised. In addition to federal regulators, state attorneys general are also enforcing information security breaches. As of 2018, all 50 states have breach notification laws. In addition to state laws regarding confidentiality of medical information, several states are now focused on expanding state privacy laws. California recently enacted an expansion privacy law, to be effective January 1, 2020, whose effects on our tenant's businesses are still undetermined. These laws require our tenants to safeguard protected health information, and potentially other information, against reasonably anticipated threats or hazards to the information. HIPAA directs the Secretary of HHS to provide for periodic audits to ensure covered entities (and their business associates, as that term is defined under HIPAA) comply with the applicable HIPAA requirements.

Violations of these various privacy and security laws can result in significant civil monetary penalties, as well as the potential for criminal penalties. In addition to state data breach notification requirements, HIPAA authorizes state attorneys general to bring civil actions on behalf of affected state residents against entities that violate HIPAA privacy and security regulations. These penalties could be in addition to any penalties assessed by a state for a breach which would be considered reportable under the state's data breach notification laws. Further there are significant costs associated with a breach including investigation costs, remediation and mitigation costs, notification costs, attorney fees and the potential for reputational harm and lost revenues due to a loss in confidence in the provider. Plaintiff attorneys are increasingly developing class action litigation strategies designed to obtain settlements from healthcare providers. We cannot predict the effect of additional costs on tenants to comply with these laws nor the costs associated with a potential breach of protected health information by a tenant and what effect they might have on the expenses of our tenants and their ability to meet their obligations to us, which in turn could have a material adverse effect on our business, financial condition and results of operations, our ability to pay distributions to our stockholders and the market price of our common stock.

Our healthcare-related tenants may be subject to significant legal actions that could subject them to increased operating costs and substantial uninsured liabilities, which may affect their ability to pay their rent payments to us, and we could be subject to healthcare industry violations.

As is typical in the healthcare industry, our tenants may often become subject to claims that their services have resulted in patient injury or other adverse effects. Many of these tenants may have experienced an increasing trend in the frequency and severity of professional liability and general liability insurance claims and litigation asserted against them. The insurance coverage maintained by these tenants may not cover all claims made against them nor continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to these tenants due to state law prohibitions or limitations of availability. As a result, these types of tenants of our healthcare properties and healthcare-related facilities operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits.

We also believe that there has been, and will continue to be, an increase in governmental investigations of certain healthcare providers, particularly in the areas of Medicare/Medicaid false claims and meaningful-use of electronic health records, as well as an increase in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or governmental investigation, any settlements of such proceedings or investigations in excess of insurance coverage, whether currently asserted or arising in the future, could have a material adverse effect on a tenant's financial condition. If a tenant is unable to obtain or maintain insurance coverage, if judgments are obtained or settlements reached in excess of the insurance coverage, if a tenant is required to pay uninsured punitive damages, or if a tenant is subject to an uninsurable

government enforcement action or investigation, the tenant could be exposed to substantial additional liabilities, which may affect the tenant's ability to pay rent, which in turn could have a material adverse effect on our business, financial condition and results of operations, our ability to pay distributions to our stockholders and the market price of our common stock.

Risks Related to the Real Estate Industry

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more of our properties in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. In the event we decide to sell any of our properties, we cannot predict whether we will be able to sell such properties for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of any of our properties. The fact that we own properties in our target submarkets may lengthen the time required to sell our properties. We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements.

In acquiring a property, we may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate. These facts and any others that would impede our ability to respond to adverse changes in the performance of our properties may have an adverse effect on our business, financial condition, results of operations, or ability to make distributions to our stockholders and the market price of our common stock.

Moreover, the Code imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interests. Therefore, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect our cash flows, our ability to make distributions to our stockholders and the market price of our common stock.

Uncertain market conditions could cause us to sell our healthcare properties at a loss in the future.

We intend to hold our various real estate investments until such time as we determine that a sale or other disposition appears to be advantageous to achieve our investment objectives. Our senior management team and our board of directors may exercise their discretion as to whether and when to sell one of our healthcare properties, and we will have no obligation to sell our buildings at any particular time. We generally intend to hold our healthcare properties for an extended period of time, and we cannot predict with any certainty the various market conditions affecting real estate investments that will exist at any particular time in the future. Because of the uncertainty of market conditions that may affect the future disposition of our healthcare properties, we may not be able to sell our buildings at a profit in the future or at all. We may incur prepayment penalties in the event that we sell a property subject to a mortgage earlier than we otherwise had planned. Additionally, we could be forced to sell healthcare properties at inopportune times which could result in us selling the affected building at a substantial loss. Accordingly, the extent to which you will receive cash distributions and realize potential appreciation on our real estate investments will, among other things, be dependent upon fluctuating market conditions. Because of the uncertainty of market conditions that may affect the future disposition of our properties, and the potential payment of prepayment penalties upon such disposition, we cannot assure you that we will be able to sell our properties at a profit in the future, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Uninsured losses relating to real property may adversely affect your returns.

We evaluate our insurance coverage annually in light of current industry practice through an analysis prepared by outside consultants and attempt to ensure that all of our properties are adequately insured to cover casualty losses.

However, there are certain losses, including losses from floods, earthquakes, wildfires, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so. In addition, changes in the cost or availability of insurance could expose us to uninsured casualty losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by the amount of any such uninsured loss, and we could experience a significant loss of capital invested and potential revenue in these properties and could potentially remain obligated under any recourse debt associated with the property. In addition, we may have no source of funding to repair or reconstruct the damaged property, and we cannot assure you that any such sources of funding will be available to us for such purposes in the future. Furthermore, we, as the general partner of our operating partnership, generally will be liable for all of our operating partnership's unsatisfied recourse obligations. Any such losses could materially adversely affect our financial condition, results of operations, cash flows and ability to pay distributions, and the market price of our common stock.

Our property taxes could increase due to property tax rate changes or reassessments, which could materially adversely impact our cash flows.

Even if we qualify as a REIT for federal income tax purposes, we will be required to pay some state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. The amount of property taxes we pay in the future may increase substantially from what we have paid in the past. If the property taxes we pay increase, our cash flow would be adversely impacted to the extent that we are not reimbursed by tenants for those taxes, and our ability to pay any expected dividends to our stockholders could be materially adversely affected.

Our properties may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs of remediation.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants or others if property damage or personal injury is alleged to have occurred.

We may incur significant costs complying with various federal, state and local laws, regulations and covenants that are applicable to our properties.

The properties in our portfolio are subject to various covenants and federal, state and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances and zoning restrictions may restrict our use of our properties and may require us to obtain approval from local officials or restrict our use of our properties and may require us to obtain approval from local officials of community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our properties. Among other things, these restrictions may relate to fire and safety, seismic or hazardous material abatement requirements. There can be no assurance that existing laws and regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. Our growth strategy may be adversely affected by our ability to obtain permits, licenses and zoning relief. Our failure to obtain such

permits, licenses and zoning relief or to comply with applicable laws could have an adverse effect on our financial condition, results of operations, cash flows and our ability to pay distributions, and the market price of our common stock.

In addition, federal and state laws and regulations, including laws such as the Americans with Disabilities Act, or ADA, and the Fair Housing Amendment Act of 1988, or FHAA, impose further restrictions on our properties and operations. Under the ADA and the FHAA, all public accommodations must meet federal requirements related to access and use by disabled persons. Some of our properties may currently be in non-compliance with the ADA or the FHAA. If one or more of our properties is not in compliance with the ADA, the FHAA or any other regulatory requirements, we may be required to incur additional costs to bring the property into compliance, including the removal of access barriers, and we might incur governmental fines or the award of damages to private litigants. In addition, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will adversely impact our financial condition, results of operations, cash flows and our ability to pay distributions, and the market price of our common stock.

Environmental compliance costs and liabilities associated with owning and leasing our properties may affect our results of operations.

Under various U.S. federal, state and local laws, ordinances and regulations, current and prior owners and tenants of real estate may be jointly and severally liable for the costs of investigating, remediating and monitoring certain hazardous substances or other regulated materials on or in such property. In addition to these costs, the past or present owner or tenant of a property from which a release emanates could be liable for any personal injury or property damage that results from such release, including for the unauthorized release of asbestos-containing materials and other hazardous substances into the air, as well as any damages to natural resources or the environment that arise from such release. These environmental laws often impose such liability without regard to whether the current or prior owner or tenant knew of, or was responsible for, the presence or release of such substances or materials. Moreover, the release of hazardous substances or materials, or the failure to properly remediate such substances or materials, may adversely affect the owner's or tenant's ability to lease, sell, develop or rent such property or to borrow by using such property as collateral. Persons who transport or arrange for the disposal or treatment of hazardous substances or other regulated materials may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, regardless of whether or not such facility is owned or operated by such person.

We perform a Phase I environmental site assessment at any property we are considering acquiring. However, Phase I environmental site assessments are limited in scope and do not involve sampling of soil, soil vapor, or groundwater, and these assessments may not include or identify all potential environmental liabilities or risks associated with the property. Even where subsurface investigation is performed, it can be very difficult to ascertain the full extent of environmental contamination or the costs that are likely to flow from such contamination. We cannot assure you that the Phase I environmental site assessment or other environmental studies identified all potential environmental liabilities, or that we will not face significant remediation costs or other environmental contamination that makes it difficult to sell any affected properties. As a result, we could potentially incur material liability for these issues, which could adversely impact our financial condition, results of operations, cash flows and ability to pay distributions, and the market price of our common stock.

Certain environmental laws impose compliance obligations on owners and tenants of real property with respect to the management of hazardous substances and other regulated materials. For example, environmental laws govern the management and removal of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions. If we incur substantial costs to comply with these environmental laws or we are held liable under these laws, our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock may be adversely affected.

Some of the properties we acquire in the future may be subject to ground lease or other restrictions on the use of the space. If we are required to undertake significant capital expenditures to procure new tenants, then our business and results of operations may suffer.

Properties we acquire in the future may be subject to ground leases that contain certain restrictions. These restrictions could include limits on our ability to re-let these properties to tenants not affiliated with the healthcare

provider or other owner that owns the underlying property, rights of purchase and rights of first offer and refusal with respect to sales of the property and limits on the types of medical procedures that may be performed. If we are unable to promptly re-let our properties, if the rates upon such re-letting are significantly lower than expected or if we are required to undertake significant capital expenditures in connection with re-letting, our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock may be adversely affected.

Our assets may be subject to impairment charges.

We will periodically evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based upon factors such as market conditions, tenant performance and legal structure. For example, the termination of a lease by a major tenant may lead to an impairment charge. If we determine that an impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset which could have an adverse effect on our results of operations in the period in which the impairment charge is recorded.

Risks Related to our Corporate Structure and the Acquisition of Properties

Conflicts of interest could arise in the future between the interests of our stockholders and the interests of holders of OP units, which may impede business decisions that could benefit our stockholders.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any limited partner thereof, on the other. Our directors and officers have duties to our company under Maryland law in connection with the management of our company. At the same time, we, as the general partner of our operating partnership, have fiduciary duties and obligations to our operating partnership and its limited partners, if any, under Delaware law and our partnership agreement in connection with the management of our operating partnership. Our fiduciary duties and obligations as the general partner of our operating partnership may come into conflict with the duties of our directors and officers to our company. There are currently no limited partners of our operating partnership other than a wholly-owned subsidiary of the Company.

Under Delaware law, a general partner of a Delaware limited partnership has fiduciary duties of loyalty and care to the partnership and its limited partners and must discharge its duties and exercise its rights as general partner consistent with the obligation of good faith and fair dealing. Our partnership agreement provides that, in the event of a conflict between the interests of our operating partnership or any limited partner, on the one hand, and the company or our stockholders, on the other hand, we, as the general partner of our operating partnership, may give priority to the separate interests of the company or our stockholders (including with respect to tax consequences). Further, any action or failure to act on our part or on the part of our directors that gives priority to the interests of the company or our stockholders and does not result in a violation of our partnership agreement does not violate the duty of loyalty or any other duty that we, in our capacity as the general partner of our operating partnership, owe to our operating partnership and its limited partners or violate the obligation of good faith and fair dealing.

Additionally, our partnership agreement provides that we generally will not be liable to our operating partnership or any limited partner for any action or omission taken in our capacity as general partner, for the debts or liabilities of our operating partnership or for the obligations of our operating partnership under the partnership agreement, except for liability for our fraud, willful misconduct or gross negligence, pursuant to any express indemnity we may give to our operating partnership or in connection with a redemption. Our operating partnership must indemnify us, our directors and officers, officers of our operating partnership and our designees from and against any and all claims that relate to the operations of our operating partnership, unless (1) an act or omission of the person was material to the matter giving rise to the action and either was committed in bad faith or was the result of active and deliberate dishonesty, (2) the person actually received an improper personal benefit in violation or breach of the partnership

agreement or (3) in the case of a criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful. Our operating partnership must also pay or reimburse the reasonable expenses of any such person in advance of a final disposition of the proceeding upon its receipt of a written affirmation of the person's good faith belief that the standard of conduct necessary for indemnification has been met and a written

undertaking to repay any amounts paid or advanced if it is ultimately determined that the person did not meet the standard of conduct for indemnification.

We qualify as an emerging growth company under the JOBS Act and the reduced disclosure requirements applicable to emerging growth companies could make shares of our common stock less attractive to investors.

We qualify as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for emerging growth companies, including certain requirements relating to accounting standards and compensation disclosure. For as long as we are an emerging growth company, which may be up to five full fiscal years, we may take advantage of exemptions from various reporting and other requirements that are applicable to other public companies that are not emerging growth companies, including the requirements to:

- provide an auditor's attestation report on management's assessment of the effectiveness of our system of internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;

- comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies (we have irrevocably elected not to avail ourselves of this exemption);

- comply with any new audit rules or requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, after April 5, 2012 unless the SEC determines otherwise, including requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and our financial statements;

- provide certain disclosure regarding executive compensation required of larger public companies; or

- hold stockholder advisory votes on executive compensation.

We cannot predict if investors will find our common stock less attractive because we will not be subject to the same reporting and other requirements as other public companies. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and the per share market price of our common stock could decline and may be more volatile.

As a result of becoming a public company, after we are no longer an emerging growth company, we will be subject to the requirements of the Sarbanes-Oxley Act and will be obligated to obtain an audit opinion on the effectiveness of internal control over financial reporting. These internal controls may not be determined to be effective, which may harm investor confidence and, as a result, the trading price of our common stock.

The Sarbanes-Oxley Act will require our auditors to deliver an attestation report on the effectiveness of our internal control over financial reporting in conjunction with their opinion on our audited financial statements after we are no longer an emerging growth company. Substantial work on our part is required to implement appropriate processes, document the system of internal control over key processes, assess their design, remediate any deficiencies identified and test their operation. This process is expected to be both costly and challenging. We cannot give any assurances that material weaknesses will not be identified in the future in connection with our compliance with the provisions of the Sarbanes-Oxley Act. The existence of any material weakness would preclude a conclusion by management and our independent auditors that we maintained effective internal control over financial reporting. Our management may be required to devote significant time and expense to remediate any material weaknesses that may be discovered and may not be able to remediate any material weakness in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose

confidence in our reported financial information, all of which could lead to a decline in the market price of our common stock.

We incurred costs as a result of becoming a public company, and such costs may increase if and when we cease to be an emerging growth company.

As a public company, we now incur significant legal, accounting, insurance and other expenses, including costs associated with public company reporting requirements. The expenses incurred by public companies for reporting and corporate governance purposes have generally been increasing. We expect compliance with these public reporting requirements and associated rules and regulations to increase expenses, particularly after we are no longer an emerging growth company, although we are currently unable to estimate these costs with any degree of certainty. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, which could result in our incurring additional costs applicable to public companies that are not emerging growth companies.

We may have assumed unknown liabilities in connection with our acquisitions which could result in unexpected liabilities and expenses.

As part of our acquisitions, we (through our operating partnership) received certain assets or interests in certain assets subject to existing liabilities, some of which may be unknown to us. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with the entities prior to this report (including those that had not been asserted or threatened prior to this report), tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. Our recourse with respect to such liabilities may be limited. Depending upon the amount or nature of such liabilities, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the market price of our shares may be adversely affected.

Required payments of principal and interest on our Credit Facility may leave us with insufficient cash to operate our properties or to pay the distributions currently contemplated or necessary to qualify as a REIT and may expose us to the risk of default under our debt obligations.

As of December 31, 2018, we had \$143.0 million outstanding under our Credit Facility, including our term loans. We do not anticipate that our internally generated cash flow will be adequate to repay our anticipated indebtedness upon maturity and, therefore, we expect to repay indebtedness through refinancings and future offerings of equity and debt securities, either of which we may be unable to secure on favorable terms or at all. Our level of debt and any limitations imposed upon us by our debt agreements could have adverse consequences, including the following:

- our cash flow may be insufficient to meet required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions;
- we may be unable to refinance indebtedness at maturity or the refinancing terms may be less favorable than the terms of the original indebtedness;
- because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may fail to effectively hedge against interest rate volatility;
- we may be forced to dispose of properties, possibly on disadvantageous terms if we are able to do so at all, in order to repay indebtedness;

•after debt service, the amount available for distributions to our stockholders may be reduced;

• we may default on our debt obligations, which could restrict our ability to make any distributions to our stockholders;

• our ability to make distributions to our stockholders could be restricted by our debt agreements;

• our leverage could place us at a competitive disadvantage compared to our competitors who have less debt;

• we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;

• we may default on our obligations and the lenders may foreclose on properties that secure their loans and receive an assignment of rents and leases;

• we may violate financial covenants, which would cause a default on our obligations and result in the acceleration of our payment obligations;

• we may inadvertently violate non-financial restrictive covenants in our loan documents, such as covenants that require us to maintain the existence of entities, maintain insurance policies and provide financial statements, which would entitle the lenders to accelerate our debt obligations; and

• our default under any loan with cross-default or cross-collateralization provisions could result in default on other indebtedness or result in the foreclosures of other properties.

The realization of any or all of these risks may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

We could become highly leveraged in the future because our organizational documents contain no limitations on the amount of debt that we may incur.

As of December 31, 2018, our indebtedness represented approximately 34.6% of our total assets. Our current financing policy prohibits incurring debt (secured or unsecured) in excess of 40% of our total book capitalization. However, this debt limitation policy can be changed by our board of directors without stockholder approval and there are no provisions in our bylaws that limit our ability to incur indebtedness. We could alter the balance between our total outstanding indebtedness and the value of our properties at any time. If we become more highly leveraged, the resulting increase in outstanding debt could adversely affect our ability to make debt service payments, to pay our anticipated distributions and to make the distributions required to qualify as a REIT. The occurrence of any of the foregoing risks could adversely affect our business, financial condition and results of operations, our ability to make distributions to our stockholders and the market price of our common stock.

Increases in interest rates may increase our interest expense and adversely affect our cash flows and our ability to service our indebtedness and to make distributions to our shareholders.

As of December 31, 2018, we had \$43 million of variable-rate indebtedness outstanding that had not been swapped for a fixed interest rate and we expect that more of our indebtedness in the future, including borrowings under our Credit Facility, some of which may be subject to variable interest rates. Increases in interest rates on any variable rate indebtedness will increase our interest expense, which could adversely affect our cash flow and our ability to pay distributions.

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 may enter into swap agreements from time to time that may not effectively reduce its exposure to changes in interest rates. The Company entered into four swap agreements during 2017 and 2018 and may enter into such agreements in the future 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. In addition, we may be limited in the type and amount of hedging transactions that we may use in the future by our need to satisfy the REIT income tests under the Code. Failure to hedge effectively against interest rate changes may have an adverse effect on our business, financial condition, results of operations, our ability to make distributions to our shareholders and the market price of our common shares.

Our use of OP units in our operating partnership as currency to acquire properties could result in stockholder dilution and/or limit our ability to sell such properties, which could have a material adverse effect on us.

In the future, we may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for OP units in our operating partnership, which may result in stockholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell properties at a time, or on terms, that would be favorable absent such restrictions.

Our charter restricts the ownership and transfer of our outstanding shares which may have the effect of delaying, deferring or preventing a transaction or change of control of our Company.

In order for us to maintain our status as a REIT, no more than 50% of the value of our outstanding shares may be owned, beneficially or constructively, by five or fewer individuals at any time during the last half of each taxable year other than our initial REIT taxable year. Subject to certain exceptions, our charter prohibits any stockholder from beneficially or constructively owning more than 9.8% of the outstanding shares of our capital stock, in value or number of shares, whichever is more restrictive. The constructive ownership rules under the Code are complex and may cause the outstanding shares owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of our outstanding shares or of our common stock by an individual or entity could cause that individual or entity to own constructively more than 9.8% of the outstanding shares of such stock and to be subject to our charter's ownership limit. Our charter also prohibits, among other prohibitions, any person from owning our shares that would result in our being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT. Any attempt to own or transfer shares in violation of these restrictions may result in the shares being automatically transferred to a charitable trust or may be void.

Certain provisions of Maryland law could inhibit changes of control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests.

Certain provisions of the Maryland General Corporation Law, or MGCL, applicable to Maryland corporations may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-prevailing market price of our shares, including:

“business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our shares at any time

within the two-year period immediately prior to the date in question) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes certain minimum price and/or supermajority stockholder voting requirements on these combinations; and

“control share” provisions that provide that holders of “control shares” of our company (defined as shares that, when aggregated with all other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of issued and outstanding “control shares,” subject to certain exceptions) have no voting rights with respect to their control shares, except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Our bylaws, however, contain provisions exempting us from the business combination and control share acquisition provisions of the MGCL and we will not be permitted to opt into either of these provisions in the future without the affirmative vote of a majority of the votes cast on the matter by stockholders entitled to vote. Our board of directors may not amend or eliminate either of these provisions at any time in the future without the affirmative vote of a majority of the votes cast on the matter by stockholders entitled to vote.

