

Digital Realty Trust, Inc.
Form 10-Q
November 09, 2016
Table of Contents

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

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

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 001-32336 (Digital Realty Trust, Inc.)
000-54023 (Digital Realty Trust, L.P.)

DIGITAL REALTY TRUST, INC.
DIGITAL REALTY TRUST, L.P.
(Exact name of registrant as specified in its charter)

Maryland (Digital Realty Trust, Inc.) 26-0081711
Maryland (Digital Realty Trust, L.P.) 20-2402955
(State or other jurisdiction of (IRS employer
incorporation or organization) identification number)

Four Embarcadero Center, Suite 3200 94111
San Francisco, CA
(Address of principal executive offices) (Zip Code)
(415) 738-6500
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Digital Realty Trust, Inc. Yes No

Digital Realty Trust, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Digital Realty Trust, Inc. Yes No

Digital Realty Trust, L.P. Yes 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. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

Edgar Filing: Digital Realty Trust, Inc. - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

Digital Realty Trust, Inc.:

Large accelerated filer Accelerated filer

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

Digital Realty Trust, L.P.:

Large accelerated filer Accelerated filer

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

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

Digital Realty Trust, Inc. Yes No

Digital Realty Trust, L.P. Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Digital Realty Trust, Inc.:

Class Outstanding at November 3, 2016

Common Stock, \$.01 par value per share 158,935,108

Table of Contents

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2016 of Digital Realty Trust, Inc., a Maryland corporation, and Digital Realty Trust, L.P., a Maryland limited partnership, of which Digital Realty Trust, Inc. is the sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” “our company” or “the company” refer to Digital Realty Trust, Inc. together with its consolidated subsidiaries, including Digital Realty Trust, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to Digital Realty Trust, L.P. together with its consolidated subsidiaries.

Digital Realty Trust, Inc. is a real estate investment trust, or REIT, and the sole general partner of Digital Realty Trust, L.P. As of September 30, 2016, Digital Realty Trust, Inc. owned an approximate 98.4% common general partnership interest in Digital Realty Trust, L.P. The remaining approximate 1.6% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of Digital Realty Trust, Inc. As of September 30, 2016, Digital Realty Trust, Inc. owned all of the preferred limited partnership interests of Digital Realty Trust, L.P. As the sole general partner of Digital Realty Trust, L.P., Digital Realty Trust, Inc. has the full, exclusive and complete responsibility for the operating partnership’s day-to-day management and control.

We believe combining the quarterly reports on Form 10-Q of Digital Realty Trust, Inc. and Digital Realty Trust, L.P. into this single report results in the following benefits:

- enhancing investors’ understanding of our company and our operating partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminating duplicative disclosure and providing a more streamlined and readable presentation since a substantial portion of the disclosure applies to both our company and our operating partnership; and
- creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are a few differences between our company and our operating partnership, which are reflected in the disclosure in this report. We believe it is important to understand the differences between our company and our operating partnership in the context of how we operate as an interrelated consolidated company. Digital Realty Trust, Inc. is a REIT, whose only material asset is its ownership of partnership interests of Digital Realty Trust, L.P. As a result, Digital Realty Trust, Inc. generally does not conduct business itself, other than acting as the sole general partner of Digital Realty Trust, L.P., issuing public securities from time to time and guaranteeing certain unsecured debt of Digital Realty Trust, L.P. and certain of its subsidiaries and affiliates. Digital Realty Trust, Inc. itself has not issued any indebtedness but guarantees the unsecured debt of Digital Realty Trust, L.P. and certain of its subsidiaries, as disclosed in this report. Digital Realty Trust, L.P. holds substantially all the assets of the company and holds the ownership interests in the company’s joint ventures. Digital Realty Trust, L.P. conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from public equity issuances by Digital Realty Trust, Inc., which are generally contributed to Digital Realty Trust, L.P. in exchange for partnership units, Digital Realty Trust, L.P. generally generates the capital required by the company’s business primarily through Digital Realty Trust, L.P.’s operations, by Digital Realty Trust, L.P.’s or its affiliates’ direct or indirect incurrence of indebtedness or through the issuance of partnership units.

The presentation of noncontrolling interests in operating partnership, stockholders’ equity and partners’ capital are the main areas of difference between the condensed consolidated financial statements of Digital Realty Trust, Inc. and those of Digital Realty Trust, L.P. The common limited partnership interests held by the limited partners in Digital Realty Trust, L.P. are presented as limited partners’ capital within partners’ capital in Digital Realty Trust, L.P.’s condensed consolidated financial statements and as noncontrolling interests in operating partnership within equity in Digital Realty Trust, Inc.’s condensed consolidated financial statements. The common and preferred partnership interests held by Digital Realty Trust, Inc. in Digital Realty Trust, L.P. are presented as general partner’s capital within

partners' capital in Digital Realty Trust, L.P.'s condensed consolidated financial statements and as preferred stock, common stock, additional paid-in capital and accumulated dividends in excess of earnings within stockholders' equity in Digital Realty Trust, Inc.'s condensed consolidated financial statements. The differences in the presentations between stockholders' equity and partners' capital result from the differences in the equity issued at the Digital Realty Trust, Inc. and the Digital Realty Trust, L.P. levels.

Table of Contents

To help investors understand the significant differences between the company and the operating partnership, this report presents the following separate sections for each of the company and the operating partnership:

- Condensed consolidated financial statements;

the following notes to the condensed consolidated financial statements:

• "Debt of the Company" and "Debt of the Operating Partnership";

• "Income per Share" and "Income per Unit"; and

• "Equity and Accumulated Other Comprehensive Income, Net" and "Capital and Accumulated Other Comprehensive Income";

• Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources of the Parent Company" and "—Liquidity and Capital Resources of the Operating Partnership"; and

• Part II, Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds".

