Community Healthcare Trust Inc
Form 10-Q
November 06, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

OR

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

Commission file number: 001-37401

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

Maryland	46-5212033
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer 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)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)
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 x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x	Emerging-growth company x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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 Section13(a) of the Exchange Act. x
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The Registrant had 18,533,802 shares of Common Stock, $0.01 par value per share, outstanding as of October 31, 2018.

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COMMUNITY HEALTHCARE TRUST INCORPORATED
FORM 10-Q
Septemer 30, 2018
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	(Unaudited) September 30, 2018	December 31, 2017
ASSETS		
Real estate properties		
Land and land improvements	$ 47,748	$ 44,419
Buildings, improvements, and lease intangibles	376,310	343,955
Personal property	132	112
Total real estate properties	424,190	388,486
Less accumulated depreciation	(50,607)	(36,136)
Total real estate properties, net	373,583	352,350
Cash and cash equivalents	1,006	2,130
Mortgage note receivable, net	—	10,633
Other assets, net	40,711	20,653
Total assets	$ 415,300	$ 385,766
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Debt, net	$ 127,449	$ 93,353
Accounts payable and accrued liabilities	3,818	4,056
Other liabilities	4,716	4,983
Total liabilities	135,983	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; 18,533,802 and 18,085,798 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	185	181
Additional paid-in capital	333,468	324,303
Cumulative net income	11,063	4,775
Accumulated other comprehensive income	2,612	258
Cumulative dividends	(68,011)	(46,143)
Total stockholders' equity	279,317	283,374
Total liabilities and stockholders' equity	$ 415,300	$ 385,766

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited; Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES				
Rental income	$10,225	$8,012	$30,080	$21,968
Tenant reimbursements	1,701	1,158	4,731	3,620
Mortgage interest	—	255	—	774
Other operating interest	679	19	1,625	19
	12,605	9,444	36,436	26,381
EXPENSES				
Property operating	2,627	2,225	7,497	6,103
General and administrative	1,395	1,069	4,092	2,674
Depreciation and amortization	4,925	4,544	14,471	12,749
Bad debts	68	—	68	67
	9,015	7,838	26,128	21,593
OTHER INCOME (EXPENSE)				
Interest expense	(1,643)	(1,091)	(4,482)	(2,897)
Other income	52	64	462	67
	(1,591)	(1,027)	(4,020)	(2,830)
NET INCOME	$1,999	$579	$6,288	$1,958
NET INCOME PER COMMON SHARE:				
Net income per common share – Basic	$0.10	$0.02	$0.31	$0.10
Net income per common share – Diluted	$0.10	$0.02	$0.31	$0.10
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-BASIC	17,669,681	16,241,986	17,695,688	13,884,476
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-DILUTED	17,669,681	16,241,986	17,695,688	13,884,476
DIVIDENDS DECLARED, PER COMMON SHARE, DURING THE PERIOD	$0.4025	$0.3925	$1.2000	$1.1700

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited; Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NET INCOME	$1,999	$579	$6,288	$1,958
Other comprehensive income (loss):				
Increase (decrease) in fair value of cash flow hedges	527	(74)	2,152	(672)
Reclassification for amounts recognized as interest expense	46	124	201	286
Total other comprehensive income (loss)	573	50	2,353	(386)
COMPREHENSIVE INCOME	$2,572	$629	$8,641	$1,572

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited; Dollars in thousands, except per share amounts)

	Preferred Stock		Common Stock		Additional Paid in Capital	Cumulative Net Income	Accumulated Other Comprehensive Income	Cumulative Dividends	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2017	—	$ —	18,085,798	$ 181	$ 324,303	$ 4,775	$ 258	$ (46,143)	$ 283,374
Stock-based compensation	—		94,001	1	615	—	—	—	616
Unrecognized gain on cash flow hedges	—		—	—	—	—	906	—	906
Reclassification adjustment for losses included in net income (interest expense)	—		—	—	—	—	68	—	68
Net income	—		—	—	—	1,872	—	—	1,872
Dividends to common stockholders ($0.3975 per share)	—		—	—	—	—	—	(7,226)	(7,226)
Balance at March 31, 2018	—	$ —	18,179,799	$ 182	$ 324,918	$ 6,647	$ 1,232	$ (53,369)	$ 279,610
Stock-based compensation	—		20,176	—	801	—	—	—	801
Unrecognized gain on cash flow hedges	—		—	—	—	—	720	—	720
Reclassification adjustment for losses included in net income (interest expense)	—		—	—	—	—	87	—	87
Net income	—		—	—	—	2,417	—	—	2,417
Dividends to common stockholders ($0.40 per share)	—		—	—	—	—	—	(7,277)	(7,277)
Balance at June 30, 2018	—	$ —	18,199,975	$ 182	$ 325,719	$ 9,064	$ 2,039	$ (60,646)	$ 276,358
Issuance of common stock, net of issuance costs	—		234,000	2	7,062	—	—	—	7,064
Stock-based compensation	—		99,827	1	687	—	—	—	688
Unrecognized gain on cash flow hedges	—		—	—	—	—	527	—	527
Reclassification adjustment for losses included in net income (interest expense)	—		—	—	—	—	46	—	46
Net income	—		—	—	—	1,999	—	—	1,999
Dividends to common stockholders ($0.425 per share)	—		—	—	—	—	—	(7,365)	(7,365)
Balance at September 30, 2018	—	$ —	18,533,802	$ 185	$ 333,468	$ 11,063	$ 2,612	$ (68,011)	$ 279,317