Certain provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain corporate governance provisions, some of which are not currently applicable to us. If implemented, these provisions may have the effect of limiting or precluding a third party from making an unsolicited acquisition proposal for us or of delaying, deferring or preventing a change in control of us under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then current market price. Our charter contains a provision whereby the Company has elected to not be subject to the provisions of Title 3, Subtitle 8 of the MGCL without the affirmative consent of the shares cast on the matter by stockholders entitled to vote.

We could increase the number of authorized shares, classify and reclassify unissued shares and issue shares without stockholder approval.

Our board of directors, without stockholder approval, has the power under our charter to amend our charter to increase or decrease the aggregate number of shares or the number of shares of any class or series that we are authorized to issue, and to authorize us to issue authorized but unissued common stock or preferred stock. In addition, under our charter, our board of directors has the power to classify or reclassify any unissued common or preferred shares into one or more classes or series of shares and set or change the preference, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications or terms or conditions of redemption for such newly classified or reclassified shares. As a result, we may issue series or classes of common stock or preferred stock with preferences, dividends, powers and rights, voting or otherwise, that are senior to, or otherwise conflict with, the rights of holders of our common stock. Although our board of directors has no such intention at the present time, it could establish a class or series of preferred shares that could, depending on the terms of such class or series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests.

Certain provisions in the partnership agreement of our operating partnership may delay or prevent unsolicited acquisitions of us.

Provisions of the partnership agreement of our operating partnership may delay or make more difficult unsolicited acquisitions of us or changes of our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders or limited partners might consider such proposals, if made, desirable. These provisions include, among others:

redemption rights of qualifying parties;

a requirement that we may not be removed as the general partner of our operating partnership without our consent;

transfer restrictions on OP units; and

our ability, as general partner, in some cases, to amend the partnership agreement and to cause our operating partnership to issue additional partnership interests with terms that could delay, defer or prevent a merger or other change of control of us or our operating partnership without the consent of our stockholders or the limited partners.

Our charter and bylaws, the partnership agreement of our operating partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

We may change our business, investment and financing strategies without stockholder approval.

We may change our business, investment and financing strategies without a vote of, or notice to, our stockholders, which could result in our making investments and engaging in business activities that are different from, and possibly riskier than, the investments and businesses described in this report. In particular, a change in our investment strategy, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to real estate market fluctuations. In addition, we may in the future increase the use of leverage at times and in amounts that we, in our discretion, deem prudent and such decision would not be subject to stockholder approval. Furthermore, our board of directors may determine that healthcare properties do not offer the potential for attractive risk-adjusted returns for an investment strategy. Changes to our strategies with regards to the foregoing could adversely affect our financial condition, results of operations and our ability to make distributions to our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event that we take certain actions which are not in your best interests.

Our charter eliminates the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

actual receipt of an improper benefit or profit in money, property or services; or

active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter authorizes us to indemnify our present and former directors and officers for actions taken by them in those and other capacities to the maximum extent permitted by Maryland present and former law. Our bylaws obligate us to indemnify each present and former director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to advance the defense costs incurred by our director and officers. We have entered into indemnification agreements with our officers and directors, granting them express indemnification rights. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter, bylaws and indemnification agreements or that might exist with other companies.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management and may prevent a change in control of our company that is in the best interests of our stockholders. Our charter provides that a director may only be removed for cause upon the affirmative vote of holders of two-thirds of all the votes entitled to be cast generally in the election of directors.

Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum. These

requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in control of our company that is in the best interests of our stockholders.

We are a holding company with no direct operations and, as such, we will rely on funds received from our operating partnership to pay liabilities, and the interests of our stockholders will be structurally subordinated to all liabilities and obligations of our operating partnership and its subsidiaries.

We are a holding company and conduct substantially all of our operations through our operating partnership. We do not have, apart from an interest in our operating partnership, any independent operations. As a result, we will rely on distributions from our operating partnership to pay any dividends we might declare on shares of our common stock. We will also rely on distributions from our operating partnership to meet any of our obligations, including any tax liability on taxable income allocated to us from our operating partnership. In addition, because we are a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its subsidiaries will be available to satisfy the claims of our stockholders only after all of our and our operating partnership's and its subsidiaries' liabilities and obligations have been paid in full.

Our operating partnership may issue additional OP units to third parties without the consent of our stockholders, which would reduce our ownership percentage in our operating partnership and would have a dilutive effect on the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our stockholders.

We own 100% of the outstanding OP units and we may, in connection with our acquisition of properties or otherwise, cause our operating partnership to issue additional OP units to third parties. Such issuances would reduce our ownership percentage in our operating partnership and affect the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our stockholders. Because you will not directly own OP units, you will not have any voting rights with respect to any such issuances or other partnership level activities of our operating partnership.

Risks Related to Our Qualification and Operation as a REIT

Failure to remain qualified as a REIT, would cause us to be taxed as a regular corporation, which would adversely affect the value of our shares and substantially reduce funds available for distributions to our stockholders.

Our organization and proposed method of operation have enabled us to meet the requirements for qualification and taxation as a REIT commencing with our taxable year ended December 31, 2015. However, we cannot assure you that we will remain qualified as a REIT. Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Code, or the Treasury Regulations, is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the ownership of our stock, the composition of our assets and the composition of our income. In addition, we must distribute to stockholders annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gains. Legislation, new Treasury Regulations, administrative interpretations or court decisions may materially and adversely affect our ability to qualify as a REIT for U.S. federal income tax purposes.

If we fail to qualify as a REIT in any taxable year, we will face serious tax consequences that will substantially reduce the funds available for distribution to our stockholders because:

we would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;

we could be subject to increased state and local taxes; and

- unless we are entitled to relief under certain U.S. federal income tax laws, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

In addition, if we fail to qualify as a REIT, we will no longer be required to make distributions. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it would adversely affect the market price of our common shares.

If our operating partnership failed to qualify as a “partnership” for U.S. federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

We believe that our operating partnership should be treated either as an entity disregarded from us or, after the admission of additional partners, if any, as a “partnership” for U.S. federal income tax purposes. As a disregarded entity or a partnership, our operating partnership will not be subject to U.S. federal income tax on its income. Instead, each of its partners will be allocated, and may be required to pay tax with respect to, its share of our operating partnership’s income. We cannot assure you that the IRS will not challenge the status of our operating partnership, or that a court would not sustain such a challenge. If the Internal Revenue Service, or IRS, were successful in treating our operating partnership as an entity taxable as a corporation, our operating partnership would be liable for U.S. federal and state corporate income taxes on its taxable income and we would fail to meet the gross income tests and certain of the asset tests applicable to REITs under the Code and cease to qualify as a REIT.

We may face other tax liabilities that reduce our cash flows.

We may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, taxes on income from certain “prohibited transactions” and state or local income, property and transfer taxes. In addition, any TRS that we may form or in which we may invest will be subject to regular corporate federal, state and local taxes. Any of these taxes would decrease cash available for distributions to our stockholders.

To maintain our status as a REIT and avoid the payment of U.S. federal income and excise taxes, we may be forced to borrow funds, use proceeds from the issuance of securities, pay taxable dividends of our stock or debt securities or sell assets to make distributions, in each case during unfavorable market conditions and which may result in our distributing amounts that would otherwise be used for our operations.

To maintain our status as a REIT, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, determined without regard to the dividends paid deduction and excluding net capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our REIT taxable income (determined without regard to the deduction for dividends paid) each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. These requirements could cause us to distribute amounts that otherwise would be spent on operations, the acquisitions of properties and the service of our debt. It is possible that we could be required to borrow funds, use proceeds from the issuance of securities, pay taxable dividends of our stock or debt securities or sell assets in order to distribute enough of our taxable income to qualify or maintain our qualification as a REIT and to avoid the payment of U.S. federal income and excise taxes. We cannot assure you that a sufficient amount of capital will be available to us on favorable terms, or at all, when needed for the foregoing purposes, which would materially and

adversely affect our financial condition, results of operations, cash flows and ability to pay distributions, and the market price of our common stock.

Complying with the REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.

To maintain our status as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our shares. In order to meet these tests, we may be required to forego investments we might otherwise make or liquidate otherwise attractive investments. Compliance with the REIT requirements may reduce our income and amounts available for distribution to our stockholders and otherwise hinder our performance.

The “prohibited transactions” tax may limit our ability to dispose of our properties.

A REIT’s net gain or income from “prohibited transactions” is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although a safe harbor regarding the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we will be able to comply with the safe harbor with respect to any sale of our properties or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business. Consequently, we may choose not to engage in an otherwise attractive sale of property or may conduct such a sale through a TRS, which would subject such sale to federal and state income taxation.

Any ownership of a TRS will be subject to limitations, and our transactions with a TRS cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm’s-length terms.

We have formed one TRS, and in the future, may form other TRSs for various reasons, including for the purpose of leasing “qualified healthcare properties” from us pursuant to the provisions of the REIT Investment Diversification and Empowerment Act of 2007, or RIDEA. Overall, no more than 20% of the value of a REIT’s assets may consist of stock or securities of one or more TRSs. The Code also imposes a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm’s-length basis. We will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with the TRS ownership limitation and will structure any future transactions with any TRS on terms that we believe are arm’s length to avoid incurring the 100% excise tax described above. However, there can be no assurance that we will be able to comply with such TRS ownership limitation or to avoid application of the 100% excise tax.

TRSs will increase our overall tax liability.

Our one TRS, and any TRSs that we may form or acquire in the future, including a TRS formed or acquired to lease “qualified healthcare properties” from us under the provisions of RIDEA, will be subject to federal and state income tax on its taxable income. Accordingly, although our ownership of a TRS may allow us to participate in income we otherwise could not receive directly as a REIT, such income would be fully subject to federal and state income tax.

If a TRS tenant failed to qualify as a TRS, or the operator of a facility engaged by a TRS tenant did not qualify as an “eligible independent contractor,” we could fail to qualify as a REIT and could be subject to higher taxes and have less cash available for distribution to our stockholders.

We may, in the future, lease certain of our properties that qualify as “qualified healthcare properties” to a TRS tenant, although we have no present intention to do so. Rent paid by a tenant that is a “related party tenant” of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. However, so long as any TRS tenant of ours qualifies as a TRS, it will not be treated as a “related party tenant” with respect to our healthcare properties that are managed by “eligible independent contractors.” We would seek to structure any future arrangements

with a TRS tenant such that the TRS tenant would qualify to be treated as a TRS for U.S. federal income tax purposes, but there can be no assurance that the IRS would not challenge the status of a TRS or that a court would not sustain such a challenge. If the IRS were successful in disqualifying a TRS tenant from treatment as a TRS, it is possible that we would fail to meet the asset tests applicable to REITs and a significant portion of our

income would fail to qualify for the gross income tests. If we failed to meet either the asset or gross income tests, we would likely lose our REIT qualification for federal income tax purposes.

Additionally, if the operator of a facility engaged by a TRS tenant does not qualify as an “eligible independent contractor,” we could fail to qualify as a REIT. Any operator of a healthcare facility leased to a TRS tenant must qualify as an “eligible independent contractor” under the REIT rules in order for the rent paid to us by such TRS tenant to be qualifying income for purposes of the REIT gross income tests. Among other requirements, in order to qualify as an eligible independent contractor a facility operator must not own, directly or indirectly, more than 35% of our outstanding shares and no person or group of persons can own more than 35% of our outstanding shares and the ownership interests of the facility operator, taking into account certain ownership attribution rules. The ownership attribution rules that apply for purposes of these 35% thresholds are complex. Although we would monitor ownership of our shares by any facility operators and their owners, there can be no assurance that these ownership levels will not be exceeded.

If leases of our properties are not respected as true leases for U.S. federal income tax purposes, we would fail to qualify as a REIT and would be subject to higher taxes and have less cash available for distribution to our stockholders.

Rents paid to us by third-party tenants and any TRS tenant that we may form or acquire in the future pursuant to the leases of our properties will constitute substantially all of our gross income. In order for such rent to qualify as “rents from real property” for purposes of the gross income tests applicable to REITs, the leases must be respected as true leases for U.S. federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. If our leases are not respected as true leases for U.S. federal income tax purposes, we could fail to qualify as a REIT.

You may be restricted from acquiring or transferring certain amounts of our common stock.

The share ownership restrictions of the Code for REITs and the 9.8% share ownership limit and other restrictions on ownership and transfer of our shares contained in our charter may inhibit market activity in our shares and restrict our business combination opportunities.

In order to maintain our status as a REIT each taxable year, five or fewer individuals, as defined in the Code, may not own, beneficially or constructively, more than 50% in value of our issued and outstanding shares at any time during the last half of each taxable year. Attribution rules in the Code determine if any individual or entity beneficially or constructively owns our shares under this requirement. Additionally, at least 100 persons must beneficially own our shares during at least 335 days of a taxable year for each taxable year. To help insure that we meet these tests, our charter restricts the acquisition and ownership of shares.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, our charter prohibits any person from beneficially or constructively owning more than 9.8% in value of the outstanding shares of our capital stock or 9.8%, in value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock. Our board of directors may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of such limits would result in our failing to qualify as a REIT. This, as well as other restrictions on transferability and ownership, will not apply if our board of directors determines that it is no longer in our best interests to continue to qualify as a REIT.

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

The maximum tax rate applicable to “qualified dividend income” payable to U.S. stockholders that are taxed at individual rates is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates 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

shares of REITs, including our common stock. However, for tax years beginning after December 31, 2017, certain stockholders may be able to deduct up to 20% of "qualified REIT dividends" pursuant to Section 199A of the Code subject to certain limitations set forth in the Code.

Distributions to tax-exempt stockholders may be classified as unrelated business tax income.

In general, neither ordinary nor capital gain distributions with respect to our common stock, nor gain from the sale of our common stock, should constitute unrelated business tax income, or UBTI, to a tax-exempt stockholder. However, under certain limited circumstances, income and gain recognized by certain tax-exempt stockholders could be treated, in whole or in part, as UBTI.

Non-U.S. stockholders may be subject to FIRPTA taxation upon the sale of their shares of our common stock.

Subject to the exceptions described herein, a non-U.S. person generally is subject to U.S. federal income tax on gain recognized on a disposition of our stock under the Foreign Investment in Real Property Tax Act, or FIRPTA. However, such FIRPTA tax will not apply if we are "domestically controlled," meaning less than 50% of our stock, by value, has been owned directly or indirectly by non-U.S. persons during a specified look-back period. In addition, even if we were not domestically controlled, such tax would not apply to such non-U.S. stockholder if our common stock was traded on an established securities market and such stockholder did not, at any time during the five-year period prior to a sale of our common stock, directly or indirectly own more than 5% of the value of our outstanding common stock. We cannot assure you that we will qualify as a "domestically controlled" REIT, although we expect our stock will be regularly traded on an established securities market.

Our capital gain distributions to non-U.S. stockholders attributable to our sales of U.S. real property interests may be subject to tax under FIRPTA.

A non-U.S. stockholder generally is subject to U.S. income tax on our capital gain distributions attributable to our sales of U.S. real property interests under FIRPTA. However, if our common stock is regularly traded on an established securities market, such distributions will not be subject to such tax if such stockholder did not, at any time during the one-year period preceding the distribution, directly or indirectly own more than 5% of the value of our outstanding common stock. While we expect our stock will be regularly traded on an established securities market, if it is not so traded, or if we are unable to determine the level of ownership of a particular non-U.S. stockholder, we may be required to withhold 21% of any distribution to such stockholder that we designate as a capital gain dividend.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

At any time, the U.S. federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in the U.S. federal income tax laws, regulations or administrative interpretations.

Effective January 1, 2018, among other things, the TCJA reduced the top corporate tax rate from 35% to 21%, allowed a deduction of up to 20% of qualified business income including qualified REIT dividends, eliminated the corporate alternative minimum tax, and placed certain additional limitations on the deductibility of interest expense. Additionally, the TCJA required that taxpayers using the accrual method for income tax accounting take into account certain items of income for income tax purposes no later than the time such items are taken into account as revenue for financial accounting purposes on certain financial statements. The application of this rule may require the accrual of

income with respect to certain debt instruments on mortgage-based securities, such as original issue discount or mortgage discount, earlier than would be the case under the general tax rules, although the precise application of this rule is unclear at this time. The full effect of the TCJA on the real estate industry and our business are not yet known.

Risks Related to our Common Stock

The trading volume of our common stock may be volatile, and you may not be able to resell shares of our common stock at prices equal to or greater than the price you paid or at all.

Our common stock is listed on the NYSE. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur, and investors in our common stock may from time to time experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the price at which you purchased such shares. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in our FFO or earnings estimates;
- publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this report;
- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our underlying asset value;
- investor confidence in the stock and bond markets generally;
- changes in tax laws;
- future equity issuances by us;
- failure to meet earnings estimates;

failure to meet and maintain REIT qualification;

changes in our credit ratings; and

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general market and economic conditions.

In the past, securities class-action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on us, including our financial condition, results of operations, cash flow and the market price of our common stock.

Increases in market interest rates may have an adverse effect on the market price of our common stock as prospective purchasers of our common stock may expect a higher dividend yield and as an increased cost of borrowing may decrease our funds available for distribution.

One of the factors that will influence the market price of our common stock will be the dividend yield on the common stock (as a percentage of the price of our common stock) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates but are increasing, may lead prospective purchasers of our common stock to expect a higher dividend yield (with a resulting decline in the trading prices of our common stock) and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common stock to decrease.

Our issuance of equity securities or the perception that such issuances might occur could materially adversely affect us, including the per share trading price of our common stock.

The vesting of any restricted shares granted to certain directors, executive officers and other employees under our 2014 Incentive Plan, as amended, (the "2014 Incentive Plan") and our Amended and Restated Alignment of Interest Program, the issuance of our common stock or OP Units in connection with future property, portfolio or business acquisitions and other issuances of our common stock could have an adverse effect on the market price of our common stock, and the existence of our common stock issuable under our 2014 Incentive Plan may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future issuances of our common stock may be dilutive to existing stockholders.

If securities analysts do not publish research or reports about our industry or if they downgrade our common stock or the healthcare-related real estate sector, the price of our common stock could decline.

The trading market for our common stock relies in part upon the research and reports that industry or financial analysts publish about us or our industry. We have no control over these analysts. Furthermore, if one or more of the analysts who do cover us downgrades our shares or our industry, or the stock of any of our competitors, the market price of our common stock could decline. If one or more of these analysts ceases coverage of our company, we could lose attention in the market which in turn could cause the market price of our common stock to decline.

Future sales of shares of our common stock, particularly by our executive officers or directors, may cause the per share trading price of our common stock to decline.

Any sales of a substantial number of shares of our common stock, or the perception that those sales might occur, may cause the market price of the common stock to decline. After the expiration of any applicable transfer restrictions imposed by our 2014 Incentive Plan, stock purchase agreements or lockup agreements with us, our executive officers and directors will have the ability to sell all of any portion of the applicable common stock which could cause the market price of our common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

In addition to the information provided below, see Item 1, "Business," Note 2 to the Consolidated Financial Statements in Item 8 "Financial Statements and Supplementary Data," and Schedule III of Item 15 of this Annual Report on Form 10-K for more detailed information about the Company's properties as of December 31, 2018.

Scheduled Lease Expirations

As of December 31, 2018, the weighted average remaining years to maturity pursuant to the leases with our tenants was approximately 6.8 years, with expirations through 2034. The table below details scheduled lease expirations, as of December 31, 2018, for our properties for the periods indicated.

Year	Number of Leases Expiring	Total Leased Square Footage		Annualized Lease Revenue		
		Amount	Percent (%)	Amount (in millions)	Percent (%)	
2019	38	169,388	8.8	\$3,941	9.6	%
2020	37	194,355	10.1	\$3,744	9.1	%
2021	23	172,701	8.9	\$3,501	8.5	%
2022	29	193,158	10.0	\$4,185	10.2	%
2023	36	210,555	10.9	\$4,115	10.0	%
2024	6	42,856	2.2	\$1,178	2.9	%
2025	11	116,188	6.0	\$3,480	8.5	%
2026	8	132,491	6.9	\$3,179	7.7	%
2027	2	18,651	1.0	\$434	1.1	%
2028	3	41,573	2.2	\$592	1.4	%
Thereafter	28	633,448	32.7	\$12,662	30.8	%
Month-to-Month	4	5,600	0.3	\$85	0.2	%
Totals	225	1,930,964	100.0	\$41,096	100.0	%

ITEM 3. LEGAL PROCEEDINGS

The Company may, from time to time, be involved in litigation arising in the ordinary course of business or which may be expected to be covered by insurance. 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

None.

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 "CHCT." At February 20, 2019, there were 20 stockholders of record.

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

Stock Performance Graph

The following graph compares, over a measurement period beginning May 21, 2015 and ending on December 31, 2018, the cumulative total return on our common stock with the cumulative total return on the stocks included in (i) the Russell 3000 Index and (ii) the NAREIT All Equity REIT Index. The performance graph assumes that the value of the investment in our common stock, the Russell 3000 Index and the NAREIT All Equity REIT Index was \$100 at May 21, 2015, the date our common stock began publicly trading on the New York Stock Exchange, and that all dividends were reinvested. There can be no assurance that our common stock performance will continue in the future with the same or similar trends depicted in the stock performance graph below. We will not make or endorse any predictions as to future stock performance.

Index	Period Ending				
	5/21/2015	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Community Healthcare Trust Incorporated	\$100.00	\$ 95.98	\$ 129.42	\$ 167.99	\$ 182.80
Russell 3000 Index	\$100.00	\$ 95.92	\$ 108.14	\$ 130.99	\$ 124.12
NAREIT All Equity REIT Index	\$100.00	\$ 103.15	\$ 112.05	\$ 121.77	\$ 116.84

The information provided under the heading "Stock Performance Graph" shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to its proxy regulations or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, other than as provided in Item 201 of Regulation S-K. The information provided in this section shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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. The Company was formed on March 28, 2014, therefore, no financial data is available prior to that date.

	Year Ended December 31,				For the Period from March 28, 2014 (inception) to December 31, 2014
	2018	2017	2016	2015 ⁽¹⁾	
(Amounts in thousands except per share data)					
Statement of Operations Data:					
Total revenues	\$48,630	\$37,343	\$25,197	\$8,632	\$ —
Total expenses	\$35,190	\$30,434	\$21,328	\$9,759	\$ —
Net income (loss)	\$4,403	\$3,510	\$2,721	\$(1,456)	\$ —
Diluted Income (loss) per share:					
Income (loss) per diluted common share	\$0.19	\$0.19	\$0.24	\$(0.31)	\$ —
Weighted average common shares outstanding - Diluted	17,669	14,815	11,320	4,727	200
Balance Sheet Data (as of the end of the period):					
Real estate properties, gross	\$444,930	\$388,486	\$252,736	\$132,967	\$ —
Real estate properties, net	\$389,632	\$352,350	\$234,332	\$127,764	\$ —
Mortgage notes receivable, net	\$—	\$10,633	\$10,786	\$10,897	\$ —
Total assets	\$426,570	\$385,766	\$251,529	\$142,803	\$ 2
Debt, net	\$147,766	\$93,353	\$51,000	\$17,000	\$ —
Total stockholders' equity	\$271,659	\$283,374	\$194,007	\$122,270	\$ 2
Other Data:					
Funds from operations ⁽²⁾	\$23,769	\$21,224	\$15,912	\$3,747	\$ —
Funds from operations per common share - Diluted ⁽²⁾	\$1.32	\$1.41	\$1.41	\$0.79	\$ —
Dividends paid	\$29,375	24,432	17,783	\$3,928	\$ —
Dividends declared and paid per common share	\$1.605	\$1.565	\$1.525	\$0.517	\$ —

⁽¹⁾ The Company completed its initial public offering and began operations on May 27, 2015.

⁽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 to FFO.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this Management's Discussion and Analysis ("MD&A") is to provide an understanding of the Company's consolidated financial condition, results of operations and cash. MD&A is provided as a supplement to, and should be read in conjunction with, the Company's Consolidated Financial Statements and accompanying notes.

Overview

We were organized in the State of Maryland on March 28, 2014. We are a self-administered, self-managed healthcare REIT that acquires and owns properties that are leased to hospitals, doctors, healthcare systems or other healthcare service providers in our target submarkets.

Emerging Growth Company

We have elected to be an emerging growth company, as defined in the JOBS Act since 2015. An emerging growth company may take advantage of specified reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company, among other things:

- we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act;

- we are permitted to provide less extensive disclosure about our executive compensation arrangements; and

- we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements.

The JOBS Act also permits us, as an emerging growth company, to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies and thereby allows us to delay the adoption of those standards until those standards would apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards, and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We will cease to be an emerging growth company upon the earliest to occur of: (i) the last day of the first fiscal year in which we have more than \$1.07 billion in annual revenues; (ii) the date we qualify as a "large accelerated filer," with at least \$700 million in market value of our common stock held by non-affiliates; (iii) the issuance, in any three-year period, of more than \$1.0 billion of non-convertible debt securities; and (iv) the last day of the fiscal year ending after the fifth anniversary of our IPO in May 2015.

Trends and Matters Impacting Operating Results

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

Real estate investments

During 2018, the Company invested in 19 real estate properties for an aggregate purchase price of approximately \$55.1 million, including cash consideration of approximately \$45.2 million, fair value of real estate received in foreclosure of approximately \$4.5 million, and the assumption of mortgage debt on one of the properties of \$5.4 million. Upon acquisition, the real estate properties were approximately 87.0% leased in the aggregate with lease expirations through 2033.

2019 Real estate acquisitions

In February 2019, the Company acquired two real estate properties totaling approximately 83,000 square feet for an aggregate purchase price and cash consideration of approximately \$32.7 million. Upon acquisition, the properties were 100.0% leased in the aggregate with lease expirations in 2029.

Acquisition Pipeline

The Company has five properties under definitive purchase agreements, to be acquired after completion and occupancy, for an aggregate expected purchase price of approximately \$103.0 million. The Company's expected aggregate returns on these investments range from approximately 9.4% to 11.0%. The Company expects to close these properties through the end of 2019; however, the Company cannot provide assurance as to the timing of when, or whether, these transactions will actually close.

The Company anticipates funding these investments with cash from operations, through proceeds from its Credit Facility or from net proceeds from additional debt or equity offerings.

Impairment of Note Receivable

During the second half of 2018, the Company started experiencing payment issues with the old operator of Highlands Hospital ("Highlands"). The Company learned in December 2018, that these issues were caused by a diversion of funds creating a material breach of our agreements. The Company took aggressive actions to protect its position and, in 2019, signed a Transition Agreement to transition the property to a new operator. In addition, the Company has signed a new lease with the new operator, effective upon the transfer of the licenses, which is anticipated to happen in the second quarter of 2019.

The Company has approximately \$30.0 million invested at Highlands with \$25.0 million in real estate and \$5.0 million in a mezzanine loan that was incidental to the acquisition of the real estate.

Due to transitioning the property to a new operator, the Company has fully impaired the \$5.0 million loan (\$0.280 per diluted share of FFO) since the old operator will not repay the mezzanine loan and recorded a tax benefit of \$1.3 million (\$0.074 per diluted share of FFO). However, the new lease the Company has signed with the new operator is based on a \$30.0 million valuation and the new rental rate is approximately equal to the rental rate with the old operator plus the interest on the mezzanine loan.

The Company is receiving monthly payments under the Transition Agreement which approximate the rental rate with the old operator plus the interest on the mezzanine loan. These payments are to continue as long as the Transition Agreement is in place. The Transition Agreement will terminate when the licenses are transferred to the new operator, at which time the new lease will become effective.

During 2018, the Company did not receive, and thus did not recognize as revenue:

approximately one and a half monthly rental payments in cash, reimbursement of expenses and late fees totaling approximately \$0.3 million (\$0.018 per diluted share of FFO); and
approximately four months of interest payments and late fees totaling approximately \$0.2 million (\$0.011 per diluted share of FFO).

In addition, since the Company entered into the Transition Agreement which anticipates the termination the lease with the old operator, the Company has written-off straight-line rent of approximately \$0.2 million (\$0.012 per diluted share of FFO) at December 31, 2018.

The Transition Agreement includes provisions for the Company to receive payment for the amounts it was due and not paid. The Company anticipates collecting the amounts enumerated above.

The transition is ongoing and should be concluded no later than the end of the second quarter of 2019 at which time the lease with the new operator should become effective. While there may be some short-term effect from timing of receipts or reimbursement of expenses, the Company does not anticipate any material adverse effect to its cash flows or net income on a going forward basis.

Purchase Option Provisions

Certain of the Company's leases provide the lessee with a purchase option or a right of first refusal to purchase the leased property. The purchase option provisions generally require the lessee to purchase the leased property at fair value or at an amount greater than the Company's gross investment in the leased property at the time of the purchase. At December 31, 2018, the Company had a gross investment of approximately \$3.3 million in one real estate property with a purchase option exercisable at December 31, 2018 and has an aggregate gross investment at December 31, 2018 in four additional properties totaling approximately \$5.3 million with purchase options that become exercisable during 2019.

ATM Program

On August 7, 2018, the Company entered into an at-the-market offering program ("ATM Program") with Sandler O'Neill & Partners, L.P., Evercore Group L.L.C., SunTrust Robinson Humphrey, Inc., BB&T Capital Markets, a division of BB&T Securities, LLC, Fifth Third Securities Inc. and Janney Montgomery Scott LLC, as sales agents (collectively, the "Agents"), under which the Company may issue and sell shares of its common stock, having an aggregate gross sales price of up to \$100.0 million, from time to time through or to one or more of the Agents, as may be determined by the Company in its sole discretion, subject to the terms and conditions of the Agreement and applicable law.

During 2018, the Company issued, through its ATM Program, 334,700 shares of common stock at an average gross sales price of \$31.07 per share and received net proceeds of approximately \$10.0 million after deducting commissions and offering expenses paid by the Company, as discussed in Note 8 to the Consolidated Financial Statements. The proceeds were used to repay outstanding balances under the Company's Credit Facility, to fund investments, and for general corporate purposes.

Credit Facility

The Company's Credit Facility is by and among Community Healthcare OP, LP, the Company, the lenders from time to time party thereto, and SunTrust Bank, as Administrative Agent. The Credit Facility provides for a \$150.0 million revolving credit facility (the "Revolving Credit Facility") and \$100.0 million in term loans (the "Term Loans"). The Credit Facility, through the accordion feature, allows borrowings up to a total of \$450.0 million, including the ability to add and fund additional term loans. The Revolving Credit Facility matures on August 9, 2019 and includes two 12-month options to extend the maturity date of the Revolving Credit Facility, subject to the satisfaction of certain conditions. The Term Loans include a five-year term loan facility in the aggregate principal amount of \$50.0 million (the "5-Year Term Loan"), which matures on March 29, 2022, and a seven-year term loan facility in the aggregate principal amount of \$50.0 million (the "7-Year Term Loan"), which matures on March 29, 2024. At December 31, 2018, the Company had \$43.0 million outstanding under the Revolving Credit Facility with a remaining borrowing capacity of \$107.0 million and a weighted average interest rate of approximately 4.41%. At December 31, 2018, the Company had drawn the full \$100.0 million under the Term Loans which had a fixed weighted average interest rate under the swaps of approximately 4.45%. See Note 6 to the Consolidated Financial Statements for more details on the Credit Facility.

Lease Expirations

As of December 31, 2018, approximately 8.5% to 10.2% of our leases will expire in each of the next 5 years. Management expects that many of the tenants will renew their leases, but in cases where they do not renew, the

Company believes it will generally be able to re-lease the space to existing or new tenants without significant loss of rental income.

Contractual Obligations

The Company's material contractual obligations at December 31, 2018 are included in the table below. At December 31, 2018, the Company had no long-term capital lease or purchase obligations.

(Dollars in thousands)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Revolving Credit Facility ⁽¹⁾	\$44,407	\$44,407	\$—	\$—	\$ —
Terms Loans ⁽²⁾	118,992	4,445	61,703	52,844	—
Mortgage note payable	8,101	631	1,894	5,576	—
Tenant improvements ⁽³⁾	2,806	2,806	—	—	—
Capital improvements	377	377	—	—	—
	\$174,683	\$52,666	\$63,597	\$58,420	\$ —

(1)The amounts shown include interest at the weighted average interest rate at December 31, 2018 and the unused fee interest assuming the credit facility remains at \$43.0 million through its maturity.

(2)The amounts shown include interest at the current fixed rates through the in-place cash flow hedges assuming the term loans remain at \$100.0 million outstanding through maturity.

(3)In addition to the amounts in the table above, the Company has tenant improvement allowances included in leases with its tenants totaling approximately \$1.4 million that it could be obligated to reimburse the tenants for if the tenants completed such improvements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that are reasonably likely to have a material effect on the Company's consolidated financial condition, results of operations or liquidity.

Inflation

We believe inflation will have a minimal impact on the operating performance of our properties. Many of our lease agreements contain provisions designed to mitigate the adverse impact of inflation. These provisions include clauses that enable us to receive payment of increased rent pursuant to escalation clauses which generally increase rental rates during the terms of the leases. These escalation clauses often provide for fixed rent increases or indexed escalations (based upon CPI or other measures). However, some of these contractual rent increases may be less than the actual rate of inflation. Generally, our lease agreements require the tenant to pay property operating expenses, including maintenance costs, real estate taxes and insurance. This requirement reduces our exposure to increases in these costs and property operating expenses resulting from inflation.

Seasonality

We do not expect our business to be subject to material seasonal fluctuations.

New Accounting Pronouncements

See Note 1 to the Company's Consolidated Financial Statements accompanying this report for information on new accounting standards not yet adopted.

Results of Operations

Our results of operations are most significantly impacted each year by our acquisitions in and funding of our real estate investments, as well as expenses related to our employees, professional fees and other costs related to operating the REIT and its related subsidiaries.

As of December 31, 2018, we had invested approximately \$444.9 million in 103 real estate properties, which are located in 29 states and total approximately 2.2 million square feet. During 2018, we acquired 19 real estate properties which in the aggregate were 87.0% leased for cash consideration of approximately \$45.2 million. During 2017, we acquired 28 real estate properties for cash consideration of approximately \$133.5 million.

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

The table below shows our results of operations for the year ended December 31, 2018 compared to the same period in 2017 and the effect of changes in those results from period to period on our net income.

	For the Year Ended December 31,		Increase (Decrease) to Net Income		
	2018	2017	\$	%	
REVENUES					
Rental income	\$40,149	\$31,071	\$9,078	29.2	%
Tenant reimbursements	6,377	5,071	1,306	25.8	%
Mortgage interest	—	1,022	(1,022)	(100.0)	%
Other operating interest	2,104	179	1,925	n/m	
	48,630	37,343	11,287	30.2	%
EXPENSES					
Property operating	9,944	8,682	(1,262)	(14.5)	%
General and administrative	5,707	4,020	(1,687)	(42.0)	%
Depreciation and amortization	19,539	17,732	(1,807)	(10.2)	%
	35,190	30,434	(4,756)	(15.6)	%
INCOME BEFORE INCOME TAXES AND OTHER ITEMS	13,440	6,909	6,531	n/m	
Gain on sale of real estate	295	—	295	n/m	
Interest expense	(6,299)	(3,948)	(2,351)	(59.5)	%
Impairment of note receivable	(5,000)	—	(5,000)	n/m	
Income tax benefit	1,547	478	1,069	n/m	
Interest and other income, net	420	71	349	n/m	
NET INCOME	\$4,403	\$3,510	\$893	n/m	

n/m-not meaningful.

Revenues

Revenues increased approximately \$11.3 million or 30.2%, for the year ended December 31, 2018 compared to the same period in 2017 due mainly to the following:

▲Acquisitions during 2018 contributed revenues of approximately \$2.5 million in 2018; and

• Acquisitions during 2017 contributed an increase in revenues of approximately \$8.5 million in 2018.

Expenses

Property operating expenses increased approximately \$1.3 million, or 14.5%, for the year ended December 31, 2018 compared to the same period in 2017 mainly due to the following:

• Acquisitions during 2018 accounted for an increase of approximately \$0.5 million in 2018; and

• Acquisitions during 2017 accounted for an increase of approximately \$0.9 million in 2018.

General and administrative expenses increased approximately \$1.7 million, or 42.0%, for the year ended December 31, 2018 compared to the same period in 2017 due mainly to compensation-related expenses and occupancy costs related to our employees and corporate office, including the amortization of non-vested restricted common shares issued under the 2014 Incentive Plan and expenses related to the addition of employees.

Depreciation and amortization expense increased approximately \$1.8 million, or 10.2%, for the year ended December 31, 2018 compared to the same period in 2017 due mainly to the following:

• Depreciation and amortization related to properties acquired during 2018 accounted for an increase of approximately \$1.2 million in 2018;

• Depreciation and amortization related to properties acquired during 2017 accounted for an increase of approximately \$3.3 million in 2018; and

• Real estate intangible assets acquired in 2015 and 2016 that became fully depreciated resulted in a decrease of approximately \$2.7 million in 2018.

Gain on sale of real estate

During the fourth quarter of 2018, the Company disposed of a 61,000 square foot physician clinic in Alabama, received net proceeds of approximately \$3.2 million, and recognized a gain of approximately \$0.3 million. The Company disposed of the property pursuant to the tenant's exercise of its purchase option on the property.

Interest expense

Interest expense increased approximately \$2.4 million, or 59.5%, for the year ended December 31, 2018 compared to the same period in 2017 due mainly to the following:

In the first quarter of 2017, the Company borrowed \$60.0 million in Term Loans and borrowed the remaining \$40.0 million in Term Loans in the first quarter of 2018. These Term Loans resulted in additional interest expense in 2018 of approximately \$1.9 million;

The Company amended its Credit Facility in the first quarter of 2017 and in the first quarter of 2018 resulting in additional financing fees which the Company deferred and are amortizing through the maturity date of the Credit Facility. The Company recognized additional amortization in 2018 related to these fees of approximately \$0.1 million; and

Interest expense related to our Revolving Credit Facility increased approximately \$0.3 million due mainly to higher interest rates and a higher weighted average debt balance in 2018 compared to 2017.

Impairment of note receivable

The Company recorded a \$5.0 million impairment related to a mezzanine note with one of its operators. See Note 11 to the Consolidated Financial Statements for details.

Income tax benefit

The Company recorded income tax benefits generally related to the impairment of a mezzanine note in 2018 and deferred compensation in both 2018 and 2017.

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

The table below shows our results of operations for the year ended December 31, 2017 compared to the same period in 2016 and the effect of changes in those results from period to period on our net income.

	For the Year Ended December 31,		Increase (Decrease) to Net Income	
	2017	2016	\$	%
REVENUES				
Rental income	\$31,071	\$18,999	\$12,072	63.5 %
Tenant reimbursements	5,071	4,564	507	11.1 %
Mortgage interest	1,022	1,634	(612)	(37.5)%
Other operating interest	179	—	179	n/m
	37,343	25,197	12,146	48.2 %
EXPENSES				
Property operating	8,682	4,744	(3,938)	(83.0)%
General and administrative	4,020	3,383	(637)	(18.8)%
Depreciation and amortization	17,732	13,201	(4,531)	(34.3)%
	30,434	21,328	(9,106)	(42.7)%
INCOME BEFORE INCOME TAXES AND OTHER ITEMS	6,909	3,869	3,040	n/m
Interest expense	(3,948)	(1,178)	(2,770)	n/m
Income tax benefit	478	—	478	n/m
Interest and other income, net	71	30	41	n/m
NET INCOME	\$3,510	\$2,721	\$789	29.0 %

n/m-not meaningful.

Revenues

Revenues increased approximately \$12.1 million or 48.2%, for the year ended December 31, 2017 compared to the same period in 2016 due mainly to the following:

• Acquisitions during 2017 contributed revenues of approximately \$6.7 million in 2017;

Acquisitions during 2016, including one mortgage note that was subsequently converted upon the acquisition of the real estate securing the note, contributed an increase in revenues of approximately \$7.0 million in 2017; and

Revenues for 2017 decreased approximately \$1.6 million related to the properties acquired during 2015 due to a reduction in tenant reimbursement revenue impacted by a reduction in operating expenses on certain properties, as well as decrease in revenues from the loss of certain tenants.

Expenses

Property operating expenses increased approximately \$3.9 million, or 83.0%, for the year ended December 31, 2017 compared to the same period in 2016 mainly due to the following:

Acquisitions during 2017 accounted for an increase of approximately \$0.9 million in 2017;

Acquisitions during 2016 accounted for an increase of approximately \$1.7 million in 2017;

We recorded contingent consideration related to three acquisitions during 2015 and 2016 and we recorded adjustments to the fair value of these contingent considerations during 2016 which resulted in a reduction to property operating expense during 2016 of approximately \$1.3 million.

General and administrative expenses

General and administrative expenses increased approximately \$0.6 million or 18.8%, for the year ended December 31, 2017 compared to the same period in 2016 due mainly to compensation-related expenses and occupancy costs related to our employees and corporate office, including the amortization of non-vested restricted common shares issued under the 2014 Incentive Plan and expenses related to the addition of employees.

Depreciation and amortization expense

Depreciation and amortization expense increased approximately \$4.5 million or 34.3%, for the year ended December 31, 2017 compared to the same period in 2016 due mainly to the following:

Depreciation and amortization related to properties acquired during 2017 accounted for an increase of approximately \$2.9 million in 2017;

Depreciation and amortization related to properties acquired during 2016 accounted for an increase of approximately \$3.4 million in 2017; and

Real estate intangible assets acquired in 2015 that became fully depreciated resulted in a decrease of approximately \$1.8 million in 2017.

Interest expense

Interest expense increased approximately \$2.8 million for the year ended December 31, 2017 compared to the same period in 2016 due mainly to the following:

In the first quarter of 2017, the Company amended its Credit Facility and borrowed \$60.0 million in Term Loans which resulted in additional interest expense during 2017 of approximately \$2.2 million;

Interest related to our Revolving Credit Facility increased approximately \$0.6 million due mainly to an increase in our weighted average interest rate during 2017.

Income tax benefit

The Company recorded an income tax benefit related to deferred compensation in 2017.

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 financial covenants included in our Credit Facility;

• 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 derives most of its revenues from its real estate property and notes receivable portfolio, collecting rental income, operating expense reimbursements and note interest based on contractual arrangements with its tenants and borrowers. These sources of revenue represent our primary source of liquidity to fund our dividends, general and administrative expenses, property operating expenses, interest expense on our Credit Facility and other expenses incurred related to managing our existing portfolio and investing in additional properties. To the extent additional resources are needed, the Company will fund its investment activity generally through equity or debt issuances either in the public or private markets or through proceeds from our Credit Facility.

The Company expects to meet its liquidity needs through cash on hand, cash flows from operations and cash flows from sources discussed above. 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.