See accompanying notes to the condensed consolidated financial statements.

COMMUNITY HEALTHCARE TRUST INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in thousands)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$6,288	$1,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,929	13,053
Stock-based compensation	2,105	1,050
Straight-line rent receivable	(1,165)	(953)
Provision for bad debts, net of recoveries	68	67
Reduction in contingent purchase price	—	(5)
Deferred income tax benefit	(103)	—
Changes in operating assets and liabilities:		
Other assets	(3,400)	(636)
Accounts payable and accrued liabilities	(373)	(404)
Other liabilities	(427)	1,234
Net cash provided by operating activities	17,922	15,364
INVESTING ACTIVITIES		
Acquisitions of real estate	(26,820)	(93,442)
Acquisitions of notes receivable	(2,201)	(5,000)
Funding of notes receivable	(4,833)	—
Proceeds from the repayment of notes receivable	50	296
Capital expenditures on existing real estate properties	(4,220)	(545)
Net cash used in investing activities	(38,024)	(98,691)
FINANCING ACTIVITIES		
Net repayments on revolving credit facility	(6,000)	(51,000)
Term loan borrowings	40,000	60,000
Dividends paid	(21,868)	(17,288)
Net proceeds from issuance of common stock	7,147	109,168
Equity issuance costs	(83)	(465)
Debt issuance costs	(218)	(784)
Settlement of contingent purchase price	—	(393)
Net cash provided by financing activities	18,978	99,238
Decrease in cash and cash equivalents	(1,124)	15,911
Cash and cash equivalents, beginning of period	2,130	1,568
Cash and cash equivalents, end of period	$1,006	$17,479
Supplemental Cash Flow Information:		
Interest paid	$3,823	$2,390
Invoices accrued for construction, tenant improvement and other capitalized costs	$102	$3
Reclassification between accounts and notes receivable	$—	$615
Reclassification of registration statement costs incurred in prior year to equity issuance costs	$34	$148
Increase (decrease) in fair value of cash flow hedges	$2,152	$(672)
Fair value of property received in foreclosure	$4,541	$—

Notes and mortgage receivable repayments utilized to originate note receivable (See footnote 5)	$18,167	$—

See accompanying notes to the condensed consolidated financial statements.

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COMMUNITY HEALTHCARE TRUST INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(Unaudited)

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 September 30, 2018, the Company had investments of approximately $424.2 million in 93 real estate properties, located in 28 states, totaling approximately 2.1 million square feet in the aggregate.

Basis of Presentation

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements.

This interim financial information should be read in conjunction with the financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Management believes that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. This interim financial information does not necessarily represent or indicate what the operating results will be for the year ending December 31, 2018. All material intercompany accounts and transactions have been eliminated.

Use of Estimates in the Condensed Consolidated Financial Statements

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

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 may record 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 GAAP) and meet other requirements to continue to qualify as a REIT.

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 Condensed Consolidated Statements of Income as a component of general and administrative expenses.

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Notes to Condensed Consolidated Financial Statements - Continued

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which 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 topics in the FASB's Accounting Standards Codification, 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, which is covered under other accounting guidance, but certain non-lease revenues could be impacted by the new guidance. While the Company has not historically sold any properties, accounting for the sales of real estate could also be impacted by this new guidance. Prior to the adoption of ASU 2014-09, gains and losses from real estate sales were adjusted at the time of the sale by the maximum exposure to loss related to continuing involvement with the real estate. After adoption, any continuing involvement is considered a separate performance obligation and the sales price is required to be allocated between the elements with continuing involvement and those without continuing involvement. As the continuing performance obligations are satisfied, additional gains and losses will be recognized. The Company recognized no change to previously reported amounts from the cumulative effect of the adoption of ASU 2014-09.

On January 1, 2018, the Company adopted ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments, which clarifies or provides guidance relating to eight specific cash flow classification issues. The standard should be applied retrospectively for each period presented, as appropriate. The impact of this new guidance will depend on future transactions, though the impact will only be related to the classification of those items on the statement of cash flows and will not impact the Company's total cash flows or its results of operations. There was no impact to the Company's Condensed Consolidated Financial Statements upon adoption of this standard.

On January 1, 2018, the Company adopted ASU No. 2017-09, Compensation - Stock Compensation (Topic 718), ("ASU 2017-09"), which provides guidance about which changes in the terms or conditions of a share-based payment award require a company to apply modification accounting in Topic 718. Under ASU No. 2017-09, a company will generally be required to apply modification accounting unless the fair value or intrinsic value of the modified award, the vesting conditions of the modified award, and the classification of the modified award as equity or a liability are the same as the original award immediately before the award is modified. There was no impact to the Company's Condensed Consolidated Financial Statements upon adoption of this standard.

Recently Issued Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, Leases, ("ASU 2016-02") which will supersede the existing standards for lease accounting (Topic 840, Leases) by requiring lessees to record most leases on their balance sheets and making targeted changes to lessor accounting and reporting. The new standard will require lessees to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months and classify such leases as either finance or operating leases based on the principle of whether the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method (finance leases) or on a straight-line basis over the term of the lease (operating leases). Leases with a term of 12 months or less and that do not include a purchase option that the lessee is reasonably certain to exercise will be accounted for similarly to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The new standard will require more extensive quantitative and qualitative disclosures as compared to Topic 840 for both lessees and lessors. ASU 2016-02 is effective for the Company on

January 1, 2019.

The Company expects to adopt this new standard using the transition method in ASU 2018-11, Leases (Topic 842):

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Targeted Improvements, ("ASU 2018-11"). ASU No. 2018-11 (1) simplifies transition requirements for both lessees and lessors by adding an option that permits an organization to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements and (2) provides a practical expedient for lessors that permits lessors to make an accounting policy election to not separate non-lease components from the associated lease components, if the following two criteria are met: (1) the timing and pattern of transfer of the lease and non-lease components are the same and (2) the lease component would be classified as an operating lease if accounted for separately. For leases where we are the lessor, we plan to elect the optional transition relief and apply the practical expedients provided by ASU 2018-11. Under this transition, the Company will initially apply the new standard on January 1, 2019, and the comparative periods will continue to be reported in accordance with Topic 840. Under the new standard, the accounting by a lessor is largely unchanged from that of the previous standard.

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.

The Company is currently only a lessee under one ground lease. The new standard will require the Company to record a right of use asset and a lease liability on its consolidated balance sheet with minimal impact on the recognition of ground lease expense. As such, the Company expects the adoption of this new standard will have no material impact on its financial statements related to this ground lease.

The Company is continuing to assess the FASB's activities related to the new leasing standards and the potential impact on its financial results upon adoption.

Financial Instruments-Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses, 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.

Note 2. Real Estate Investments

At September 30, 2018, the Company had investments of approximately $424.2 million in 93 real estate properties. The following table summarizes the Company's real estate 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	$ 29,275	$ —	$33,883	$ 3,705
Ohio	6	3,637	26,396	—	30,033	4,816
Texas	3	3,108	15,455	—	18,563	3,988
Illinois	2	1,136	11,831	—	12,967	2,234
Kansas	3	2,455	14,875	—	17,330	3,904
Iowa	1	2,241	9,010	—	11,251	1,940
Other states	14	3,711	27,872	—	31,583	3,671
	34	20,896	134,714	—	155,610	24,258
Physician clinics:						
Kansas	2	610	6,921	—	7,531	1,279
Illinois	2	2,615	6,354	—	8,969	280
Florida	4	253	9,484	—	9,737	740
Other states	9	2,708	20,464	—	23,172	3,382
	17	6,186	43,223	—	49,409	5,681
Surgical centers and hospitals:						
Louisiana	1	1,683	21,353	—	23,036	977
Michigan	2	637	8,276	—	8,913	2,245
Illinois	1	2,183	5,410	—	7,593	1,060
Florida	1	271	7,037	—	7,308	578
Arizona	2	576	5,389	—	5,965	1,379
Other states	7	2,122	17,835	—	19,957	3,533
	14	7,472	65,300	—	72,772	9,772
Specialty centers:						
Illinois	3	3,482	24,727	—	28,209	1,318
Other states	17	3,214	31,331	—	34,545	6,213
	20	6,696	56,058	—	62,754	7,531
Behavioral facilities:						
West Virginia	1	2,138	22,897	—	25,035	589
Illinois	1	1,300	18,803	—	20,103	1,098
Indiana	2	1,126	6,040	—	7,166	272
Other states	3	1,411	12,836	—	14,247	325
	7	5,975	60,576	—	66,551	2,284
Long-term acute care hospitals:						
Indiana	1	523	14,405	—	14,928	877
	1	523	14,405	—	14,928	877
Corporate property	—	—	2,034	132	2,166	204
Total real estate investments	93	$ 47,748	$ 376,310	$ 132	$424,190	$ 50,607

Notes to Condensed Consolidated Financial Statements - Continued

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 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 under the non-cancelable operating leases due the Company for the years ending December 31, as of September 30, 2018, are as follows (in thousands):

2018 (three months ending December 31)	$9,818
2019	36,745
2020	33,614
2021	30,302
2022	26,962
2023 and thereafter	151,598
	$289,039

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 $0.4 million and $0.4 million, respectively, for the three months ended September 30, 2018 and 2017 and was approximately $1.2 million and $1.0 million, respectively, for the nine months ended September 30, 2018 and 2017.