Operating Activities

Cash flows provided by operating activities for the years ended December 31, 2018, 2017 and 2016 were approximately \$24.4 million, \$22.1 million, and \$14.9 million, respectively. Cash flows provided by operating activities for the years ended December 31, 2018, 2017 and 2016 were generally provided by contractual rents and mortgage interest, net of property operating expenses not reimbursed by the tenants and general and administrative expenses.

Investing Activities

Cash flows used in investing activities for the years ended December 31, 2018, 2017 and 2016 were approximately \$53.5 million, \$147.6 million, and \$117.1 million, respectively. During 2018, the Company invested in 19 real estate properties for an aggregate cash consideration of approximately \$45.2 million and \$4.5 million fair value of real estate received in foreclosure. In addition, the Company acquired \$2.2 million of certain promissory notes secured

by two facilities related to its Borrower, discussed in more detail in Note 5 to the Consolidated Financial Statements. During 2017, the Company invested in 28 real estate properties and acquired a property adjacent to its corporate office for cash consideration of approximately \$133.5 million and funded or purchased notes totaling approximately \$13.8 million. During 2016, the Company invested in 17 real estate properties for cash consideration of approximately \$103.2 million and funded one mortgage note for approximately \$12.4 million.

Financing Activities

Cash flows provided by financing activities for the years ended December 31, 2018, 2017 and 2016 were approximately \$29.3 million, \$126.0 million, and \$101.7 million, respectively. During 2018, 2017 and 2016, the Company paid dividends totaling \$29.4 million, \$24.4 million and \$17.8 million, respectively. During 2018, 2017 and 2016, the Company completed equity offerings, including offerings under its at-the-market program in 2018, resulting in net proceeds, net of underwriters' discount and offering costs, of approximately \$10.0 million, \$108.6 million and \$86.1 million, respectively. During 2018, the Company borrowed, on a net basis, \$9.0 million on its Revolving Credit Facility, in 2017, the Company repaid, on a net basis, approximately \$17.0 million, and in 2017, the Company borrowed, on a net basis \$34.0 million. During 2018 and 2017, the Company also borrowed \$40.0 million and \$60.0 million in Term Loans under its Credit Facility. The net proceeds from these equity offerings and borrowings under its Credit Facility were used to invest in the Company's real estate assets.

Credit Facility

The Company's Credit Facility is by and among Community Healthcare OP, LP, the Company, the lenders from time to time party thereto, and SunTrust Bank, as Administrative Agent. The Credit Facility provides for a \$150.0 million Revolving Credit Facility and \$100.0 million in Term Loans. The Credit Facility, through the accordion feature, allows borrowings up to a total of \$450.0 million, including the ability to add and fund additional term loans. The Revolving Credit Facility matures on August 9, 2019 and includes two 12-month options to extend the maturity date of the Revolving Credit Facility, subject to the satisfaction of certain conditions. The Term Loans include a five-year term loan facility in the aggregate principal amount of \$50.0 million, which matures on March 29, 2022, and a seven-year term loan facility in the aggregate principal amount of \$50.0 million, which matures on March 29, 2024.

At December 31, 2018, the Company had \$43.0 million outstanding under the Revolving Credit Facility with a remaining borrowing capacity of \$107.0 million and a weighted average interest rate of approximately 4.41%. At December 31, 2018, the Company had drawn the full \$100.0 million under the Term Loans which had a fixed weighted average interest rate under the swaps of approximately 4.45%.

The Company's ability to borrow under the Credit Facility is subject to its ongoing compliance with customary affirmative and negative covenants, including limitations with respect to liens, indebtedness, distributions, mergers, consolidations, investments, restricted payments and asset sales, as well as financial maintenance covenants. The Company was in compliance with its financial covenants under its Credit Facility as of December 31, 2018. See Note 6 to the Consolidated Financial Statements for more details on the Credit Facility.

In addition, the Company was in compliance with its current internal financing policy that generally limits incurring debt (secured or unsecured) in excess of 40% of its total book capitalization.

Universal Shelf S-3 Registration Statement

In September 2016, the Company filed a registration statement on Form S-3 that will allow us to offer debt or equity securities (or a combination thereof) of up to \$750.0 million from time to time. The Company has approximately \$625.0 million remaining that could be issued under the Form S-3 registration statement.

2019 Real estate acquisitions

In February 2019, the Company acquired two real estate properties totaling approximately 83,000 square feet for an aggregate purchase price and cash consideration of approximately \$32.7 million. Upon acquisition, the properties were 100.0% leased in the aggregate with lease expirations in 2029.

Acquisition Pipeline

The Company has five properties under definitive purchase agreements, to be acquired after completion and occupancy, for an aggregate expected purchase price of approximately \$103.0 million. The Company's expected aggregate returns on these investments range from approximately 9.4% to 11.0%. The Company expects to close these properties through the end of 2019; however, the Company cannot provide assurance as to the timing of when, or whether, these transactions will actually close.

The Company anticipates funding these investments with cash from operations, through proceeds from its Credit Facility or from net proceeds from additional debt or equity offerings.

Security Deposits

As of December 31, 2018, the Company held approximately \$1.2 million in 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 the security deposits if there are any defaults under the leases.

Dividends

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.

During 2018, 2017 and 2016, the Company paid cash dividends in the amounts of \$1.605 per share, \$1.565 per share and \$1.525 per share, respectively.

On February 7, 2019, the Company's Board of Directors declared a quarterly common stock dividend in the amount of \$0.4075 per share. The dividend is payable on March 1, 2019 to stockholders of record on February 22, 2019. The ability of the Company to pay dividends is dependent upon its ability to generate cash flows and to make accretive new investments.

Funds from Operations

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

Management believes that net income, as defined by GAAP, is the most appropriate earnings measurement. However, management believes FFO and FFO per share to be supplemental measures of a REIT's performance because they provide an understanding of the operating performance of the Company's properties without giving effect to certain significant non-cash items, primarily depreciation and amortization expense. Historical cost accounting for real estate assets in accordance with GAAP assumes that the value of real estate assets diminishes predictably over time.

However, real estate values instead have historically risen or fallen with market conditions.

The Company believes that by excluding the effect of depreciation, amortization, gains or losses from sales of real estate, and impairment of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO and FFO per share can facilitate comparisons of operating performance between periods. The Company reports FFO and FFO per share because these measures are observed by management to also be the predominant measures used by the REIT industry and by industry analysts to evaluate REITs and because FFO per share is consistently reported, discussed, and compared by research analysts in their notes and publications about REITs. For these reasons, management has deemed it appropriate to disclose and discuss FFO and FFO per share. However, FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income attributable to common stockholders as an indicator of the Company's operating performance or as an alternative to cash flow from operating activities as a measure of liquidity.

The table below reconciles net income to FFO. Net income for the year ended December 31, 2016, included approximately \$0.8 million, or \$0.07 per diluted common share, of transaction costs related to the Company's acquisitions during 2016. Transaction costs on our real estate acquisitions were capitalized beginning in 2017 due to the adoption of Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business.

(Amounts in thousands, except per share amounts)	Year Ended December 31,		
	2018	2017	2016
Net income	\$4,403	\$3,510	\$2,721
Real estate depreciation and amortization	19,661	17,714	13,191
Gain from sale of depreciable real estate	(295)	—	—
Total adjustments	19,366	17,714	13,191
Funds from Operations	\$23,769	\$21,224	\$15,912
Funds from Operations per Common Share-Basic	\$1.35	\$1.43	\$1.42
Funds from Operations per Common Share-Diluted	\$1.32	\$1.41	\$1.41
Weighted Average Common Shares Outstanding-Basic	17,669	14,815	11,238
Weighted Average Common Shares Outstanding-Diluted ⁽¹⁾	17,943	15,002	11,320

⁽¹⁾ Diluted weighted average common shares outstanding for FFO are calculated based on the treasury method, rather than the 2-class method.

Critical Accounting Policies

Our Consolidated Financial Statements are prepared in conformity with GAAP and the rules and regulations of the SEC. In preparing the Consolidated Financial Statements, management is required to exercise judgment and make assumptions and estimates that may impact the carrying value of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates. Set forth below is a summary of our accounting policies that we believe are critical to the preparation of our Consolidated Financial Statements. Our accounting policies are more fully discussed in Note 1 to the Consolidated Financial Statements.

Principles of Consolidation

Our Consolidated Financial Statements may include the accounts of the Company, its wholly owned subsidiaries, joint ventures, partnerships and variable interest entities, or VIEs, where the Company controls the operating activities. All material intercompany accounts, transactions, and balances have been eliminated.

Management must make judgments regarding the Company's level of influence or control over an entity and whether or not the Company is the primary beneficiary of a variable interest entity. Consideration of various factors include, but is not limited to, the Company's ability to direct the activities that most significantly impact the entity's governing body, the size and seniority of the Company's investment, the Company's ability and the rights of other investors to

participate in policy making decisions, the Company's ability to replace the manager and/or liquidate the

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entity. Management's ability to correctly assess its influence or control over an entity when determining the primary beneficiary of a VIE affects the presentation of these entities in the Company's Consolidated Financial Statements. If it is determined that the Company is the primary beneficiary of a VIE, the Company's Consolidated Financial Statements would include the operating results of the VIE rather than the results of the variable interest in the VIE. The Company would depend on the VIE to provide timely financial information and would rely on the interest control of the VIE to provide accurate financial information. Untimely or inaccurate financial information provided to the Company or deficiencies in the VIEs internal controls over financial reporting could impact the Company's Consolidated Financial Statements and its internal control over financial reporting.

Accounting for Acquisitions of Real Estate Properties

Real estate property acquisitions are accounted for as a business combination or an asset acquisition. An acquisition accounted for as a business combination is recorded at fair value and related closing costs are expensed as incurred. An acquisition accounted for as an asset acquisition is recorded at its purchase price, inclusive of acquisition costs, which is allocated among the acquired assets and assumed liabilities based upon their relative fair values at the date of acquisition. The Company adopted Accounting Standards Update ("ASU") No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, on January 1, 2017, and Company expects that substantially all of its acquisitions will be accounted for as asset acquisitions.

The allocation of real estate property acquisitions may include land and land improvements, building and building improvements, personal property, and identified intangible assets and liabilities (consisting of above- and below-market leases, in-place leases, and tenant relationships) based on the evaluation of information and estimates available at that date, and we allocate the purchase price based on these assessments. We make estimates of the acquisition date fair value of the tangible and intangible assets and acquired liabilities using information obtained from multiple sources as a result of pre-acquisition due diligence, tax records, and other sources. Based on these estimates, we recognize the acquired assets and liabilities at their estimated fair values. We expense transaction costs associated with business combinations in the period incurred. The fair value of tangible property assets acquired considers the value of the property as if vacant determined by comparable sales and other relevant data. The determination of fair value involves the use of significant judgment and estimation. We value land based on various inputs, which may include internal analysis of recently acquired properties, existing comparable properties within our portfolio, or third party appraisals or valuations based on comparable sales.

In recognizing identified intangible assets and liabilities of an acquired property, the value of above- or below-market leases is estimated based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between contractual amounts to be received pursuant to the leases and management's estimate of market lease rates measured over a period equal to the estimated remaining term of the lease. In the case of a below-market lease, the Company would also evaluate any renewal options associated with that lease to determine if the intangible should include those periods. The capitalized above-market or below-market lease intangibles are amortized as a reduction from or an addition to rental income over the estimated remaining term of the respective leases.

In determining the value of in-place leases and tenant relationships, management considers current market conditions and costs to execute similar leases in arriving at an estimate of the carrying costs during the expected lease-up period from vacant to existing occupancy. In estimating carrying costs, management includes real estate taxes, insurance, other property operating expenses, estimates of lost rental revenue during the expected lease-up periods, and costs to execute similar leases, including leasing commissions. The values assigned to in-place leases and tenant relationships are amortized over the estimated remaining term of the lease. If a lease terminates prior to its scheduled expiration, all unamortized costs related to that lease are written off.

Asset Impairments

The Company may need to assess the potential for impairment of identifiable, definite-lived, intangible assets and long-lived assets, including real estate properties, whenever events occur or a change in circumstances indicates that the carrying value might not be fully recoverable. Indicators of impairment may include significant under-

performance of an asset relative to historical or expected operating results; significant changes in the Company's use of assets or the strategy for its overall business; plans to sell an asset before its depreciable life has ended; the expiration of a significant portion of leases in a property; or significant negative economic trends or negative industry trends for the Company or its operators. In addition, the Company's review for possible impairment may include those assets subject to purchase options and those impacted by casualties, such as tornadoes and hurricanes. If management determines that the carrying value of the Company's assets may not be fully recoverable based on the existence of any of the factors above, or others, management would measure and record an impairment charge based on the estimated fair value of the property or the estimated fair value less costs to sell the property.

Revenue Recognition

The Company derives most of its revenues from its real estate property and mortgage and other notes portfolio. The Company's rental and mortgage and other notes interest income is recognized based on contractual arrangements with its tenants and borrowers.

The Company recognizes rental revenue when it is realized or realizable and earned, in accordance with ASC 840, Leases, or ASC 840. There are four criteria that must all be met before a Company may recognize revenue, including persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered (i.e., the tenant has taken possession of and controls the physical use of the leased asset), the price has been fixed or is determinable, and collectability is reasonably assured. ASC 840 also requires that rental revenue, less lease inducements, be recognized on a straight-line basis over the term of the lease. Recognizing rental revenue on a straight-line basis for leases may result in recognizing revenue in amounts more or less than amounts currently due from tenants. If management determines that the collectability of straight-line rents is not reasonably assured, the amount of future revenue recognized may be limited to amounts contractually owed and, where appropriate, establish an allowance for estimated losses.

Interest income is recognized based on the interest rates, maturity dates and amortization periods in accordance with each note agreement. Fees received related to its notes are amortized to mortgage interest income or note interest income, included in other operating income on the Company's Consolidated Statements of Income, on a straight-line basis which approximates amortization under the effective interest method.

The Company also accrues operating expense recoveries based on the contractual terms of its leases and late fees based on the contractual terms of its leases or notes, which are included in rental income, mortgage interest income, or other operating income, as applicable.

Allowance for Doubtful Accounts

Management monitors the aging and collectability of its accounts receivable balances on an ongoing basis. Whenever deterioration in the timeliness of payment from a tenant is noted, management investigates and determines the reason or reasons for the delay. Considering all information gathered, management's judgment is exercised in determining whether a receivable is potentially uncollectible and, if so, how much or what percentage may be uncollectible. Among the factors management considers in determining collectability are: the type of contractual arrangement under which the receivable was recorded (e.g., triple net lease, gross lease, or other type of agreement); the tenant's reason for slow payment; industry influences under which the tenant operates; evidence of willingness and ability of the tenant to pay the receivable; credit-worthiness of the tenant; collateral, security deposit, letters of credit or other monies held as security; tenant's historical payment pattern; other contractual agreements between the tenant and the Company; relationship between the tenant and the Company; the state in which the tenant operates; and the existence of a guarantor and the willingness and ability of the guarantor to pay the receivable. Considering these factors and others, management concludes whether all or some of the aged receivable balance is likely uncollectible. Upon determining that some portion of the receivable is likely uncollectible, the Company will record a provision for bad

debts for the amount it expects will be uncollectible. When efforts to collect a receivable are exhausted, the receivable amount is charged off against the allowance.

Allowance for Credit Losses

The Company evaluates collectability of its mortgage notes and notes receivable and records allowances on the notes as necessary. A loan is impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan as scheduled, or otherwise, including both contractual interest and principal payments. This assessment also includes an evaluation of the loan collateral. If a note becomes past due, the Company will review the specific circumstances and may discontinue the accrual of interest on the loan. The note is not returned to accrual status until the debtor has demonstrated the ability to continue debt service in accordance with the contractual terms. Notes placed on non-accrual status will be accounted for on a cash basis, in which income is recognized only upon the receipt of cash, or on a cost-recovery basis, in which all cash receipts reduce the carrying value of the note, based on the Company's expectation of future collectability.

Jumpstart Our Business Startups Act of 2012

The JOBS Act permits the Company, as an “emerging growth company,” to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. Management has elected to “opt out” of this provision and, as a result, will be required to comply with new or revised accounting standards as required when they are adopted. The decision to opt out of the extended transition period under the JOBS Act is irrevocable.

Use of Estimates in the Consolidated Financial Statements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk in the form of changing interest rates on its debt and mortgage note receivable. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Management uses regular monitoring of market conditions and analysis techniques to manage this risk.

As of December 31, 2018, the Company's Revolving Credit Facility and Term Loans were based on variable interest rates while its notes receivable and mortgage note payable bore interest at a fixed rate. The Company has entered into interest rate swaps to fix the interest rates on its Term Loans.

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

(Dollars in thousands)	Outstanding Principal Balance at December 31, 2018	Calculated Annual Interest Expense	Impact on Earnings and Cash Flows Assuming	
			10% Increase in Market Interest Rates	10% Decrease in Market Interest Rates
Variable Rate Debt:				
Revolving Credit Facility	\$ 43,000	\$1,897	\$(190)	\$ 190
5-Year Term Loan ⁽¹⁾	\$ 50,000	\$2,074	\$—	\$ —
7-Year Term Loan ⁽¹⁾	\$ 50,000	\$2,268	\$—	\$ —

(1) As of December 31, 2018, the Company had interest rate swaps that fixed the interest rates of each of the 5-Year and 7-Year Term Loans, therefore, changes in the interest rate will not impact our earnings or cash flows.

(Dollars in thousands)	Outstanding Principal Balance at December 31, 2018	Fair Value		December 31, 2017
		Assuming 10% Increase in Market Interest Rates	Assuming 10% Decrease in Market Interest Rates	
Fixed Rate Receivables/Payable:				
Mortgage Note Receivable ⁽¹⁾	\$ —	\$—	\$—	\$ 10,633
Notes Receivable ⁽¹⁾	\$ 24,110	\$23,936	\$21,543	\$ 26,330
Mortgage Note Payable ⁽¹⁾	\$ 5,391	\$5,307	\$4,776	\$ 5,838
				\$ —

(1) Level 2 - Fair value based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant

value drivers are observable in active markets.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Financing Rate ("SOFR") is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. The Company has material contracts that are indexed to USD-LIBOR and is monitoring this activity and evaluating the related risks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Community Healthcare Trust Incorporated
Franklin, Tennessee

Opinion on the Consolidated Financial Statements

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

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ BDO USA, LLP
We have served as the Company's auditor since 2015.
Nashville, Tennessee
February 26, 2019

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share amounts)

	December 31,	
	2018	2017
ASSETS		
Real estate properties		
Land and land improvements	\$50,270	\$44,419
Buildings, improvements, and lease intangibles	394,527	343,955
Personal property	133	112
Total real estate properties	444,930	388,486
Less accumulated depreciation	(55,298)	(36,136)
Total real estate properties, net	389,632	352,350
Cash and cash equivalents	2,007	2,130
Restricted cash	385	—
Mortgage note receivable, net	—	10,633
Other assets, net	34,546	20,653
Total assets	\$426,570	\$385,766
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Debt, net	\$147,766	\$93,353
Accounts payable and accrued liabilities	3,196	4,056
Other liabilities	3,949	4,983
Total liabilities	154,911	102,392
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value; 450,000,000 shares authorized; 18,634,502 and 18,085,798 shares issued and outstanding at December 31, 2018 and 2017, respectively	186	181
Additional paid-in capital	337,180	324,303
Cumulative net income	9,178	4,775
Accumulated other comprehensive income	633	258
Cumulative dividends	(75,518)	(46,143)
Total stockholders' equity	271,659	283,374
Total liabilities and stockholders' equity	\$426,570	\$385,766

See accompanying notes to the consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except share and per share amounts)

	Year Ended December 31,		
	2018	2017	2016
REVENUES			
Rental income	\$40,149	\$ 31,071	\$ 18,999
Tenant reimbursements	6,377	5,071	4,564
Mortgage interest	—	1,022	1,634
Other operating interest	2,104	179	—
	48,630	37,343	25,197
EXPENSES			
Property operating	9,944	8,682	4,744
General and administrative	5,707	4,020	3,383
Depreciation and amortization	19,539	17,732	13,201
	35,190	30,434	21,328
INCOME BEFORE INCOME TAXES AND OTHER ITEMS	13,440	6,909	3,869
Gain on sale of real estate	295	—	—
Interest expense	(6,299)	(3,948)	(1,178)
Impairment of note receivable	(5,000)	—	—
Income tax benefit	1,547	478	—
Interest and other income, net	420	71	30
NET INCOME	\$4,403	\$ 3,510	\$ 2,721
INCOME PER COMMON SHARE			
Net income per common share – Basic	\$0.19	\$ 0.19	\$ 0.24
Net income per common share – Diluted	\$0.19	\$ 0.19	\$ 0.24
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING-BASIC	17,668,696	14,815,258	11,238,437
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING-DILUTED	17,668,696	14,815,258	11,319,505

See accompanying notes to the consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

	Year Ended December		
	31,		
	2018	2017	2016
NET INCOME	\$4,403	\$3,510	\$2,721
Other comprehensive income:			
Increase (decrease) in fair value of cash flow hedges	182	(144)	—
Reclassification of amounts recognized as interest expense	193	402	—
Total other comprehensive income	375	258	—
COMPREHENSIVE INCOME	\$4,778	\$3,768	\$2,721

See accompanying notes to the consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share amounts)