Deferred revenue
Rent received but not yet earned is deferred until such time it is earned. Deferred revenue, included in other liabilities, was approximately $1.4 million and $1.1 million, respectively, at September 30, 2018 and December 31, 2017.

Note 4. Real Estate Acquisitions

Property Acquisitions

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 three months ended September 30, 2018 for these properties were approximately $106,049 and $17,825, 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 $7.3 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 nine months ended September 30, 2018 for these properties were approximately $0.5 million and $0.3 million, respectively. Transaction costs totaling approximately $0.2 million related to these acquisitions were capitalized in the period and included in real estate assets.

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

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Notes to Condensed Consolidated Financial Statements - Continued

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 nine months ended September 30, 2018 for these properties were approximately $0.8 million and $0.3 million, respectively. Transaction costs totaling approximately $0.1 million related to these acquisitions were capitalized in the period and included in real estate assets.

Note 5. Mortgage and Other Notes 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 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 September 30, 2018 and December 31, 2017.

(Dollars in thousands)	Balance as of September 30, 2018	Balance as of December 31, 2017	Maturity Dates
Revolving Credit Facility	$28,000	$ 34,000	8/19
5-Year Term Loan, net	49,741	29,685	3/22
7-Year Term Loan, net	49,708	29,668	3/24
	$127,449	$ 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

Notes to Condensed Consolidated Financial Statements - Continued

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 September 30, 2018, the Company had $28.0 million outstanding under the Revolving Credit Facility with a remaining borrowing capacity of $122.0 million and a weighted average interest rate of approximately 4.29%.

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 September 30, 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 a number of 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. Also, the Company's present financing policy prohibits incurring debt (secured or unsecured) in excess of 40% of its total book capitalization. The Company was in compliance with its financial covenants under its Credit Facility as of September 30, 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.

Notes to Condensed Consolidated Financial Statements - Continued

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 September 30, 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 Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017.

	Asset Derivatives Fair Value at		
	September 30, 2018	December 31, 2017	Balance Sheet Classification
Interest rate swaps	$2,612	$ 258	Other assets

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

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 three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Amount of unrealized gain (loss) recognized in OCI on derivative	$527	$(74)	$2,152	$(672)
Amount of loss reclassified from accumulated OCI into interest expense	$46	$124	$201	$286
Total Interest Expense presented in the Condensed Consolidated Statements of Income in which the effects of the cash flow hedges are recorded	$1,643	$1,091	$4,482	$2,897

Note 8. Stockholders’ Equity

Common Stock

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

Notes to Condensed Consolidated Financial Statements - Continued

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Balance, beginning of period	18,085,798	12,988,482
Issuance of common stock	234,000	4,887,500
Restricted stock-based awards	214,004	209,816
Balance, end of period	18,533,802	18,085,798

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, par value $0.01 per share (the "Common Stock"), having an aggregate gross sales price of up to $100.0 million (the "Shares") 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 the third quarter of 2018, the Company issued, through its ATM Program, 234,000 shares of common stock at an average gross sales price of $31.17 per share and received net proceeds of approximately $7.1 million. As of September 30, 2018, the Company had approximately $92.7 million remaining that may be issued under the ATM Program.

Equity Offering

On July 26, 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 $108.7 million after deducting underwriting discount and commissions and offering expenses paid by the Company.

Note 9. Net Income Per Common Share

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Net income	$1,999	$ 579	$6,288	$ 1,958
Participating securities' share in earnings	(287)	(200)	(769)	(526)
Net income, less participating securities' share in earnings	$1,712	$ 379	$5,519	$ 1,432
Weighted average Common Shares outstanding				
Weighted average Common Shares outstanding	18,330,340	16,719,150	18,228,006	14,319,231
Unvested restricted shares	(660,659)	(477,164)	(532,318)	(434,755)
Weighted average Common Shares outstanding–Basic	17,669,681	16,241,986	17,695,688	13,884,476
Dilutive potential common shares	—	—	—	—
Weighted average Common Shares outstanding –Diluted	17,669,681	16,241,986	17,695,688	13,884,476

Basic Net Income per Common Share	$0.10	$ 0.02	$0.31	$ 0.10
Diluted Net Income per Common Share	$0.10	$ 0.02	$0.31	$ 0.10

Note 10. Incentive Plan

Under the Company's 2014 Incentive Plan, as amended, awards may be made in the form of restricted stock, cash or a combination of both. Compensation expense recognized from the amortization of the value of the Company's officer, employee and director shares over the applicable vesting periods during the three months ended September 30, 2018 and 2017 was approximately $0.7 million and $0.4 million, respectively, and during the nine months ended September 30, 2018 and 2017 was approximately $2.1 million and $1.1 million, respectively. Amortization expense in the second quarter of 2018 included approximately $0.2 million related to fully-amortized shares previously granted to a board member who did not stand for re-election to the Company's board.