	Preferred Stock	Common Stock						
	Shares	Amount	Additional Paid in Capital	Cumulative Net Income (Loss)	Accumulated Other Comprehensive Income	Cumulative Dividends	Total Stockholders' Equity	
Balance at December 31, 2015	—	\$ 76	\$ 127,578	\$ (1,456)	\$ —	\$ (3,928)	\$ 122,270	
Issuance of common stock, net of offering costs	5,175,000	52	86,073	—	—	—	86,125	
Stock-based compensation	216,542	2	672	—	—	—	674	
Net loss	—	—	—	2,721	—	—	2,721	
Dividends to common stockholders (\$1.525 per share)	—	—	—	—	—	(17,783)	(17,783)	
Balance at December 31, 2016	—	\$ 130	\$ 214,323	\$ 1,265	\$ —	\$ (21,711)	\$ 194,007	
Issuance of common stock, net of offering costs	4,887,500	49	108,508	—	—	—	108,557	
Stock-based compensation	209,816	2	1,472	—	—	—	1,474	
Unrecognized loss on cash flow hedges	—	—	—	—	(144)	—	(144)	
Reclassification adjustment for losses included in net income (interest expense)	—	—	—	—	402	—	402	
Net income	—	—	—	3,510	—	—	3,510	
Dividends to common stockholders (\$1.565 per share)	—	—	—	—	—	(24,432)	(24,432)	
Balance at December 31, 2017	—	\$ 181	\$ 324,303	\$ 4,775	\$ 258	\$ (46,143)	\$ 283,374	
Issuance of common stock, net of offering costs	334,700	3	10,027	—	—	—	10,030	
Stock-based compensation	214,004	2	2,850	—	—	—	2,852	
Unrecognized gain on cash flow hedges	—	—	—	—	182	—	182	
Reclassification adjustment for losses included in net income (interest expense)	—	—	—	—	193	—	193	
Net income	—	—	—	4,403	—	—	4,403	
Dividends to common stockholders (\$1.605 per share)	—	—	—	—	—	(29,375)	(29,375)	
Balance at December 31, 2018	—	\$ 186	\$ 337,180	\$ 9,178	\$ 633	\$ (75,518)	\$ 271,659	

See accompanying notes to the consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Year Ended December 31,		
	2018	2017	2016
OPERATING ACTIVITIES			
Net income	\$4,403	\$3,510	\$2,721
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	20,168	18,153	13,383
Stock-based compensation	2,852	1,474	674
Straight-line rent	(1,212)	(1,303)	(606)
Provision for bad debts, net of recoveries	60	67	155
Gain on sale of real estate property	(295)	—	—
Impairment of note receivable	5,000	—	—
Reduction in contingent purchase price	—	(5)	(1,279)
Deferred income tax benefit	(1,547)	(478)	—
Changes in operating assets and liabilities:			
Other assets	(2,222)	(1,090)	(1,956)
Accounts payable and accrued liabilities	(1,251)	402	2,127
Other liabilities	(1,515)	1,397	(290)
Net cash provided by operating activities	24,441	22,127	14,929
INVESTING ACTIVITIES			
Acquisitions of real estate	(45,185)	(133,505)	(103,206)
Disposition of real estate	3,176	—	—
Acquisition and funding of mortgage and other notes receivable	(2,201)	(13,750)	(12,406)
Funding of notes receivable	(4,833)	—	—
Proceeds from repayments on notes receivable	92	833	104
Capital expenditures on existing real estate properties	(4,557)	(1,132)	(1,579)
Net cash used in investing activities	(53,508)	(147,554)	(117,087)
FINANCING ACTIVITIES			
Net borrowings (repayments) on revolving credit facility	9,000	(17,000)	34,000
Term loan borrowings	40,000	60,000	—
Dividends paid	(29,375)	(24,432)	(17,783)
Proceeds from issuance of common stock	10,187	109,168	86,805
Equity issuance costs	(157)	(611)	(680)
Debt issuance costs	(326)	(743)	(634)
Settlement of contingent purchase price	—	(393)	—
Net cash provided by financing activities	29,329	125,989	101,708
Increase (decrease) in cash and cash equivalents and restricted cash	\$262	\$562	\$(450)
Cash and cash equivalents and restricted cash, beginning of period	2,130	1,568	2,018
Cash and cash equivalents and restricted cash, end of period	\$2,392	\$2,130	\$1,568

Supplemental Cash Flow Information:

Interest paid	\$5,564	\$3,125	\$564
Invoices accrued for construction, tenant improvement and other capitalized costs	\$71	\$209	\$28
Reclassification between accounts and notes receivable	\$861	\$615	\$—
Reclassification of registration statement costs incurred in prior year to equity issuance costs	\$147	\$—	\$—
Conversion of mortgage note upon acquisition of real estate property	\$—	\$—	\$12,500
Increase in fair value of cash flow hedges	\$182	\$144	\$—
Fair value of property received in foreclosure	\$4,541	\$—	\$—
Notes and mortgage receivable payments utilized to originate note receivable (see footnote 5)	\$18,167	\$—	\$—
Interest accrued to notes receivable	\$235	\$—	\$—
Assumption of mortgage note payable	\$5,391	\$—	\$—
See accompanying notes to the consolidated financial statements.			

COMMUNITY HEALTHCARE TRUST INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Note 1—Summary of Significant Accounting Policies

Business Overview

Community Healthcare Trust Incorporated (the “Company”, “we”, “our”) was organized in the State of Maryland on March 28, 2014. The Company is a fully-integrated healthcare real estate company that owns and acquires real estate properties that are leased to hospitals, doctors, healthcare systems or other healthcare service providers in our target submarkets. As of December 31, 2018, the Company had investments of approximately \$444.9 million in 103 real estate properties located in 29 states, totaling approximately 2.2 million square feet in the aggregate. Square footage, property count, and occupancy percentage disclosures in the consolidated financial statements are unaudited.

Principles of Consolidation

Our Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, and may also include joint ventures, partnerships and variable interest entities, or VIEs, where the Company controls the operating activities. Management must make judgments regarding the Company's level of influence or control over an entity and whether or not the Company is the primary beneficiary of a VIE. Consideration of various factors include, but is not limited to, the Company's ability to direct the activities that most significantly impact the entity's governing body, the size and seniority of the Company's investment, and the Company's ability to replace the manager and/or liquidate the entity. Management's ability to correctly assess its influence or control over an entity when determining the primary beneficiary of a VIE affects the presentation of these entities in the Company's Consolidated Financial Statements. If it is determined that the Company is the primary beneficiary of a VIE, the Company's Consolidated Financial Statements would include the operating results of the VIE rather than the results of the variable interest in the VIE. Untimely or inaccurate financial information provided to the Company or deficiencies in the VIEs internal control over financial reporting could impact the Company's Consolidated Financial Statements and its own internal control over financial reporting. See Notes 5 and 11 regarding VIEs identified by the Company related to its mortgage note and notes receivable.

All material intercompany accounts, transactions, and balances have been eliminated in the presentation of the Company's Consolidated Financial Statements.

Jumpstart Our Business Startups Act of 2012

The Company has elected the "emerging growth company," status as permitted under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Management has elected to “opt out” of the provision allowed under the JOBS Act to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. As a result, we will be required to comply with new or revised accounting standards as required when they are adopted. The decision to opt out of the extended transition period under the JOBS Act is irrevocable.

Use of Estimates in the Consolidated Financial Statements

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

Notes to Consolidated Financial Statements - Continued

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Segment Reporting

The Company acquires and owns, or finances, healthcare-related real estate properties that are leased to hospitals, doctors, healthcare systems or other healthcare service providers in our target submarkets. The Company is managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision-making. Therefore, the Company discloses its operating results in a single segment.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents includes short-term investments with original maturities of three months or less when purchased. Restricted cash consists of amounts held by our lender to provide for future real estate tax, insurance expenditures and tenant improvements related to one property. The carrying amount approximates fair value due to the short term maturity of these investments. The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the Company's Consolidated Balance Sheets and Consolidated Statements of Cash Flows:

	December 31,	
(Dollars in thousands)	2018	2017
Cash and cash equivalents	\$2,007	\$2,130
Restricted cash	385	—
Cash and cash equivalents and restricted cash	\$2,392	\$2,130

Real Estate Properties

Real estate property acquisitions are accounted for as a business combination or an asset acquisition. An acquisition accounted for as a business combination is recorded at fair value and related closing costs are expensed as incurred. An acquisition accounted for as an asset acquisition is recorded at its purchase price, inclusive of acquisition costs, which is allocated among the acquired assets and assumed liabilities based upon their relative fair values at the date of acquisition. The Company expects that substantially all of its acquisitions will be accounted for as asset acquisitions.

The allocation of real estate property acquisitions may include land and land improvements, building and building improvements, personal property, and identified intangible assets and liabilities (consisting of above- and below-market leases, in-place leases, and tenant relationships) based on the evaluation of information and estimates available at that date, and we allocate the purchase price based on these assessments. We make estimates of the acquisition date fair value of the tangible and intangible assets and acquired liabilities using information obtained from multiple sources as a result of pre-acquisition due diligence, tax records, and other sources. Based on these estimates, we recognize the acquired assets and liabilities at their estimated fair values. We expense transaction costs associated with business combinations in the period incurred. The fair value of tangible property assets acquired considers the value of the property as if vacant determined by comparable sales and other relevant data. The determination of fair value involves the use of significant judgment and estimation. We value land based on various inputs, which may include internal analysis of recently acquired properties, existing comparable properties within our portfolio, or third party appraisals or valuations based on comparable sales.

In recognizing identified intangible assets and liabilities of an acquired property, the value of above- or below-market leases is estimated based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between contractual amounts to be received pursuant to the leases and management's estimate of market lease rates measured over the remaining term of the lease. In the case of a below-market lease, the Company would also evaluate any renewal options associated with that lease to determine if the

Notes to Consolidated Financial Statements - Continued

intangible should include those periods. The capitalized above-market or below-market lease intangibles are amortized as a reduction from or an addition to rental income over the estimated remaining term of the respective leases.

In determining the value of in-place leases and tenant relationships, management considers current market conditions and costs to execute similar leases in arriving at an estimate of the carrying costs during the expected lease-up period from vacant to existing occupancy. In estimating carrying costs, management includes real estate taxes, insurance, other property operating expenses, estimates of lost rental revenue during the expected lease-up periods, and costs to execute similar leases, including leasing commissions. The values assigned to in-place leases and tenant relationships are amortized over the estimated remaining term of the lease. If a lease terminates prior to its scheduled expiration, all unamortized costs related to that lease are written off.

Long-lived Asset Impairments

The Company assesses the potential for impairment of identifiable, definite-lived, intangible assets and long-lived assets, including real estate properties, whenever events occur or a change in circumstances indicates that the carrying value might not be fully recoverable. Indicators of impairment may include significant under-performance of an asset relative to historical or expected operating results; significant changes in the Company's use of assets or the strategy for its overall business; plans to sell an asset before its depreciable life has ended; the expiration of a significant portion of leases in a property; or significant negative economic trends or negative industry trends for the Company or its operators. In addition, the Company's review for possible impairment may include those assets subject to purchase options and those impacted by casualties, such as tornadoes and hurricanes. If management determines that the carrying value of the Company's assets may not be fully recoverable based on the existence of any of the factors above, or others, management would measure and record an impairment charge based on the estimated fair value of the property or the estimated fair value less costs to sell the property. No impairments on long-lived assets were recorded during the years ended December 31, 2018, 2017 or 2016.

Fair Value Measurements

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

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

Level 1 – quoted prices for identical instruments in active markets.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

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Level 3 – fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Our interest rate swaps are valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs. The market inputs are utilized in the discounted cash flow calculation considering the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation model for interest rate swaps are observable in active markets and are classified as Level 2 in the hierarchy.

Notes to Consolidated Financial Statements - Continued

Our notes receivable were valued based on market rates for similar instruments in the market, a Level 2 input.

Our mortgage note payable was valued based on market rates for similar instruments in the market, a Level 2 input.

Lease Accounting

We, as lessor, make a determination with respect to each of our leases whether they should be accounted for as operating leases or capital leases. The classification criteria is based on estimates regarding the fair value of the leased facilities, minimum lease payments, effective cost of funds, the economic useful life of the facilities, the existence of a bargain purchase option, and certain other terms in the lease agreements. We believe all of our leases should be accounted for as operating leases. Payments received under operating leases are accounted for in the Consolidated Statements of Income as rental income for actual cash rent collected plus or minus straight-line adjustments, such as lease escalators. Assets subject to operating leases are reported as real estate investments in the Consolidated Balance Sheets.

Many of our leases contain fixed or formula-based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease.

Revenue Recognition

Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), also referred to as Topic 606, establishes a comprehensive model to account for revenues arising from contracts with customers. ASU 2014-09 applies to all contracts with customers, except those that are within the scope of other guidance, such as real estate leases and financial instruments. ASU 2014-09 requires companies to perform a five-step analysis of transactions to determine when and how revenue is recognized. The Company adopted ASU 2014-09 using the "modified retrospective" method effective January 1, 2018; as such, the Company applied the guidance only to the most recent period presented in the financial statements.

The primary source of revenue for the Company is generated through its leasing arrangements with its tenants and through notes with its borrowers, which are covered under other accounting guidance. The Company's rental and interest income is recognized based on contractual arrangements with its tenants and borrowers. Rental income is recognized as earned over the life of the lease agreement on a straight-line basis. Recognizing rental revenue on a straight-line basis for leases may result in recognizing revenue in amounts more or less than amounts currently due from tenants. If management determines that the collectability of straight-line rents is not reasonably assured, the amount of future revenue recognized may be limited to amounts contractually owed and, where appropriate, establish an allowance for estimated losses.

The Company also accrues operating expense recoveries based on the contractual terms of its leases and late fees based on the contractual terms of its leases or notes, as applicable. Income received but not yet earned is deferred until such time it is earned. Deferred revenue is included in other liabilities on the Consolidated Balance Sheets.

Interest income is recognized based on the interest rates, maturity dates and amortization periods set forth within each note agreement.

Allowance for Doubtful Accounts and Credit Losses

Management monitors the aging and collectability of its accounts receivable balances on an ongoing basis. Whenever deterioration in the timeliness of payment from a tenant is noted, management investigates and determines the reason or reasons for the delay. Considering all information gathered, management's judgment is exercised in determining whether a receivable is potentially uncollectible and, if so, how much or what percentage may be uncollectible. Among the factors management considers in determining collectability are: the type of contractual arrangement under which the receivable was recorded (e.g., triple net lease, gross lease, or other type of

Notes to Consolidated Financial Statements - Continued

agreement); the tenant's reason for slow payment; industry influences under which the tenant operates; evidence of willingness and ability of the tenant to pay the receivable; credit-worthiness of the tenant; collateral, security deposit, letters of credit or other monies held as security; tenant's historical payment pattern; other contractual agreements between the tenant and the Company; relationship between the tenant and the Company; the state in which the tenant operates; and the existence of a guarantor and the willingness and ability of the guarantor to pay the receivable. Considering these factors and others, management concludes whether all or some of the aged receivable balance is likely uncollectible. Upon determining that some portion of the receivable is likely uncollectible, the Company will record a provision for bad debts for the amount it expects will be uncollectible. When efforts to collect a receivable are exhausted, the receivable amount is charged off against the allowance. The Company does not hold any accounts receivable for sale.

The Company evaluates collectability of its notes receivable and records allowances as necessary. A note is impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan as scheduled, including both contractual interest and principal payments. This assessment also includes an evaluation of the loan collateral. If a mortgage loan becomes past due, the Company will review the specific circumstances and may discontinue the accrual of interest on the loan. The loan is not returned to accrual status until the debtor has demonstrated the ability to continue debt service in accordance with the contractual terms. Loans placed on non-accrual status will be accounted for on a cash basis, in which income is recognized only upon the receipt of cash, or on a cost-recovery basis, in which all cash receipts reduce the carrying value of the loan, based on the Company's expectation of future collectability. The Company had one note on non-accrual status at December 31, 2018, discussed in more detail in Note 11, but had no other notes on non-accrual status or available for sale at December 31, 2018, 2017 or 2016.

Stock-Based Compensation

The Company's 2014 Incentive Plan, as amended (the "2014 Incentive Plan") is intended to attract and retain qualified persons upon whom, in large measure, our sustained progress, growth and profitability depend, to motivate the participants to achieve long-term company goals and to more closely align the participants' interests with those of our other stockholders by providing them with a proprietary interest in our growth and performance. The three distinct programs under the 2014 Incentive Plan are the Amended and Restated Alignment of Interest Program, the Amended and Restated Executive Officer Incentive Program and the Non-Executive Officer Incentive Program. Our executive officers, officers, employees, consultants and non-employee directors are eligible to participate in the 2014 Incentive Plan. The 2014 Incentive Plan increases, on an annual basis, the number of shares of common stock available for issuance to an amount equal to 7% of the total number of shares of the Company's common stock outstanding on December 31 of the immediately preceding year. The 2014 Incentive Plan is administered by the Company's compensation committee, which interprets the 2014 Incentive Plan and has broad discretion to select the eligible persons to whom awards will be granted, as well as the type, size and terms and conditions of each award, including the number of shares subject to awards and the expiration date of, and the vesting schedule or other restrictions (including, without limitation, restrictive covenants) applicable to, awards. The Company recognizes share-based payments to its directors and employees in its Consolidated Statements of Income on a straight-line basis over the shorter of the requisite service period, retirement eligibility date, or other period as deemed appropriate based on the fair value of the award on the measurement date.

Intangible Assets

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

Identifiable intangible assets of the Company are generally comprised of in-place and above-market lease intangible assets and below-market lease intangible liabilities, as well as deferred financing costs. In-place lease intangible assets are amortized to depreciation expense on a straight-line basis over the applicable lives of the leases. Above- and below-market lease intangibles are amortized to rental income on a straight-line basis over the applicable lives of the leases. Deferred financing costs are amortized to interest expense over the term of the related credit facility or

Notes to Consolidated Financial Statements - Continued

other debt instrument using the straight-line method, which approximates amortization under the effective interest method.

Contingent Liabilities

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

Management will monitor any matter that may present a contingent liability, and, on a quarterly basis, will review any reserves and accruals relating to the liabilities, adjusting provisions as necessary in view of changes in available information. Liabilities for contingencies are first recorded when a loss is determined to be both probable and can be reasonably estimated. Changes in estimates regarding the exposure to a contingent loss will be reflected as adjustments to the related liability in the periods when they occur and will be disclosed in the notes to the Consolidated Financial Statements.

On occasion, the Company may also have acquisitions which include contingent consideration. Accounting for business combinations require the Company to estimate the fair value of any contingent purchase consideration at acquisition. Management will monitor these contingencies on a quarterly basis. Changes in estimates regarding contingent purchase consideration will be reflected as adjustments to the related liability in the periods when they occur and will be disclosed in the notes to the Consolidated Financial Statements.

Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT"), as defined under the Internal Revenue Code of 1986, as amended (the "Code"). The Company and one subsidiary have also elected for that subsidiary to be treated as a taxable REIT subsidiary ("TRS"), which is subject to federal and state income taxes. No provision has been made for federal income taxes for the REIT; however, the Company has recorded income tax expense or benefit for the TRS to the extent applicable. The Company intends at all times to qualify as a REIT under the Code. The Company must distribute at least 90% per annum of its REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles) and meet other requirements to continue to qualify as a REIT. See further discussion in Note 15.

Effective January 1, 2018, under legislation from the Tax Cuts and Jobs Act of 2017, the maximum U.S. federal corporate income tax rate was reduced from 35% to 21%. Accordingly, to the extent that the activities of our taxable REIT subsidiary generates taxable income in future periods, it may be subject to lower U.S. federal income tax rates.

The Company classifies interest and penalties related to uncertain tax positions, if any, in the Consolidated Statements of Income as a component of general and administrative expenses. No such amounts were recognized during 2018, 2017 or 2016.

The Company is subject to audit by the Internal Revenue Service and by state taxing authorities for the years ended December 31, 2017, 2016, and 2015.

Sales and Use Taxes

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

Notes to Consolidated Financial Statements - Continued

Concentration of Credit Risks

Our credit risks primarily relate to cash and cash equivalents, our mortgage note and other notes receivable and our interest rate swaps, which are discussed below. Cash and cash equivalents are primarily held in bank accounts and overnight investments. We maintain our bank deposit accounts with large financial institutions in amounts that often exceed federally-insured limits. We have not experienced any losses in such accounts.

Derivative Financial Instruments

In the normal course of business, we are subject to risk from adverse fluctuations in interest rates. We have chosen to manage this risk through the use of derivative financial instruments, or interest rate swaps. Counterparties to these contracts are major financial institutions. We are exposed to credit loss in the event of nonperformance by these counterparties. We do not use derivative instruments for trading or speculative purposes. Our objective in managing exposure to market risk is to limit the impact on cash flows. To qualify for hedge accounting, our interest rate swaps must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions must be, and be expected to remain, probable of occurring in accordance with our related assertions. All of our hedges are cash flow hedges and are recognized at their fair value in the Consolidated Balance Sheets. Changes in the fair value of the derivatives are recognized in accumulated other comprehensive income.

Earnings per Share

Basic earnings per common share is computed by dividing net income by the weighted average common shares outstanding less issued and outstanding non-vested shares of common stock. Diluted earnings per common share is calculated by including the effect of dilutive securities.

Our unvested restricted common stock outstanding contains non-forfeitable rights to dividends, and accordingly, these awards are deemed to be participating securities. These participating securities, under the 2-class method, are included in the earnings allocation in computing both basic and diluted earnings per common share.

New Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, Leases; in January 2018, the FASB issued ASU 2018-01, Leases - Land Easement Practical Expedient for Transition to Topic 842; in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases - Targeted Improvements; and in December 2018, the FASB issued ASU 2018-20, Narrow-Scope Improvements for Lessors. This group of ASUs is collectively referred to as Topic 842 and is effective for the Company beginning January 1, 2019. Topic 842 supersedes the existing standards for lease accounting (Topic 840, Leases).