A summary of the activity under the 2014 Incentive Plan for the three and nine months ended September 30, 2018 and 2017 is included in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock-based awards, beginning of period	609,660	434,980	512,115	302,299
Stock in lieu of compensation	17,420	16,452	69,767	80,580
Stock awards	82,407	60,683	144,237	129,236
Total stock granted	99,827	77,135	214,004	209,816
Vested shares	—	—	(16,632)	—
Stock-based awards, end of period	709,487	512,115	709,487	512,115

Note 11. Other Assets

Items included in Other assets, net on the Company's Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 are detailed in the table below.

(Dollars in thousands)	Balance as of September 30, 2018	December 31, 2017
Notes receivable	$28,034	$ 13,917
Accounts and interest receivables	4,494	2,417
Straight-line rent receivables	3,208	2,179
Allowance for doubtful accounts	(250)	(293)
Prepaid assets	623	341
Deferred financing costs, net	452	618
Leasing commissions, net	560	483
Deferred tax asset	581	478
Fair value of interest rate swaps	2,612	258
Other	397	255
	$40,711	$ 20,653

The Company's $28.0 million in notes receivable at September 30, 2018 include mainly the following notes. Interest related to these notes is included in Other Operating Income on the Company's Condensed Consolidated Statements of Income.

- During 2017, concurrent with the acquisition of a property, the Company entered into a $5.0 million note receivable with the tenant in the building. The $5.0 million note receivable, which matures on September 27, 2022, currently bears interest at 12% per annum, increasing through the maturity date to 16% per annum, and payments aggregating approximately $1.9 million are due each year until maturity with the remaining amount due at maturity.

- 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. The loan, which matures on May 1, 2031, currently bears interest at 9% per annum, with principal payments beginning in May 2021. See Note 5 for more details.

The Company identified the borrowers of these notes as variable interest entities ("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. The VIEs that we have identified at September 30, 2018 are summarized in the table below.

Classification	Carrying Amount (in millions)	Maximum Exposure to Loss (in millions)
Note receivable	$ 5.0	$ 5.0
Note receivable	$ 23.0	$ 23.0

Note 12. 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 - The carrying amount approximates the fair value.

Mortgage note receivable - The fair value was estimated using cash flow analyses, 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, 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.

Interest rate swaps - 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.

The table below details the fair values and carrying values for our mortgage note and notes receivable and interest rate swaps at September 30, 2018 and December 31, 2017, using level 2 inputs.

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(Dollars in thousands)	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage note receivable	$—	$—	$10,633	$10,633
Notes receivable	$28,034	$28,032	$13,917	$13,828
Interest rate swap asset	$2,612	$2,612	$258	$258

Note 13. Subsequent Events

Dividend Declared
On November 1, 2018, the Company's Board of Directors declared a quarterly common stock dividend in the amount of $0.4050 per share. The dividend is payable on November 30, 2018 to stockholders of record on November 16, 2018.

Subsequent Disposition
On October 29, 2018, the Company disposed of a 61,000 square foot physician clinic in Winfield, Alabama and received net proceeds of approximately $3.2 million. The Company received the tenant's notice of its intent to exercise the purchase option in October 2018. The Company expects to recognize a gain on this transaction.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Disclosure Regarding Forward-Looking Statements

This report and other materials that Community Healthcare Trust Incorporated (the "Company") has filed or may file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made, or to be made, by management of the Company, contain, or will contain, contains statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "believes", "expects", "may", "should", "seeks", "approximately", "intends", "plans", "es "anticipates" or other similar words or expressions, including the negative thereof. Forward-looking statements are based on certain assumptions and can include future expectations, future plans and strategies, financial and operating projections or other forward-looking information. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Because forward-looking statements relate to future events, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. Thus, the Company's actual results and financial condition may differ materially from those indicated in such forward-looking statements. Some factors that might cause such a difference include the following: general volatility of the capital markets and the market price of the Company's common stock, changes in the Company's business strategy, availability, terms and deployment of capital, the Company's ability to refinance existing indebtedness at or prior to maturity on favorable terms, or at all, changes in the real estate industry in general, interest rates or the general economy, adverse developments related to the healthcare industry, the degree and nature of the Company's competition, the ability to consummate acquisitions under contract and the other factors described in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and the Company's other filings with the Securities and Exchange Commission from time to time. Readers are therefore cautioned not to place undue reliance on the forward-looking statements contained herein which speak only as of the date hereof. The Company intends these forward-looking statements to speak only as of the time of this report and the Company undertakes no obligation to update forward-looking statements, whether as a result of new information, future developments, or otherwise, except as may be required by law.