The Company expects to elect the practical expedients provided by Topic 842, including: the package of practical expedients that allows an entity not to reassess upon adoption (i) whether an expired or existing contract contains a lease, (ii) whether a lease classification related to expired or existing lease arrangements, and (iii) whether costs incurred on expired or existing leases qualify as initial direct costs, and as a lessor, the practical expedient not to separate certain non-lease components, such as common area maintenance, from the lease component if (i) the timing and pattern of transfer are the same for the non-lease component and

associated lease component, and (ii) the lease component would be classified as an operating lease if accounted for separately.

Topic 842 requires lessees to record most leases on their balance sheet through a right-of-use ("ROU") model, in which a lessee records a ROU asset and a lease liability on their balance sheet. Leases that are less than 12 months or are clearly insignificant do not need to be accounted for under the ROU model. Lessees will account for leases as

Notes to Consolidated Financial Statements - Continued

financing or operating leases, with the classification affecting the timing and pattern of expense recognition in the income statement. Lease expense will be recognized based on the effective interest method for leases accounted for as finance leases and on a straight-line basis over the term of the lease for leases accounted for as operating leases. The Company expects that most of the leases where the Company is the lessee will be accounted for as operating leases. At December 31, 2018, the Company is the lessee under one ground lease that would require accounting under the ROU model. Upon adoption of Topic 842, the Company expects to record a ROU asset and corresponding lease liability of approximately \$0.1 million on its Consolidated Balance Sheet.

The accounting by a lessor under Topic 842 is largely unchanged from that of Topic 840. Under Topic 842, lessors will continue to account for leases as a sales-type, direct-financing, or operating. A lease will be treated as a sale if it is considered to transfer control of the underlying asset to the lessee. A lease will be classified as direct-financing if risks and rewards are conveyed without the transfer of control. Otherwise, the lease is treated as an operating lease. Topic 842 requires accounting for a transaction as a financing in a sale leaseback when the seller-lessee is provided an option to purchase the property from the landlord at the tenant's option. The Company expects that this provision could change the accounting for these types of leases in the future. Topic 842 also includes the concept of separating lease and nonlease components. Under Topic 842, nonlease components, such as common area maintenance, would be accounted for under Topic 606 and separated from the lease payments. However, the Company will elect the lessor practical expedient allowing the Company to not separate these components when certain conditions are met. With this election, the Company expects to combine tenant reimbursements with rental income on its Consolidated Income Statements. Further, the Company has historically only capitalized direct leasing costs, such as leasing commissions. While the new standard revises the treatment of indirect leasing costs and permits the capitalization and amortization only of direct leasing costs, the Company does not expect an impact to its financial statements related to the capitalization of leasing costs. Also, the Narrow-Scope Improvements for Lessors under ASU 2018-20 allows the Company to continue to exclude from revenue, costs paid by our tenants on our behalf directly to third parties, such as property taxes and insurance.

Topic 842 provides two transition alternatives. The Company expects to apply this standard based on the prospective optional transition method, in which comparative periods will continue to be reported in accordance with Topic 840. The Company also anticipates expanded disclosures upon adoption, as the new standard requires more extensive quantitative and qualitative disclosures as compared to Topic 840 for both lessees and lessors.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, companies will be required to use a new current expected credit loss ("CECL") model that generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, companies will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. Companies will have to disclose significantly more information, including information they use to track credit quality by year of origination for most financing receivables. Companies will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This standard is effective for the Company on January 1, 2020 with early adoption permitted. In August 2018, the FASB issued a proposal that would amend the ASU to clarify that receivables arising from leases would not be within the scope of the ASU but rather would be accounted for under the leasing standard. The Company continues to monitor the FASB's activity relating to this ASU.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

On January 1, 2018, we adopted ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows and ASU 2016-18, Restricted Cash (“ASU 2016-18”), which requires an entity to show the changes in total cash, cash equivalents, restricted cash and restricted

Notes to Consolidated Financial Statements - Continued

cash equivalents in the statement of cash flows. We adopted these ASUs by applying a retrospective transition method which required a restatement of our Consolidated Statement of Cash Flows for all periods presented.

Note 2—Real Estate Investments

As of December 31, 2018, the Company had investments of approximately \$444.9 million in 103 real estate properties. The following table summarizes the Company's investments.

(Dollars in thousands)	Number of Facilities	Land and Land Improvements	Buildings, Improvements, and Lease Intangibles	Personal Property	Total	Accumulated Depreciation
Medical office buildings:						
Florida	5	\$ 4,608	\$ 29,278	\$ —	\$33,886	\$ 4,110
Ohio	6	3,638	26,407	—	30,045	5,162
Texas	3	3,115	15,470	—	18,585	4,255
Illinois	2	1,136	11,831	—	12,967	2,449
Kansas	3	2,455	14,931	—	17,386	4,045
Iowa	1	2,241	9,010	—	11,251	2,204
Other states	15	4,355	35,658	—	40,013	4,108
	35	21,548	142,585	—	164,133	26,333
Physician clinics:						
Kansas	2	610	6,921	—	7,531	1,382
Illinois	6	2,888	9,475	—	12,363	394
Florida	4	253	9,484	—	9,737	826
Other states	8	2,175	17,819	—	19,994	3,227
	20	5,926	43,699	—	49,625	5,829
Surgical centers and hospitals						
Louisiana	1	1,683	21,353	—	23,036	1,111
Michigan	2	637	8,277	—	8,914	2,340
Illinois	2	2,349	8,222	—	10,571	1,219
Florida	1	271	7,057	—	7,328	693
Arizona	2	576	5,389	—	5,965	1,505
Other states	7	2,130	17,844	—	19,974	3,825
	15	7,646	68,142	—	75,788	10,693
Specialty centers						
Illinois	3	3,482	24,732	—	28,214	1,717
Other states	22	5,170	38,342	—	43,512	6,772
	25	8,652	63,074	—	71,726	8,489
Behavioral facilities:						
West Virginia	1	2,138	22,897	—	25,035	734
Illinois	1	1,300	18,803	—	20,103	1,215
Indiana	2	1,126	6,040	—	7,166	312
Other states	3	1,411	12,836	—	14,247	412
	7	5,975	60,576	—	66,551	2,673
Long-term acute care hospitals:						

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Indiana	1	523	14,405	—	14,928	1,049
	1	523	14,405	—	14,928	1,049
Corporate property	—	—	2,046	133	2,179	232
Total real estate investments	103	\$ 50,270	\$ 394,527	\$ 133	\$ 444,930	\$ 55,298

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Notes to Consolidated Financial Statements - Continued

Depreciation expense was \$10.1 million, \$7.6 million and \$4.5 million, respectively, for the years ended December 31, 2018, 2017 and 2016, which is included in depreciation and amortization expense on the Company's Consolidated Statements of Income. Depreciation and amortization of real estate assets and liabilities in place as of December 31, 2018, is recognized on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives at December 31, 2018 are as follows:

Land improvements	1 - 20 years
Buildings	20 - 40 years
Building improvements	3.0 - 39.8 years
Tenant improvements	2.1 - 14.4 years
Lease intangibles	0.7 - 13.7 years
Personal property	3 -10 years

Note 3—Real Estate Leases

The Company's properties are generally leased pursuant to non-cancelable, fixed-term operating leases with expiration dates through 2034. The Company's leases generally require the lessee to pay minimum rent, with fixed rent renewal terms or increases based on a Consumer Price Index and may also include additional rent, which may include taxes (including property taxes), insurance, maintenance and other operating costs associated with the leased property.

Future Minimum Lease Payments

Future minimum lease payments under the non-cancelable operating leases due the Company for the years ending December 31, as of December 31, 2018, are as follows (in thousands):

2019	\$39,473
2020	36,587
2021	33,452
2022	29,814
2023	25,211
2024 and thereafter	133,172
	\$297,709

Revenue Concentrations

The Company's real estate portfolio is leased to a diverse tenant base. At December 31, 2018 and 2017, the Company had no customers that accounted for more than 10% of its consolidated revenues.

The Company's portfolio is currently located in 29 states with approximately 42.4% of its consolidated revenues for the year ended December 31, 2018 derived from properties located in Illinois (18.9%), Ohio (13.4%), and Florida (10.1%).

Purchase Option Provisions

Certain of the Company's leases provide the lessee with a purchase option or a right of first refusal to purchase the leased property. The purchase option provisions generally require the lessee to purchase the leased property at fair value or at an amount greater than the Company's gross investment in the leased property at the time of the purchase.

One of the company's tenants exercised a purchase option during the year ended December 31, 2018. See Note 4 for details. At December 31, 2018, the Company had a gross investment of approximately \$3.3 million in one real estate property with a purchase option exercisable at December 31, 2018 and has an aggregate gross investment

Notes to Consolidated Financial Statements - Continued

at December 31, 2018 in four additional properties totaling approximately \$5.3 million with purchase options that become exercisable during 2019.

Straight-line rental income

Rental income is recognized as earned over the life of the lease agreement on a straight-line basis. Straight-line rent included in rental income was approximately \$1.3 million, \$1.3 million, and \$0.6 million, respectively, for the years ended December 31, 2018, 2017 and 2016.

Operating expense recoveries

The Company accrues operating expense recoveries, or tenant reimbursements, based on the contractual terms of its leases and late fees based on the contractual terms of its leases or notes, as applicable. Operating expense recoveries were approximately \$6.4 million, \$5.1 million, and \$4.6 million respectively, and late fees, included in rental income, were approximately \$0.3 million, \$0.1 million, and \$0.2 million, respectively, for the years ended December 31, 2018, 2017 and 2016.

Deferred revenue

Income received but not yet earned is deferred until such time it is earned. Deferred revenue, included in other liabilities on the Consolidated Balance Sheets, was approximately \$1.6 million, \$1.1 million and \$0.8 million, respectively, at December 31, 2018, 2017, and 2016.

Note 4—Real Estate Acquisitions and Dispositions

2018 Real Estate Acquisitions

The Company's acquisitions for 2018 included the following, all of which we accounted for as asset acquisitions:

During the fourth quarter of 2018, the Company acquired 11 real estate properties totaling approximately 143,000 square feet for an aggregate purchase price of approximately \$24.1 million, including cash consideration of approximately \$18.5 million and the assumption of mortgage debt on one of the properties of \$5.4 million. See Note 6 for more details on mortgage debt. Upon acquisition, the properties were 96.6% leased in the aggregate with lease expirations ranging from 2019 through 2028. Amounts reflected in revenues and net income for the three months ended December 31, 2018 for these properties were approximately \$389,397 and \$70,390, respectively. Transaction costs totaling approximately \$0.5 million related to these acquisitions were capitalized in the period and included in real estate assets.

During the third quarter of 2018, the Company acquired two real estate properties totaling approximately 37,000 square feet for an aggregate purchase price and cash consideration of approximately \$6.7 million. Upon acquisition, the properties were 93.4% leased in the aggregate with lease expirations ranging from 2021 through 2023. Amounts reflected in revenues and net income for the year ended December 31, 2018 for these properties were approximately \$314,083 and \$43,597, respectively. Transaction costs totaling approximately \$0.1 million related to these acquisitions were capitalized in the period and included in real estate assets.

During the second quarter of 2018, the Company acquired three real estate properties totaling approximately 68,000 square feet for an aggregate purchase price of approximately \$11.7 million, including cash consideration of approximately \$7.7 million and \$4.5 million fair value of real estate received in foreclosure. Upon acquisition, two of the properties were 100% leased in the aggregate with lease expirations ranging from 2020 through 2026, and one property previously secured a mortgage note receivable held by the Company. See Note 5 for more detail on this property. Amounts reflected in revenues and net income for the year ended December 31, 2018 for these properties were approximately \$0.8 million and \$0.4 million, respectively. Transaction costs totaling approximately \$0.2 million related to these acquisitions were capitalized in the period and included in real estate assets.

Notes to Consolidated Financial Statements - Continued

During the first quarter of 2018, the Company acquired three real estate properties totaling approximately 38,000 square feet for an aggregate purchase price and cash consideration of approximately \$12.7 million. Upon acquisition, the properties were 100% leased in the aggregate with lease expirations ranging from 2018 through 2033. Amounts reflected in revenues and net income for the year ended December 31, 2018 for these properties were approximately \$1.0 million and \$0.5 million, respectively. Transaction costs totaling approximately \$0.1 million related to these acquisitions were capitalized in the period and included in real estate assets.

The following table summarizes the estimated relative fair values of the assets acquired and liabilities assumed in the property acquisitions for the year ended December 31, 2018.

	Estimated Fair Value (In thousands)	Estimated Useful Life (In years)
Land and land improvements	\$ 6,301	2 - 15
Building and building improvements	39,912	20 - 40
Intangibles:		
At-market lease intangibles	8,870	1.8 - 7.2
Above-market lease intangibles	171	7.1
Below-market lease intangibles	(51)	2.8
Total intangibles	8,990	
Accounts receivable and other assets assumed	6,931	
Accounts payable, accrued liabilities and other liabilities assumed ⁽¹⁾	(510)	
Mortgage note receivable repaid	(10,633)	
Mortgage debt assumed	(5,391)	
Prorated rent, interest and operating expense reimbursement amounts collected	(415)	
Total cash consideration	\$ 45,185	

⁽¹⁾ Includes security deposits received.

2018 Real Estate Disposition

During the fourth quarter of 2018, the Company disposed of a 61,000 square foot physician clinic in Alabama, received net proceeds of approximately \$3.2 million, and recognized a gain of approximately \$0.3 million. The Company disposed of the property pursuant to the tenant's exercise of its purchase option on the property.

2017 Real Estate Acquisitions

The Company's acquisitions for 2017 included the following, all of which we accounted for as asset acquisitions:

During the fourth quarter of 2017, the Company acquired six real estate properties totaling approximately 153,000 square feet for an aggregate purchase price of approximately \$40.2 million, including cash consideration of approximately \$40.1 million. Upon acquisition, the properties were 100.0% leased in the aggregate with lease expirations ranging from 2021 through 2032. In addition, we purchased \$11.45 million face value of certain promissory notes, secured by accounts receivable of our bankrupt borrower, for \$8.75 million from a syndicate of banks, a \$2.7 million discount to face value. See Note 5 for further discussion related to this note purchase and

bankruptcy.

During the third quarter of 2017, the Company acquired two real estate properties totaling approximately 147,000 square feet for an aggregate purchase price and cash consideration of approximately \$28.3 million. Upon acquisition, the properties were 100% leased in the aggregate with lease expirations ranging from 2022 through 2032. In addition, we funded a \$5.0 million mezzanine loan to the tenant of one of the properties.

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Notes to Consolidated Financial Statements - Continued

During the second quarter of 2017, the Company acquired 10 real estate properties totaling approximately 203,000 square feet for an aggregate purchase price of approximately \$36.2 million, including cash consideration of approximately \$35.9 million. Upon acquisition, the properties were 100% leased in the aggregate with lease expirations ranging from 2019 through 2032.

During the first quarter of 2017, the Company acquired 10 real estate properties totaling approximately 145,000 square feet for an aggregate purchase price of approximately \$28.5 million, including cash consideration of approximately \$28.4 million. Upon acquisition, the properties were 95.2% leased in the aggregate with lease expirations ranging from 2018 through 2032. The Company also acquired a property, adjacent to its corporate office, for a cash purchase price of approximately \$0.9 million. The property is leased to a tenant but the Company intends to use the property for future expansion of its corporate office.

Amounts reflected in revenues and net income for the year ended December 31, 2017 for the properties acquired during 2017 were approximately \$5.9 million and \$2.4 million, respectively. Transaction costs totaling approximately \$1.0 million related to these acquisitions were capitalized in the period as part of the real estate assets and approximately \$36,000 was expensed related to the mezzanine note and note purchased.

The following table summarizes the estimated relative fair values of the assets acquired and liabilities assumed in the property acquisitions for the year ended December 31, 2017.

	Estimated Fair Value (In thousands)	Estimated Useful Life (In years)
Land and land improvements	\$ 14,285	2 - 15
Building and building improvements	103,831	20 - 40
Intangibles:		
At-market lease intangibles	16,502	4.1 - 9.3
Total intangibles	16,502	
Accounts receivable and other assets assumed	32	
Accounts payable, accrued liabilities and other liabilities assumed ⁽¹⁾	(675)	
Prorated rent, interest and operating expense reimbursement amounts collected	(470)	
Total cash consideration	\$ 133,505	

⁽¹⁾ Includes security deposits received.

Note 5—Mortgage Note Receivable

The Company had one mortgage note receivable outstanding as of December 31, 2017 with a principal balance of \$10.6 million and interest receivable of \$0.6 million, which is included in other assets. The borrower and several related entities (the "Borrower") filed for voluntary bankruptcy on June 23, 2017. At the time of filing for bankruptcy, the Borrower was current on all obligations to the Company, but no payments were received during the bankruptcy.

On December 28, 2017, the Company purchased \$11.45 million face value of certain promissory notes, secured by accounts receivable of the Borrower, for \$8.75 million from a syndicate of banks, a \$2.7 million discount to face

value, and in the first quarter of 2018 acquired \$2.2 million of certain promissory notes, secured by the operations of two facilities related to the Borrower, but were not included in the bankruptcy, for a total investment in these promissory notes of approximately \$10.95 million.

On April 25, 2018, the Company provided a \$23.0 million loan, included in other assets, to a newly formed company (Newco), secured by all assets and ownership interests in seven long-term acute care hospitals and one

Notes to Consolidated Financial Statements - Continued

inpatient rehabilitation hospital that, along with a series of investments by the management of Newco, allowed Newco to acquire certain assets of the Borrower.

Also, on April 25, 2018, \$10.95 million for the promissory notes discussed above and approximately \$0.26 million of interest on those promissory notes and approximately \$0.25 million in fees and reimbursement of expenses and approximately \$6.7 million principal and accrued interest related to its mortgage note receivable were satisfied with proceeds from the loan. In addition, the Company received title to the property previously financed by the mortgage note receivable at an approximate \$4.5 million valuation. No impairment was recognized by the Company.

Note 6— Debt, net

The table below details the Company's debt as of December 31, 2018 and December 31, 2017.

(Dollars in thousands)	Balance as of		Maturity Dates
	December 31, 2018	December 31, 2017	
Revolving Credit Facility	\$43,000	\$ 34,000	8/19
5-Year Term Loan, net	49,759	29,685	3/22
7-Year Term Loan, net	49,722	29,668	3/24
Mortgage Note Payable	5,285	—	5/24
	\$147,766	\$ 93,353	

The Company's second amended and restated credit facility (the "Credit Facility") is by and among Community Healthcare OP, LP, the Company, the lenders from time to time party thereto, and SunTrust Bank, as Administrative Agent. The Company's material subsidiaries are guarantors of the obligations under the Credit Facility. The Credit Facility provides for a \$150.0 million revolving credit facility (the "Revolving Credit Facility") and \$100.0 million in term loans (the "Term Loans"). The Credit Facility, through the accordion feature, allows borrowings up to a total of \$450.0 million, including the ability to add and fund additional term loans. The Revolving Credit Facility matures on August 9, 2019 and includes two 12-month options to extend the maturity date of the Revolving Credit Facility, subject to the satisfaction of certain conditions. The Term Loans include a five-year term loan facility in the aggregate principal amount of \$50.0 million (the "5-Year Term Loan"), which matures on March 29, 2022, and a seven-year term loan facility in the aggregate principal amount of \$50.0 million (the "7-Year Term Loan"), which matures on March 29, 2024.

During the first quarter of 2018, the Company entered into two amendments relating to its Credit Facility. The first amendment, which was effective as of November 1, 2017, modified the formula used to calculate the amount of restricted payments the Company may make under the Credit Facility. The second amendment, effective on March 27, 2018, reduced the pricing margins on its LIBOR borrowings on both its Revolving Credit Facility and Term Loans and increased the maximum swingline commitment from \$15.0 million to \$20.0 million. The Company paid \$0.2 million in fees related to these amendments.

Amounts outstanding under the Revolving Credit Facility, as amended, bear annual interest at a floating rate that is based, at the Company's option, on either: (i) LIBOR plus 1.75% to 2.50% or (ii) a base rate plus 0.75% to 1.50%, in each case, depending upon the Company's leverage ratio. In addition, the Company is obligated to pay an annual fee equal to 0.25% of the amount of the unused portion of the Revolving Credit Facility if amounts borrowed are greater than 33.3% of the borrowing capacity under the Revolving Credit Facility and 0.35% of the unused portion of the

Revolving Credit Facility if amounts borrowed are less than or equal to 33.3% of the borrowing capacity under the Revolving Credit Facility. At December 31, 2018, the Company had \$43.0 million outstanding under the Revolving Credit Facility with a remaining borrowing capacity of \$107.0 million and a weighted average interest rate of approximately 4.41%.

Notes to Consolidated Financial Statements - Continued

Amounts outstanding under the Term Loans, as amended, bear annual interest at a floating rate that is based, at the Company's option, on either: (i) LIBOR plus 1.95% to 2.65% or (ii) a base rate plus 0.95% to 1.65%, in each case, depending upon the Company's leverage ratio. In addition, the Company is obligated to pay an annual fee equal to 0.35% of the amount of the unused portion of the Term Loans. The Company entered into interest rate swaps to fix the interest rates on the original Term Loan amounts drawn in 2017. On March 29, 2018, the Company borrowed the remaining \$40.0 million, in equal amounts, available under its 5-Year and 7-Year Term Loans, repaid \$40.0 million of its Revolving Credit Facility, and concurrently entered into interest rate swap agreements that fixed the interest rates on the additional \$40.0 million drawn, resulting in fixed interest rates under the Term Loans ranging from 4.5790% to 4.6255%. See Note 7 for more details on the interest rate swaps. At December 31, 2018, the Company had drawn the full \$100.0 million under the Term Loans which had a fixed weighted average interest rate under the swaps of approximately 4.45%. The Company was in compliance with its financial covenants under its Credit Facility as of December 31, 2018.

Note 7—Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company may use derivative financial instruments, including interest rate swaps, caps, options, floors and other interest rate derivative contracts, to hedge all or a portion of the interest rate risk associated with its borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The Company does not intend to utilize derivatives for speculative or other purposes other than interest rate risk management. The use of derivative financial instruments carries certain risks, including the risk that the counterparties to these contractual arrangements are not able to perform under the agreements. To mitigate this risk, the Company only enters into derivative financial instruments with counterparties with high credit ratings and with major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company does not anticipate that any of the counterparties will fail to meet their obligations.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and/or caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts if interest rates rise above the cap strike rate on the contract.

As of December 31, 2018, the Company had four outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk for notional amounts totaling \$100.0 million. The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of December 31, 2018 and 2017.

(in thousands)	Asset Derivatives Fair Value at	Liability Derivatives Fair Value at
	December 31, 2018 Balance Sheet Classification	December 31, 2017 Balance Sheet Classification

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	2018		2018	
Interest rate swaps	\$902\$ 258	Other assets	\$98\$	—Other Liabilities

The changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and is subsequently reclassified to interest expense in the period that the hedged forecasted transaction affects earnings.

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Notes to Consolidated Financial Statements - Continued

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's Term Loans. During the next twelve months, the Company estimates that an additional \$0.3 million will be reclassified from other comprehensive income ("OCI") as a decrease to interest expense.

The table below details the location in the financial statements of the gain or loss recognized on interest rate derivatives designated as cash flow hedges for the for the year ended December 31, 2018 and 2017.

	For the Year Ended December 31,	
(Dollars in thousands)	2018	2017
Amount of unrealized gain (loss) recognized in OCI on derivative	\$182	\$(144)
Amount of loss reclassified from accumulated OCI into interest expense	\$193	\$402
Total Interest Expense presented in the Consolidated Statements of Income in which the effects of the cash flow hedges are recorded	\$6,299	\$3,948

Credit-risk-related Contingent Features

As of December 31, 2018, the fair value of derivatives in a net liability position including accrued interest but excluding any adjustment for nonperformance risk related to these agreements was \$0.1 million. As of December 31, 2018, the Company has not posted any collateral related to these agreements and was not in breach of any agreement provisions. If the Company terminated these interest rate swaps, it would pay or receive the approximate aggregate termination value of the swaps at the time of the termination, which was approximately \$0.1 million at December 31, 2018.

Note 8—Stockholders' Equity

Common Stock

The following table provides a reconciliation of the beginning and ending common stock balances for the years ended December 31, 2018, 2017 and 2016:

	For the Year Ended December 31,		
	2018	2017	2016
Balance, beginning of period	18,085,798	12,988,482	7,596,940
Issuance of common stock	334,700	4,887,500	5,175,000
Restricted stock issued	214,004	209,816	216,542
Balance, end of period	18,634,502	18,085,798	12,988,482

ATM Program

On August 7, 2018, the Company entered into an at-the-market offering program ("ATM Program") with Sandler O'Neill & Partners, L.P., Evercore Group L.L.C., SunTrust Robinson Humphrey, Inc., BB&T Capital Markets, a division of BB&T Securities, LLC, Fifth Third Securities, Inc. and Janney Montgomery Scott LLC, as sales agents (collectively, the "Agents"), under which the Company may issue and sell shares of its common stock, having an aggregate gross sales price of up to \$100.0 million, from time to time through or to one or more of the Agents, as may be determined by the Company in its sole discretion, subject to the terms and conditions of the agreement and applicable law.

During 2018, the Company issued, through its ATM Program, 334,700 shares of common stock at an average sales price of \$31.07 per share and received net proceeds of approximately \$10.0 million after deducting commissions and offering expenses paid by the Company. As of December 31, 2018, the Company had approximately \$89.6 million remaining that may be issued under the ATM Program.

Notes to Consolidated Financial Statements - Continued

Equity Offerings

In July 2017, the Company completed a public offering of 4,887,500 shares of its common stock, including 637,500 shares of common stock issued in connection with the exercise in full of the underwriters' option to purchase additional shares, and received net proceeds of approximately \$108.6 million after deducting underwriting discount and commissions and offering expenses paid by the Company.

Universal Shelf S-3 Registration Statement

In September 2016, the Company filed a registration statement on Form S-3 that will allow us to offer debt or equity securities (or a combination thereof) of up to \$750.0 million from time to time. The Company has approximately \$625.0 million remaining that could be issued under the Form S-3 registration statement.

Dividends Declared

During 2018, the Company declared and paid dividends totaling \$1.605 per common share as shown in the table below.

Declaration Date	Record Date	Date Paid	Amount Per Share
February 1, 2018	February 16, 2018	March 2, 2018	\$0.3975
May 3, 2018	May 18, 2018	June 1, 2018	\$0.4000
August 1, 2018	August 17, 2018	August 31, 2018	\$0.4025
November 1, 2018	November 16, 2018	November 30, 2018	\$0.4050

During 2017, the Company declared and paid dividends totaling \$1.565 per common share.

Note 9—Income Per Common Share

The following table sets forth the computation of basic and diluted income per common share.

	Year Ended December 31,		
	2018	2017	2016
(Dollars in thousands, except per share data)			
Net income	\$4,403	\$ 3,510	\$ 2,721
Participating securities' share in earnings	(1,061)	\$ (731)	\$ —
Net income, less participating securities' share in earnings	\$3,342	\$ 2,779	\$ 2,721
Weighted Average Common Shares Outstanding			
Weighted average common shares outstanding	18,311,175	17,268,612	11,478,883
Unvested restricted shares	(642,481)	(453,354)	(240,446)
Weighted average common shares outstanding—Basic	17,668,694	16,815,258	11,238,437
Weighted average common shares—Basic	17,668,694	16,815,258	11,238,437
Dilutive potential common shares	—	—	81,068
Weighted average common shares outstanding —Diluted	17,668,694	16,815,258	11,319,505
Basic Income per Common Share	\$0.19	\$ 0.19	\$ 0.24

Diluted Income per Common Share	\$0.19	\$ 0.19	\$ 0.24
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Notes to Consolidated Financial Statements - Continued

Note 10—Incentive Plan

2014 Incentive Plan

The 2014 Incentive Plan authorizes the Company to award shares equal to 7% of the total number of shares of the Company's common stock outstanding on December 31 of the immediately preceding year, or 1,266,005 shares of common stock (the "Plan Pool"), for 2018, to its employees and directors. The 2014 Incentive Plan will continue until terminated by the Company's Board of Directors or March 31, 2024. As of December 31, 2018, the Company had issued a total of 575,772 restricted shares under the Incentive Pool for compensation-related awards to its employees and directors, with 690,233 authorized shares remaining which had not been issued. Shares issued under the 2014 Incentive Plan are generally subject to long-term, fixed vesting periods of three to eight years. If an employee or director voluntarily terminates his or her relationship with the Company or is terminated for cause before the end of the vesting period, the shares are forfeited, at no cost to the Company. Once the shares have been granted, the recipient of the shares has the right to receive dividends and the right to vote the shares.

Alignment of Interest Program

The Amended and Restated Alignment of Interest Program (the "Alignment of Interest Program"), amended in late 2016 by the Company's Board of Directors, authorizes the Company to issue 500,000 shares of the Company's common stock to its employees and directors in lieu of the employee's or director's cash compensation (the "Program Pool"), at their election. As of December 31, 2018, the Company had issued a total of 150,347 restricted shares under the Program Pool in lieu of cash compensation to its employees and directors, with 349,653 authorized shares remaining which had not been issued.

The Company's Alignment of Interest Program is designed to provide the Company's employees and directors with an incentive to remain with the Company and to incentivize long-term growth and profitability. Under the Alignment of Interest Program, employees may elect to defer up to 100% of their base salary and other compensation and directors may elect to defer up to 100% of their director fees, subject to the 2014 Incentive Plan's long-term, fixed vesting periods. The number of shares granted will be increased through a Company match depending on the length of the vesting period selected by the employee or director. Employees may select vesting periods of three years, five years, or eight years, with a 30%, 50%, and 100% Company match, respectively. An entity controlled by the Chairman, CEO and President of the Company has made personal loans to three officers of the Company, aggregating at maximum approximately \$300,000, to allow them to optimize their participation in the Alignment of Interest Program. The Company has had no involvement with these personal loans. Directors may select vesting periods of one year, two years, or three years, with a 20%, 40%, or 60% Company match, respectively.

Officer Incentive Programs

The Company has an Amended and Restated Executive Officer Incentive Program and a Non-Executive Officer Incentive Program (the "Officer Incentive Programs") under the Incentive Plan which are designed to provide incentives to the Company's officers that are designed to reward its officers for individual, as well as Company performance in the form of cash or restricted stock. Company performance will be based on performance targets, which may include targets such as funds from operations ("FFO"), dividend payout percentages, as well as the Company's relative total stockholder return performance over one-year and three-year periods, measured against the Company's peer group, as determined by the Company's Board of Directors each year. The officers may elect, in the year prior to an award, to receive awards under the Officer Incentive Programs in cash or restricted stock, as allowed

within the applicable Officer Incentive Programs, as well as a vesting period as discussed under the Alignment of Interest Program above. Shares of common stock issued under the Officer Incentive Programs are issued under either the Plan Pool or Program Pool.

Notes to Consolidated Financial Statements - Continued

Summary

A summary of the activity under the Incentive Plan and related information for the years ended December 31, 2018, 2017, and 2016 is included in the table below.

	Year Ended December 31,		
(dollars in thousands, except per share amounts)	2018	2017	2016
Stock-based awards, beginning of year	512,115	302,299	85,757
Stock in lieu of compensation	69,767	80,580	104,112
Stock awards	144,237	129,236	112,430
Total Granted	214,004	209,816	216,542
Vested	(16,632)	—	—
Stock-based awards, end of year	709,487	512,115	302,299
Weighted average grant date fair value, per share, of:			
Stock-based awards, beginning of year	\$21.20	\$ 19.36	\$ 19.65
Stock-based awards granted during the year	\$28.70	\$ 23.84	\$ 19.25
Stock-based awards vested during the year	\$19.65	\$ —	\$ —
Stock-based awards, end of year	\$23.50	\$ 21.20	\$ 19.36
Grant date fair value of shares granted during the year	\$6,142	\$ 5,002	\$ 4,168

The Company had nonvested stock-based compensation that had not yet been recognized of approximately \$12.2 million and \$8.5 million, respectively, at December 31, 2018 and 2017. The vesting periods for the non-vested shares granted during 2018 ranged from three to eight years with a weighted-average amortization period remaining as of December 31, 2018 of approximately 6.0 years. Compensation expense recognized during the years ended December 31, 2018, 2017, and 2016 from the amortization of the value of shares over the vesting period was approximately \$2.9 million, \$1.5 million and \$0.7 million, respectively.

Note 11—Other Assets

Other assets on the Company's Consolidated Balance Sheets as of December 31, 2018 and 2017 are detailed in the table below.

	December 31,	
(Dollars in thousands)	2018	2017
Notes receivable	\$24,110	\$13,917
Accounts and interest receivable	2,428	2,417
Straight-line rent receivables	3,254	2,179
Allowance for doubtful accounts	(270)	(293)
Prepaid assets	487	341
Deferred financing costs, net	318	618
Leasing commissions, net	790	483
Deferred tax asset	2,024	478
Fair value of interest rate swaps	902	258
Above-market lease intangible assets, net	168	—

Other	335	255
	\$34,546	\$20,653

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The Company's notes receivable include the following notes receivable. Interest on these notes is included in Other operating income on the Company's Consolidated Statements of Income.

- During 2017, concurrent with the acquisition of a property, Highlands Hospital ("Highlands"), the Company entered into a \$5.0 million note receivable with the tenant in the building. During the second half of 2018, the Company started experiencing payment issues with the old operator of Highlands. The Company signed a Transition Agreement to transition the property to a new operator. In addition, the Company has signed a new lease with the new operator, effective upon the transfer of the licenses, which is anticipated to happen in the second quarter of 2019.

The Company has approximately \$30.0 million invested at Highlands with \$25.0 million in real estate and \$5.0 million in a mezzanine loan that was incidental to the acquisition of the real estate.

Due to transitioning the property to a new operator, the Company has fully impaired the \$5.0 million loan since the old operator will not repay the mezzanine loan and recorded a tax benefit of \$1.3 million. However, the new lease the Company has signed with the new operator is consistent with the rental rate with the old operator plus the interest on the mezzanine loan.

The Company is receiving monthly payments under the Transition Agreement which approximate the rental rate with the old operator plus the interest on the mezzanine loan. These payments are to continue as long as the Transition Agreement is in place. The Transition Agreement will terminate when the licenses are transferred to the new operator, at which time the new lease will become effective.

During 2018, the Company did not receive, and thus did not recognize as revenue:

approximately one and a half monthly rental payments in cash, reimbursement of expenses and late fees totaling approximately \$0.3 million; and
approximately four months of interest payments and late fees totaling approximately \$0.2 million.

In addition, since the Company entered into the Transition Agreement which anticipates the termination of the lease with the old operator, the Company has written-off straight-line rent of approximately \$0.2 million at December 31, 2018.

The Transition Agreement includes provisions for the Company to receive payment for amounts it was due and not paid.

The transition is ongoing and should be concluded no later than the end of the second quarter of 2019 at which time the lease with the new operator should become effective. While there may be some short-term effect from timing of receipts or reimbursement of expenses, the Company does not anticipate any material adverse effect to its cash flows or net income on a going forward basis.

On April 25, 2018, the Company provided a \$23.0 million loan to a newly formed company (Newco), secured by all assets and ownership interests in seven long-term acute care hospitals and one inpatient rehabilitation hospital that, along with a series of investments by the management of Newco, allowed Newco to acquire certain assets of the Borrower, as defined in Note 5. The loan, which matures on May 1, 2031, currently bears interest at 9% per annum, 4% of which is accrued and added to the principal balance at the end of each year through May 2021, with principal payments beginning in May 2021. The balance of this note at December 31, 2018 was \$23.2 million. See Note 5 for more details.

- On December 31, 2018, the Company entered into notes with a tenant totaling \$0.9 million. The notes bear interest at 9% per annum and mature on December 31, 2019.

The Company identified the borrowers of certain of these notes as VIEs, but management determined that the Company was not the primary beneficiary of the VIEs because we lack either directly or through related parties any

material impact in the activities that impact the borrowers' economic performance. We are not obligated to provide support beyond our stated commitment to the borrowers, and accordingly our maximum exposure to loss as a result of this relationship is limited to the amount of our outstanding notes receivable as noted above. The two VIEs that we have identified at December 31, 2018 are summarized in the table below.

Classification	Carrying Amount (in millions)	Maximum Exposure to Loss (in millions)
Notes receivable	\$ 23.2	\$ 23.2
Notes receivable	\$ 0.9	\$ 0.9

Note 12—Intangible Assets and Liabilities

The Company has deferred financings costs and various real estate acquisition lease intangibles included in its Consolidated Balance Sheets as of December 31, 2018 and 2017 as detailed in the table below. The Company did not have any indefinite lived intangible assets or liabilities as of December 31, 2018 and 2017.

	Gross Balance at December 31,		Accumulated Amortization at December 31,		Weighted Average	
(Dollars in thousands)	2018	2017	2018	2017	Remaining Life (Years)	Balance Sheet Classification
Deferred financing costs-Revolving Credit Facility	\$ 1,726	\$ 1,508	\$ 1,408	\$ 890	0.7	Other assets
Deferred financing costs-Term Loans	743	743	224	96	4.3	Debt, net
Deferred financing costs-Mortgage Note Payable	108	—	2	—	5.3	Debt, net
Above-market lease intangibles	262	91	94	91	7.0	Other assets
Below-market lease intangibles	(1,331)	(1,280)	(493)	(329)	5.2	Other liabilities
At-market lease intangibles	60,740	51,870	31,937	22,517	4.9	Real estate properties
	\$62,248	\$52,932	\$33,172	\$23,265	4.9	

Expected future amortization, net, for the next five years of the Company's intangible assets and liabilities, in place as of December 31, 2018 are included in the table below.

(in thousands)	Amortization, net
2019	\$ 8,834
2020	6,489
2021	4,909
2022	3,431
2023	2,164

Note 13—Commitments and Contingencies

Tenant Improvements

The Company may provide tenant improvement allowances in new or renewal leases for the purpose of refurbishing or renovating tenant space. The Company may also assume tenant improvement obligations included in leases acquired in its real estate acquisitions. As of December 31, 2018 and 2017, the Company had \$2.8 million and \$3.7 million, respectively, in commitments for tenant improvements.

Capital Improvements

The Company has entered into contracts with various vendors for various capital improvement projects related to its portfolio. Some of these expenditures will be subsequently billed and reimbursed by tenants as provided for in their leases with the Company. As of December 31, 2018 and 2017, the Company had commitments of approximately \$0.4 million and \$0.1 million, respectively, in commitments for capital improvement projects.

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 Statements.

Contingent Purchase Price Settlement

During 2017, the Company paid approximately \$0.4 million in settlement of a contingent purchase price liability relating to the acquisition of a medical office building acquired during 2016. The Company has no contingent purchase price liabilities remaining at December 31, 2018.

Note 14—Fair Value of Financial Instruments

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

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

Mortgage note receivable - The fair value is estimated using cash flow analyses which are based on an assumed market rate of interest or at a rate consistent with the rates on mortgage notes acquired by the Company and are classified as Level 2 in the hierarchy.

Notes receivable - The fair value is estimated using cash flow analyses which are based on an assumed market rate of interest or at a rate consistent with the rates on notes carried by the Company and are classified as Level 2 in the hierarchy.

Borrowings under our Credit Facility - The carrying amount approximates the fair value because the borrowings are based on variable market interest rates.

Derivative financial instruments - The fair value is estimated using discounted cash flow techniques. These techniques incorporate primarily Level 2 inputs. The market inputs are utilized in the discounted cash flow calculation considering the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation model for interest rate swaps are observable in active markets and are classified as Level 2 in the hierarchy.

Mortgage note payable - The fair value is estimated using cash flow analyses which are based on an assumed market rate of interest or at a rate consistent with the rates on mortgage notes assumed by the Company and are classified as Level 2 in the hierarchy.

Notes to Consolidated Financial Statements - Continued

The table below details the fair values and carrying values for our mortgage note and notes receivable and interest rate swaps at December 31, 2018 and 2017 using Level 2 inputs.

(Dollars in thousands)	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage note receivable	\$—	\$—	\$10,633	\$10,633
Notes receivable	\$24,110	\$23,936	\$13,917	\$13,828
Interest rate swap asset	\$902	\$902	\$258	\$258
Interest rate swap liability	\$269	\$269	\$—	\$—
Mortgage note payable	\$5,391	\$5,307	\$—	\$—

Note 15—Other Data

Taxable Income

The Company has elected to be taxed as a REIT, as defined under the Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its taxable income to its stockholders. The Company and one subsidiary have also elected for that subsidiary to be treated as a TRS, which is subject to federal and state income taxes. All entities other than the TRS are collectively referred to as "the REIT" within this Note 15.

The Tax Cuts and Jobs Act ("TCJA") was enacted on December 22, 2017. The TCJA reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. The REIT generally will not be subject to federal income tax on taxable income it distributes currently to its stockholders. Accordingly, no provision for federal income taxes for the REIT has been made in the accompanying Consolidated Financial Statements; however, the Company may record income tax expense or benefit for the TRS to the extent applicable. If the REIT fails to qualify as a REIT for any taxable year, then it will be subject to federal income taxes at regular corporate rates, including any applicable alternative minimum tax, and may not be able to qualify as a REIT for four subsequent taxable years. Even if the REIT continues to qualify as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise tax on its undistributed taxable income.

Income tax expense (benefit) and state income tax payments, net of refunds, are as follows for the years ended December 31, 2018, 2017, and 2016.

(Dollars in thousands)	Year Ended December 31,		
	2018	2017	2016
Current	\$64	\$171	\$21
Deferred	(1,547)	(478)	(10)
Total	\$(1,483)	\$(307)	\$11
Income tax payments, net of refunds	\$166	\$37	\$—

Income tax expense (benefit) primarily relates to permanent differences between federal, state and local taxable income resulting from certain state and local jurisdictions wholly or partially disallowing the deduction for dividends paid allowed at the federal level and temporary differences resulting from the bases of assets and liabilities of the

Company's TRS for financial reporting purposes and the bases of those assets and liabilities for income tax purposes.

Notes to Consolidated Financial Statements - Continued

The tax effect of temporary differences included in the net deferred tax assets at December 31, 2018 and 2017 are as follows:

	December 31,	
(Dollars in thousands)	2018	2017
Deferred tax assets (liabilities):		
Net operating losses	\$201	\$10
Impairment of note receivable	1,321	—
Deferred compensation	1,060	457
Other, net	(557)	11
Total net deferred tax assets	\$2,025	\$478

On a tax-basis, the Company's gross real estate assets totaled approximately \$442.1 million and \$385.6 million, respectively, as of December 31, 2018 and 2017 (unaudited).

The following table reconciles the Company's net income to taxable income for the years ended December 31, 2018, 2017 and 2016.