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 Condensed Consolidated Financial Statements and accompanying notes.

Overview

References such as "we," "us," "our," and "the Company" mean Community Healthcare Trust Incorporated, a Maryland corporation, and its consolidated subsidiaries.

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

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 acquisitions

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.

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 $7.3 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.

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.

See Note 4 to the Condensed Consolidated Financial Statements for more details on these acquisitions.

Acquisition Pipeline

The Company has 11 properties under definitive purchase agreements for an aggregate expected purchase price of approximately $24.0 million. The Company's expected aggregate returns on these investments range from approximately 9.0% to 9.5%. The Company anticipates the properties will close during the fourth quarter of 2018. However, the Company is currently performing due diligence procedures customary for these types of transactions and cannot provide assurance as to the timing of when, or whether, the transaction will actually close.

The Company also 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.

Leased square footage

As of September 30, 2018, our real estate portfolio was approximately 89.3% leased. During the first nine months of 2018, we had expiring or terminated leases related to approximately 73,000 square feet and leased or renewed leases relating to approximately 167,000 square feet.

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 the Consumer Price Index or other measures). However, some of these contractual rent

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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 Condensed Consolidated Financial Statements accompanying this report for information on new accounting standards not yet adopted.

Results of Operations

The Company's results of operations for the three and nine months ended September 30, 2018 compared to the same period in 2017 have most significantly been impacted by its real estate acquisitions. As of September 30, 2018 and 2017, the Company had investments in real estate properties, and a mortgage note in 2017, totaling approximately $424.2 million and $358.0 million, respectively.

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

The table below shows our results of operations for the three months ended September 30, 2018 compared to the same period in 2017 and the effect of changes in those results from period to period on our net income.

(dollars in thousands)	Three Months Ended September 30, 2018	2017	Increase (Decrease) to Net Income $	%
REVENUES				
Rental income	$10,225	$8,012	$2,213	27.6 %
Tenant reimbursements	1,701	1,158	543	46.9 %
Mortgage interest	—	255	(255)	(100.0)%
Other operating interest	679	19	660	n/m
	12,605	9,444	3,161	33.5 %
EXPENSES				
Property operating	2,627	2,225	(402)	(18.1)%
General and administrative	1,395	1,069	(326)	(30.5)%
Depreciation and amortization	4,925	4,544	(381)	(8.4)%
Bad debts	68	—	(68)	— %
	9,015	7,838	(1,177)	(15.0)%
OTHER INCOME (EXPENSE)				
Interest expense	(1,643)	(1,091)	(552)	(50.6)%
Other income	52	64	(12)	18.8 %
	(1,591)	(1,027)	(564)	(54.9)%
NET INCOME	$1,999	$579	$1,420	245.3 %

n/m-not meaningful.

Revenues

Revenues increased approximately $3.2 million, or 33.5%, for the three months ended September 30, 2018 compared to the same period in 2017 due mainly to acquisitions of real estate and interest on notes receivable.

Expenses

Property operating expenses increased approximately $0.4 million, or 18.1%, for the three months ended September 30, 2018 compared to the same period in 2017 mainly due to acquisitions of real estate.

General and administrative expenses increased approximately $0.3 million, or 30.5%, for the three months ended September 30, 2018 compared to the same period in 2017 due mainly to compensation-related expenses and occupancy costs related to our employees, including the amortization of non-vested restricted common shares issued under our 2014 Incentive Plan, as amended, and expenses related to the addition of employees.

Depreciation and amortization expense increased approximately $0.4 million, or 8.4%, for the three months ended September 30, 2018 compared to the same period in 2017 due mainly to acquisitions which accounted for an increase of approximately $1.1 million, offset by a decrease of approximately $0.8 million in amortization due to fully depreciated real estate lease intangibles which generally have a shorter depreciable life than a building.

Interest expense

Interest expense increased approximately $0.6 million, or 50.6%, for the three months ended September 30, 2018 compared to the same period in 2017 due mainly to the Company's borrowings under its Term Loans under the Company's Credit Facility. The Company borrowed $60.0 million in Term Loans in the first quarter of 2017 and borrowed the remaining $40.0 million in Term Loans in the first quarter of 2018 which are at higher interest rates than the Revolving Credit Facility repaid with the Term Loan proceeds. The Company's weighted average debt balance and weighted average interest rate on the revolving credit facility were also higher in the third quarter of 2018 compared to the same period in 2017.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

The table below shows our results of operations for the nine months ended September 30, 2018 compared to the same period in 2017 and the effect of changes in those results from period to period on our net income.

	Nine Months Ended September 30,		Increase (Decrease) to Net Income	
(dollars in thousands)	2018	2017	$	%
REVENUES				
Rental income	$30,080	$21,968	$8,112	36.9 %
Tenant reimbursements	4,731	3,620	1,111	30.7 %
Mortgage interest	—	774	(774)	(100.0)%
Other operating interest	1,625	19	1,606	n/m
	36,436	26,381	10,055	38.1 %
EXPENSES				
Property operating	7,497	6,103	(1,394)	(22.8)%
General and administrative	4,092	2,674	(1,418)	(53.0)%
Depreciation and amortization	14,471	12,749	(1,722)	(13.5)%
Bad debts	68	67	(1)	(1.5)%
	26,128	21,593	(4,535)	(21.0)%
OTHER INCOME (EXPENSE)				
Interest expense	(4,482)	(2,897)	(1,585)	54.7 %
Other income	462	67	395	n/m
	(4,020)	(2,830)	(1,190)	42.0 %
NET INCOME	$6,288	$1,958	$4,330	221.1 %

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n/m-not meaningful.

Revenues

Revenues increased approximately $10.1 million, or 38.1%, for the nine months ended September 30, 2018 compared to the same period in 2017 due mainly to acquisitions of real estate and interest on notes receivable.

Expenses

Property operating expenses increased approximately $1.4 million, or 22.8%, for the nine months ended September 30, 2018 compared to the same period in 2017 mainly due to acquisitions of real estate which increased property operating expenses by approximately $1.2 million and increases in property taxes and maintenance and repairs on the remaining portfolio of approximately $0.2 million.

General and administrative expenses increased approximately $1.4 million, or 53.0%, for the nine months ended September 30, 2018 compared to the same period in 2017 due mainly to compensation-related expenses and occupancy costs related to our employees, including the amortization of non-vested restricted common shares issued under our 2014 Incentive Plan, as amended, and expenses related to the addition of employees.

Depreciation and amortization expense increased approximately $1.7 million, or 13.5%, for the nine months ended September 30, 2018 compared to the same period in 2017 due mainly to acquisitions which accounted for an increase of approximately $3.1 million, offset by a decrease in amortization of approximately $1.4 million due to fully depreciated real estate lease intangibles which generally have a shorter depreciable life than a building.

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Interest expense

Interest expense increased approximately $1.6 million, or 54.7%, for the nine months ended September 30, 2018 compared to the same period in 2017 due mainly to the Company's borrowings under its Term Loans under the Company's Credit Facility. The Company borrowed $60.0 million in Term Loans in the first quarter of 2017 and borrowed the remaining $40.0 million in Term Loans in the first quarter of 2018 which are at higher interest rates than the Revolving Credit Facility repaid with the Term Loan proceeds.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, excepts per share amounts)	2018	2017	2018	2017
Net income	$1,999	$ 579	6,288	$ 1,958
Real estate depreciation and amortization	4,918	4,539	14,453	12,736
Total adjustments	4,918	4,539	14,453	12,736
Funds from Operations	$6,917	$ 5,118	$20,741	$ 14,694
Funds from Operations per Common Share-Basic	$0.39	$ 0.32	$1.17	$ 1.06
Funds from Operations per Common Share-Diluted	$0.39	$ 0.31	$1.16	$ 1.05
Weighted Average Common Shares Outstanding-Basic	17,669,681	16,241,986	17,695,688	13,884,476
Weighted Average Common Shares Outstanding-Diluted [(1)]	17,947,516	16,401,718	17,839,011	14,035,185

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

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 portfolio (including mortgage), collecting rental income, operating expense reimbursements and 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.

The Company's Credit Facility provides for a $150.0 million Revolving Credit Facility and $100.0 million in Term Loans, as well as an accordion feature which allows borrowings up to a total of $450.0 million, including the ability to

add and fund additional term loans. Note 6 to the Condensed Consolidated Financial Statements provides more details on the Company's Credit Facility. At September 30, 2018, the Company had borrowed $100.0 million in

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Term Loans and had $28.0 million outstanding under the Revolving Credit Facility with a remaining borrowing capacity of $122.0 million. At September 30, 2018, our debt to total book capitalization ratio was approximately 31.3%.

Acquisition Pipeline

The Company has 11 properties under definitive purchase agreements for an aggregate expected purchase price of approximately $24.0 million. The Company's expected aggregate returns on these investments range from approximately 9.0% to 9.5%. The Company anticipates the properties will close during the fourth quarter of 2018. However, the Company is currently performing due diligence procedures customary for these types of transactions and cannot provide assurance as to the timing of when, or whether, the transaction will actually close.

The Company also 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.