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Net income	\$4,403	\$3,510	\$2,721
Reconciling items to taxable income:			
Depreciation and amortization	9,888	10,722	8,863
Gain on sale of real estate	(183)	—	—
Impairment of note receivable	5,000	—	—
Straight-line rent	(1,212)	(1,303)	(606)
Receivable allowance	(23)	138	83
Stock-based compensation	1,331	749	285
Deferred rent	484	332	249
Contingent liability fair value adjustments	—	(5)	(1,278)
Deferred income taxes	(1,547)	(478)	—
Other	(426)	(176)	94
	13,312	9,979	7,690
Taxable income ⁽¹⁾	\$17,715	\$13,489	\$10,411
Dividends paid ⁽²⁾	\$28,314	\$23,703	\$17,393

⁽¹⁾ Before REIT dividends paid deduction.

⁽²⁾ Net of dividends paid on restricted stock included as a reconciling item.

Characterization of Distributions (unaudited)

Earnings and profits (as defined under the Code), the current and accumulated amounts of which determine the taxability of distributions to stockholders, vary from net income attributable to common stockholders and taxable income because of different depreciation recovery periods, depreciation methods, and other items. Distributions in excess of earnings and profits generally constitute a return of capital. The following table shows the characterization of the distributions on the Company's common stock for the years ended December 31, 2018, 2017 and 2016. No preferred shares have been issued by the Company and no dividends have been paid to date relating to preferred shares.

Notes to Consolidated Financial Statements - Continued

	2018		2017		2016	
	Per	%	Per	%	Per	%
	Share		Share		Share	
Common stock:						
Ordinary income	\$0.989	61.6 %	\$0.914	58.4 %	\$1.036	68.0 %
Return of capital	0.605	37.7 %	0.651	41.6 %	0.489	32.0 %
Capital gain	0.011	0.7 %	—	—	—	—
Common stock distributions	\$1.605	100.0 %	\$1.565	100.0 %	\$1.525	100.0 %

Note 16—Subsequent Events

2019 Real estate acquisitions

In February 2019, the Company acquired two real estate properties totaling approximately 83,000 square feet for an aggregate purchase price and cash consideration of approximately \$32.7 million. Upon acquisition, the properties were 100.0% leased in the aggregate with lease expirations in 2029.

Dividend Declared

On February 7, 2019, the Company's Board of Directors declared a quarterly common stock dividend in the amount of \$0.4075 per share. The dividend is payable on March 1, 2019 to stockholders of record on February 22, 2019.

Restricted Stock Issuances

On January 15, 2019, pursuant to the 2014 Incentive Plan and the Alignment of Interest Program, the Company granted 84,690 shares of restricted common stock to its employees, in lieu of salary, that will cliff vest in three to eight years. Of the shares granted, 42,525 shares of restricted stock were granted in lieu of compensation from the Program Pool and 42,165 shares of restricted stock were awards granted from the Plan Pool.

Note 17—Selected Quarterly Financial Data (unaudited)

Quarterly financial information for the years ended December 31, 2018 and 2017 is summarized below.

	Quarter Ended			
(Dollars in thousands, except per share data)	March 31	June 30	September 30	December 31
2018				
Revenues	\$11,429	\$12,402	\$12,605	\$12,194
Expenses	8,473	8,640	9,015	9,062
Other non-operating ⁽¹⁾	(1,084)	(1,345)	(1,591)	(5,017)
Net income (loss)	\$1,872	\$2,417	\$1,999	\$(1,885)
Net income (loss) per basic common share	\$0.09	\$0.12	\$0.10	\$(0.12)
Net income (loss) per diluted common share	\$0.09	\$0.12	\$0.10	\$(0.12)

Notes to Consolidated Financial Statements - Continued

(Dollars in thousands, except per share data)	Quarter Ended			
	March 31	June 30	September 30	December 31
2017				
Revenues	\$8,007	\$8,930	\$9,444	\$10,962
Expenses ⁽²⁾	6,499	7,256	7,838	8,841
Other non-operating	(595)	(1,208)	(1,027)	(569)
Net income	\$913	\$466	\$579	\$1,552
Net income per basic common share	\$0.07	\$0.04	\$0.02	\$0.08
Net income per diluted common share	\$0.07	\$0.04	\$0.02	\$0.08

(1) Other non-operating for the quarter ended December 31, 2018 includes an impairment charge on a note receivable for \$5.0 million and a related income tax benefit of \$1.3 million.

(2) Expenses include approximately \$0.8 million related to the acquisition of 14 properties accounted for as business combinations.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Limitations on the Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

There have been no changes in our system of internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Community Healthcare Trust Incorporated is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15 (f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and

expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or

detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 using the principles and other criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018.

Attestation Report of Independent Registered Public Accounting Firm

Not applicable.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be contained in the Company's Definitive Proxy Statement for its 2019 Annual Stockholders Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be contained in the Company's Definitive Proxy Statement for its 2019 Annual Stockholders Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be contained in the Company's Definitive Proxy Statement for its 2019 Annual Stockholders Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this items will be contained in the Company's Definitive Proxy Statement for its 2019 Annual Stockholders Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this items will be contained in the Company's Definitive Proxy Statement for its 2019 Annual Stockholders Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents of Community Healthcare Trust Incorporated are included in this Annual Report on Form 10-K.

(a) Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2018 and 2017

Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

Notes to the Consolidated Financial Statements

(b) Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2018, 2017 and 2016 100

Schedule III - Real Estate and Accumulated Depreciation as of December 31, 2018 101

Schedule IV - Mortgage Loans on Real Estate as of December 31, 2018 102

All other schedules are omitted because they are either not applicable, not required or because the information is included in the Consolidated Financial Statements or notes included in this Annual Report on Form 10-K.

(c) Exhibits

Exhibit

Number

Underwriting
Agreement,
dated as of July
20, 2017, among
the Company,
Community
Healthcare OP,
LP, Sandler
O'Neill &
Partners, L.P.,
Evercore Group
L.L.C.,
SunTrust
Robinson
Humphrey, Inc.
and each of the
Underwriters
party thereto (1)
Corporate
Charter of
Community
Healthcare Trust
Incorporated, as
amended (2)
Bylaws of
Community
Healthcare Trust
Incorporated, as

1.1

3.1

3.2

- amended (3)
- Form of
- Certificate of
- 4.1 Common Stock
- of Community
- Healthcare Trust
- Incorporated (4)
- Agreement of
- Limited
- 10.1 Partnership of
- Community
- Healthcare OP.
- LP(5)
- Form of
- 10.2 Indemnification
- Agreement(6)
- Community
- Healthcare Trust
- 10.3 Incorporated
- † 2014 Incentive
- Plan, as
- amended(7)
- Amended and
- Restated
- Community
- 10.4 Healthcare Trust
- † Incorporated
- Alignment of
- Interest
- Program(8)
- Amended and
- Restated
- Community
- 10.5 Healthcare Trust
- † Incorporated
- Executive
- Officer
- Incentive
- Program(9)
- Employment
- Agreement
- between
- 10.6 Community
- † Healthcare Trust
- Incorporated
- and Timothy G.
- Wallace(10)
- 10.7 First
- † Amendment to
- Employment
- Agreement

between
Community
Healthcare Trust
Incorporated
and Timothy G.
Wallace(11)
Second
Amendment to
Employment
Agreement

10.8between

† Community
Healthcare Trust
Incorporated
and Timothy G.
Wallace(12)
Third
Amendment to
Employment
Agreement

10.9between

† Community
Healthcare Trust
Incorporated
and Timothy G.
Wallace(13)
Employment
Agreement
between

10.10Community

† Healthcare Trust
Incorporated
and W. Page
Barnes(14)
First
Amendment to
Employment
Agreement

10.11between

† Community
Healthcare Trust
Incorporated
and W. Page
Barnes(15)

- Second
Amendment to
Employment
Agreement
10.1 between
† Community
Healthcare Trust
Incorporated
and W. Page
Barnes(16)
Third
Amendment to
Employment
Agreement
10.1 between
† Community
Healthcare Trust
Incorporated
and W. Page
Barnes(17)
Employment
Agreement
between
10.1 Community
† Healthcare Trust
Incorporated
and Leigh Ann
Stach(18)
First
Amendment to
Employment
Agreement
10.1 between
† Community
Healthcare Trust
Incorporated
and Leigh Ann
Stach(19)
Second
Amendment to
Employment
Agreement
10.1 between
† Community
Healthcare Trust
Incorporated
and Leigh Ann
Stach(20)
10.1 Third
† Amendment to

- Employment
Agreement
between
Community
Healthcare Trust
Incorporated
and Leigh Ann
Stach(21)
Form of
10.1 Restricted Stock
Agreement(22)
Form of Officer
Compensation
10.1 Reduction
Election
Form(23)
Form of
Director
10.20 Compensation
Reduction
Election
Form(24)
Second
Amended and
Restated Credit
agreement dated
as of March 29,
2017, by and
among
Community
10.2 Healthcare OP,
LP, the
Company, the
Lenders from
time to time
party hereto,
and SunTrust
Bank, as
Administrative
Agent(25)
10.2 Sales Agency
Agreement,
dated August 7,
2018, by and
among
Community
Healthcare trust
Incorporated
and Sandler
O'Neil &
Partners, L.P.,

- Evercore Group
L.L.C.,
SunTrust
Robinson
Humphrey, Inc.,
BB&T Capital
Markets, a
division of
BB&T
Securities, LLC,
Fifth Third
Securities, Inc.
and Janney
Montgomery
Scott LLC, as
sales agents(26)
- 21 * Subsidiaries of
the Registrant
Consent of BDO
USA, LLP,
- 23 * independent
registered public
accounting firm
Certification of
the Chief
Executive
Officer of
Community
Healthcare Trust
Incorporated
pursuant to Rule
- 31.1 13a-14 of the
 * Securities
Exchange Act of
1934, as
amended, as
adopted
pursuant to Rule
302 of the
Sarbanes-Oxley
Act of 2002
- 31.2 Certification of
 * the Chief
Financial
Officer of
Community
Healthcare Trust
Incorporated
pursuant to Rule
13a-14 of the
Securities

Exchange Act of
1934, as
amended, as
adopted
pursuant to Rule
302 of the
Sarbanes-Oxley
Act of 2002
Certifications
pursuant to 18
U.S.C. Section
1350, as
 32.1 adopted
 ** pursuant to
Section 906 of
the
Sarbanes-Oxley
Act of 2002
 101. ~~XBRL~~ Instance
 * Document
 XBRL
 Taxonomy
 101. ~~SCH~~ Extension
 * Schema
 Document
 XBRL
 Taxonomy
 101. ~~Calc~~ Extension
 * Calculation
 Linkbase
 Document
 XBRL
 Taxonomy
 101. ~~LAB~~ Extension
 * Labels Linkbase
 Document
 XBRL
 Taxonomy
 101. ~~DEF~~ Extension
 * Definition
 Linkbase
 Document
 XBRL
 Taxonomy
 101. ~~PRE~~ Extension
 * Presentation
 Linkbase
 Document

(1) Filed as Exhibit 1.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on July 26, 2017 (File No. 001-37401) and incorporated herein by reference.

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Filed as Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-11 of the Company filed with (2) the Securities and Exchange Commission on May 6, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(3) Filed as Exhibit 3.2 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on April 2, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(4) Filed as Exhibit 4.1 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on April 2, 2015 (Registration No. 333-203210) and incorporated herein by reference.

Filed as Exhibit 10.1 to Amendment No. 1 to the Registration Statement on Form S-11 of the Company filed with (5) the Securities and Exchange Commission on April 28, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(6) Filed as Exhibit 10.2 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on April 2, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(7) The 2014 Incentive Plan filed as Exhibit 10.3 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on April 2, 2015 (Registration No. 333-203210), and, as to Amendment No. 1 to the 2014 Incentive Plan, as Exhibit 10.12 to Amendment No. 2 to the Registration Statement on Form S-11 of the Company

filed with the Securities and Exchange Commission on May 6, 2015 (Registration No. 333-203210), and, as to Amendment No. 2 to the 2014 Incentive Plan, as Exhibit 10.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on July 17, 2017, and, as to the Amendment No. 3 to the 2014 Incentive Plan, as Exhibit 10.2 to the Form 8-K of the Company filed with the Securities and Exchange Commission on July 17, 2017, each of which is incorporated herein by reference.

Filed as Exhibit 4.5 to the Registration Statement on Form S-8 of the Company filed with the Securities and (8) Exchange Commission on December 7, 2016 (Registration Statement No. 333-214951) and incorporated herein by reference.

(9) Filed as Exhibit 10.2 to the Form 8-K of the Company filed with the Securities and Exchange Commission on November 4, 2016 (File No. 001-37401) and incorporated herein by reference.

(10) Filed as Exhibit 10.6 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on April 2, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(11) Filed as Exhibit 10.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 18, 2017 (File No. 001-37401) and incorporated herein by reference.

(12) Filed as Exhibit 10.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 2, 2018 (File No. 001-37401) and incorporated herein by reference.

(13) Filed as Exhibit 10.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 3, 2019 (File No. 001-37401) and incorporated herein by reference.

(14) Filed as Exhibit 10.7 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on April 2, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(15) Filed as Exhibit 10.2 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 18, 2017 (File No. 001-37401) and incorporated herein by reference.

(16) Filed as Exhibit 10.2 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 2, 2018 (File No. 001-37401) and incorporated herein by reference.

(17) Filed as Exhibit 10.2 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 3, 2019 (File No. 001-37401) and incorporated herein by reference.

(18) Filed as Exhibit 10.8 to the Registration Statement on Form S-11 of the Company filed with the Securities and Exchange Commission on April 2, 2015 (Registration No. 333-203210) and incorporated herein by reference.

(19) Filed as Exhibit 10.3 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 18, 2017 (File No. 001-37401) and incorporated herein by reference.

(20) Filed as Exhibit 10.3 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 3, 2019 (File No. 001-37401) and incorporated herein by reference.

(21) Filed as Exhibit 10.3 to the Form 8-K of the Company filed with the Securities and Exchange Commission on January 2, 2018 (File No. 001-37401) and incorporated herein by reference.

Filed as Exhibit 10.9 to Amendment No. 1 to the Registration Statement on Form S-11 of the Company filed with (22) the Securities and Exchange Commission on April 28, 2015 (Registration No. 333-203210) and incorporated herein by reference.

Filed as Exhibit 10.10 to Amendment No. 1 to the Registration Statement on Form S-11 of the Company filed (23) with the Securities and Exchange Commission on April 28, 2015 (Registration No. 333-203210) and incorporated herein by reference.

Filed as Exhibit 10.11 to Amendment No. 1 to the Registration Statement on Form S-11 of the Company filed (24) with the Securities and Exchange Commission on April 28, 2015 (Registration No. 333-203210) and incorporated herein by reference.

Filed as Exhibit 10.1 to the Form 10-Q of the Company filed with the Securities and Exchange Commission on May 9, 2017 (File No. 001-37401) and incorporated herein by reference, and, as to the First Amendment to the Second Amended and Restated Credit Agreement dated February 15, 2019, filed as Exhibit 10.1 to the Quarterly (25) Report on Form 10-Q filed with the Securities and Exchange Commission on May 8, 2018 (File No. 001-37401), and, as to the Second Amendment to the Second Amended and Restated Credit Agreement dated March 27, 2018, filed as Exhibit 99.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 8, 2018 (File No. 001-37401), each of which is incorporated herein by reference.

(26) Filed as Exhibit 10.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on August 7, 2018 (File No. 001-37401) and incorporated herein by reference.

*Filed herewith.

**Furnished herewith.

† Denotes executive compensation plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Franklin, State of Tennessee, on February 26, 2019.

Date: February 26, 2019

COMMUNITY HEALTHCARE TRUST INCORPORATED

By: /s/ Timothy G. Wallace

Timothy G. Wallace

Chairman of the Board and Chief Executive Officer and President

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

Signature	Title	Date
/s/ Timothy G. Wallace Timothy G. Wallace	Chairman of the Board and Chief Executive Officer and President (Principal Executive Officer)	February 26, 2019
/s/ W. Page Barnes W. Page Barnes	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2019
/s/ Leigh Ann Stach Leigh Ann Stach	Vice President of Financial Reporting and Chief Accounting Officer (Principal Accounting Officer)	February 26, 2019
/s/ Alan Gardner Alan Gardner	Director	February 26, 2019
/s/ Robert Hensley Robert Hensley	Director	February 26, 2019
/s/ Claire Gulmi Claire Gulmi	Director	February 26, 2019
/s/ R. Lawrence Van Horn Lawrence Van Horn	Director	February 26, 2019

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

Description	Balance at Beginning of Period	Additions			Uncollectible Accounts Written-off	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts			
2018Accounts receivable allowance	\$ 293	\$73	\$ —		\$ (96)	\$ 270
2017Accounts receivable allowance	\$ 154	\$67	\$ 151		\$ (79)	\$ 293
2016Accounts receivable allowance	\$ 71	\$155	\$ —		\$ (72)	\$ 154

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Schedule III - Real Estate and Accumulated Depreciation at December 31, 2018

(Dollars in thousands)

Property Type	Number of State Properties	Land and Land Improvements			Buildings, Improvements, and Lease Intangibles			Personal Property (1)	Total Property (2)	Accumulated Depreciation (2)	Economic	Date Acquired	Original Date Constructed	
		Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	Initial Investment	Costs Capitalized Subsequent to Acquisition	Total							
Medical office buildings	35	AL, CT, FL, GA, IA, IL, KS, KY, MS, NJ, NY, OH, TN, TX, VA, AZ, CT, FL, IL, KS, OH, PA, TN, TX, VA, WI, AZ, CO, FL, IL, LA, MI, OH, PA, SC, TX	\$21,198	\$350	\$21,548	\$136,390	\$6,195	\$142,585	\$—	\$164,133	\$26,333	\$5,391	2015 - 2018	1950 - 2009
Physician clinics	20	OH, PA, TN, TX, VA, WI, AZ, CO, FL, IL, LA, MI, OH, PA, SC, TX	5,867	58	5,925	43,338	361	43,699	—	49,624	5,829	—	2015 - 2018	1912 - 2013
Surgical centers and hospitals	15	LA, MI, OH, PA, SC, TX	7,540	107	7,647	67,911	231	68,142	—	75,789	10,693	—	2015 - 2018	1970 - 2004
Specialty centers	25	AL, CA, CO, GA, IL,	8,643	9	8,652	62,895	179	63,074	—	71,726	8,489	—	2015 - 2018	1945 - 2015

Behavioral facilities	7	KY, MD, NC, NV, OH, OK, TN, TX, VA IL, IN, LA, MS, OH, WV	5,975	—	5,975	60,473	103	60,576	—	66,551	2,673	—	2015 - 2018	1920 - 2001
Long-term acute care hospitals	1	IN	523	—	523	14,405	—	14,405	—	14,928	1,049	—	2017	1978
Total Real Estate	103		49,746	524	50,270	385,412	7,069	392,481	—	442,751	55,066	5,391		
Corporate property	—		—	—	—	1,579	467	2,046	133	2,179	232	—		
Total Properties	103		\$49,746	\$524	\$50,270	\$386,991	\$7,536	\$394,527	\$133	\$444,930	\$55,298	\$5,391		

(1) Total properties as of December 31, 2018 have an estimated aggregate total cost of \$442.1 million (unaudited) for federal income tax purposes.

(2) Depreciation is provided for on a straight-line basis on land improvements over 1 year to 20 years, buildings over 20 years to 40 years, building improvements over 3 years to 39.8 years, tenant improvements over 2.1 years to 14.4 years, lease intangibles over 0.7 years to 13.7 years, and personal property over 3.0 years to 10.0 years.

(3) A reconciliation of Total Property and Accumulated Depreciation for the years ended December 31, 2018, 2017, and 2016 is provided below.

	Year Ended December 31, 2018		Year Ended December 31, 2017		Year Ended December 31, 2016	
(Dollars in thousands)	Total Property	Accumulated Depreciation	Total Property	Accumulated Depreciation	Total Property	Accumulated Depreciation
Beginning Balance	\$388,486	\$ 36,136	\$252,736	\$ 18,404	\$132,967	\$ 5,203
Additions during the period:						
Acquisitions	55,083	1,212	134,618	17,467	118,190	13,091
Other improvements	4,557	18,424	1,132	265	1,579	110
Retirements/dispositions:						
Real estate	(3,196)	(474)	—	—	—	—
Ending Balance	\$444,930	\$ 55,298	\$388,486	\$ 36,136	\$252,736	\$ 18,404

Schedule IV - Mortgage Loans on Real Estate as of December 31, 2018
(Dollars in thousands)

Description of Collateral	Interest Rate	Maturity Date	Periodic Payment Terms	Original Face Amount	Carrying Amount	Principal amount of loans subject to delinquent principal or interest
					\$ —	
Total Mortgage Loans					\$ —	

(1) A rollforward of Mortgage loans on real estate for the years ended December 31, 2018, 2017 and 2016 is provided below.

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of period	\$ 10,633	\$ 10,786	\$ 10,897
Additions during the period:			
New or acquired mortgages, net	—	—	12,406
Amortization/write-off of loan and commitment fees	—	122	75
	—	122	12,481
Deductions during the period:			
Conversion upon acquisition ^(a)	—	—	(12,500)
Repayment upon settlement of bankruptcy ^(b)	(10,633)	—	—
Scheduled principal payments	—	(275)	(92)
	(10,633)	(275)	(12,592)
Balance at end of period ^(b)	\$ —	\$ 10,633	\$ 10,786

(a) Conversion of a \$12.5 million mortgage note upon the acquisition of the property that secured the note on May 23, 2016.

(b) Mortgage note was repaid upon settlement of the bankruptcy with the borrower. See Note 5 to the Consolidated Financial Statements for more details.