Universal Shelf S-3 Registration Statement

The Company has approximately $628.1 million remaining to be issued under its Form S-3 registration statement filed on September 13, 2016 with the Securities and Exchange Commission, and declared effective on September 26, 2016. The registration statement allows us to offer debt or equity securities (or a combination thereof) from time to time.

ATM Program

During the third quarter of 2018, the Company issued, through its ATM Program, 234,000 shares of common stock at an average gross sales price of $31.17 per share and received net proceeds of approximately $7.1 million, as discussed in more detail in Note 8 to the Condensed Consolidated Financial Statements. The proceeds were used to repay outstanding balances under the Company's Credit Facility and for general corporate purposes.

Operating Activities

Cash flows provided by operating activities for the nine months ended September 30, 2018 and 2017 were approximately $17.9 million and $15.4 million, respectively. Cash flows provided by operating activities were generally provided by contractual rents, net of expenses, on our real estate property portfolio.

Investing Activities

Cash flows used in investing activities for the nine months ended September 30, 2018 and 2017 were approximately $38.0 million and $98.7 million, respectively. During the nine months ended September 30, 2018, the Company invested in eight properties for an aggregate cash consideration of approximately $26.8 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 Condensed Consolidated Financial Statements. During the nine months ended September 30, 2017, the Company invested in 22 properties for an aggregate purchase price of approximately $93.0 million, including approximately $92.6 million in cash consideration. The Company also acquired a property, adjacent to its corporate office, for a cash purchase price

of approximately $0.9 million. The property is currently leased to a tenant but the Company intends to use the property for future expansion of its corporate office.

Financing Activities

Cash flows provided by financing activities for the nine months ended September 30, 2018 and 2017 were approximately $19.0 million and $99.2 million, respectively. During the nine months ended September 30, 2018, the Company borrowed the remaining $40.0 million under its Term Loans, had net repayments on its Revolving Credit Facility of $6.0 million, received net proceeds under its at-the-market equity offering program of approximately $7.1 million, and paid dividends totaling $21.9 million. During the nine months ended September 30, 2017, the Company amended its Credit Facility, borrowed $60.0 million in Term Loans, had net repayments on its Revolving Credit Facility of $51.0 million, paid dividends totaling $17.3 million, and completed an equity offering for net proceeds of approximately $108.7 million. The net proceeds from the equity offering were partially used to repay $58.0 million outstanding under the Company's Revolving Credit Facility.

Security Deposits

As of September 30, 2018, the Company held approximately $2.5 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.

On November 1, 2018, the Company’s Board of Directors declared a quarterly common stock dividend in the amount of $0.4050 per share. The dividend is payable on November 30, 2018 to stockholders of record on November 16, 2018. This rate equates to an annualized dividend of $1.62 per share.

On August 31, 2018, the Company paid a cash dividend in the amounts of $0.4025 per share to shareholders of record on August 17, 2018.

On June 1, 2018, the Company paid a cash dividend in the amount of $0.40 per share to shareholders of record on May 18, 2018.

On March 2, 2018, the Company paid a cash dividend in the amount of $0.3975 per share to shareholders of record on February 16, 2018.

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

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We may use certain derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We will not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. An interest rate swap is a contractual agreement entered into by two counterparties under which each agrees to make periodic payments to the other for an agreed period of time based on a notional amount of principal. Under the most common form of interest rate swap, known from our perspective as a floating-to-fixed interest rate swap, a series of floating, or variable, rate payments on a notional amount of principal is exchanged for a series of fixed interest rate payments on such notional amount.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes In Internal Control Over Financial Reporting

There were 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 September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. 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 1A. RISK FACTORS

In addition to the other information set forth in this quarterly report, an investor should consider the risk factors included in its Annual Report on Form 10-K for the year ended December 31, 2017, and other reports that may be filed by the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required by Item 601 of Regulation S-X which are filed with this report are listed in the Exhibit Index and are hereby incorporated in by reference.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Corporate Charter of Community Healthcare Trust Incorporated, as amended (1)
3.2	Bylaws of Community Healthcare Trust Incorporated, as amended (2)
10.1	Sales Agency Agreement, dated August 7, 2018, by and among Community Healthcare Trust Incorporated and 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 (3)
31.1 *	Certification of the Chief Executive 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
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
32.1 **	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	

	XBRL Taxonomy Extension Labels Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed as Exhibit 3.1 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 incorporated herein by reference.

(2) 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.

(3) Filed as Exhibit 10.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on August 7, 2018.

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* Filed herewith.

** Furnished herewith.

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SIGNATURES

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

Date: November 6, 2018

COMMUNITY HEALTHCARE TRUST
INCORPORATED

By: /s/ Timothy G. Wallace
Timothy G. Wallace
Chief Executive Officer and President

By: /s/ W. Page Barnes
W. Page Barnes
Executive Vice President and Chief Financial Officer