This report also includes separate Part I, Item 4. "Controls and Procedures" sections and separate Exhibit 31 and 32 certifications for each of the company and the operating partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity during the period covered by this report have made the requisite certifications and that the company and the operating partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

In order to highlight the differences between the company and the operating partnership, the separate sections in this report for the company and the operating partnership specifically refer to the company and the operating partnership. In the sections that combine disclosure of the company and the operating partnership, this report refers to actions or holdings as being actions or holdings of the company. Although the operating partnership is generally the entity that enters into contracts and joint ventures and holds assets and debt, reference to the company is appropriate because the business is one enterprise and the company generally operates the business through the operating partnership.

As general partner with control of the operating partnership, Digital Realty Trust, Inc. consolidates the operating partnership for financial reporting purposes, and it does not have significant assets other than its investment in the operating partnership. Therefore, the assets and liabilities of Digital Realty Trust, Inc. and Digital Realty Trust, L.P. are generally the same on their respective condensed consolidated financial statements. The separate discussions of Digital Realty Trust, Inc. and Digital Realty Trust, L.P. in this report should be read in conjunction with each other to understand the results of the company on a consolidated basis and how management operates the company.

Table of Contents

DIGITAL REALTY TRUST, INC. AND DIGITAL REALTY TRUST, L.P.
 FORM 10-Q
 FOR THE QUARTER ENDED SEPTEMBER 30, 2016
 TABLE OF CONTENTS

	Page Number
PART I. FINANCIAL INFORMATION	
ITEM 1. Condensed Consolidated Financial Statements of Digital Realty Trust, Inc.:	
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015</u>	5
<u>Condensed Consolidated Income Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015 (unaudited)</u>	7
<u>Condensed Consolidated Statement of Equity for the nine months ended September 30, 2016 (unaudited)</u>	8
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 (unaudited)</u>	9
Condensed Consolidated Financial Statements of Digital Realty Trust, L.P.:	
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015</u>	12
<u>Condensed Consolidated Income Statements for the three and nine months ended September 30, 2016 and 2015 (unaudited)</u>	13
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015 (unaudited)</u>	14
<u>Condensed Consolidated Statement of Capital for the nine months ended September 30, 2016 (unaudited)</u>	15
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 (unaudited)</u>	16
<u>Notes to Condensed Consolidated Financial Statements of Digital Realty Trust, Inc. and Digital Realty Trust, L.P.</u>	19
ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	50
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	77

ITEM 4.	<u>Controls and Procedures (Digital Realty Trust, Inc.)</u>	<u>78</u>
	<u>Controls and Procedures (Digital Realty Trust, L.P.)</u>	<u>78</u>
PART II.	<u>OTHER INFORMATION</u>	<u>80</u>
ITEM 1.	<u>Legal Proceedings</u>	<u>80</u>
ITEM 1A.	<u>Risk Factors</u>	<u>80</u>
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>80</u>
ITEM 3.	<u>Defaults Upon Senior Securities</u>	<u>81</u>
ITEM 4.	<u>Mine Safety Disclosures</u>	<u>81</u>
ITEM 5.	<u>Other Information</u>	<u>81</u>
ITEM 6.	<u>Exhibits</u>	<u>82</u>
	<u>Signatures</u>	<u>83</u>

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (in thousands, except share and per share data)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Investments in real estate:		
Properties:		
Land	\$737,562	\$689,573
Acquired ground leases	11,916	12,639
Buildings and improvements	10,222,116	9,676,427
Tenant improvements	540,271	536,734
Total investments in properties	11,511,865	10,915,373
Accumulated depreciation and amortization	(2,565,368)	(2,251,268)
Net investments in properties	8,946,497	8,664,105
Investment in unconsolidated joint ventures	105,819	106,107
Net investments in real estate	9,052,316	8,770,212
Cash and cash equivalents	36,445	57,053
Accounts and other receivables, net of allowance for doubtful accounts of \$10,052 and \$5,844	208,097	177,398
as of September 30, 2016 and December 31, 2015, respectively		
Deferred rent	412,977	403,327
Acquired above-market leases, net	24,554	32,698
Goodwill	780,099	330,664
Acquired in-place lease value, deferred leasing costs and intangibles, net	1,526,563	1,391,659
Restricted cash	11,685	18,009
Assets held for sale	55,915	180,139
Other assets	190,384	54,904
Total assets	\$12,299,035	\$11,416,063
LIABILITIES AND EQUITY		
Global revolving credit facility	\$153,189	\$960,271
Unsecured term loan	1,521,613	923,267
Unsecured senior notes, net of discount	4,238,435	3,712,569
Mortgage loans, including premiums	111,750	302,930
Accounts payable and other accrued liabilities	823,905	608,343
Accrued dividends and distributions	—	126,925
Acquired below-market leases, net	86,888	101,114
Security deposits and prepaid rents	163,787	138,347
Obligations associated with assets held for sale	2,820	5,795
Total liabilities	7,102,387	6,879,561
Commitments and contingencies		
Equity:		
Stockholders' Equity:		
Preferred Stock: \$0.01 par value per share, 110,000,000 and 70,000,000 shares authorized as of September 30, 2016 and December 31, 2015, respectively:		

Edgar Filing: Digital Realty Trust, Inc. - Form 10-Q

Series E Cumulative Redeemable Preferred Stock, 7.000%, \$0 and \$287,500 liquidation preference, respectively (\$25.00 per share), 0 and 11,500,000 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	—	277,172
Series F Cumulative Redeemable Preferred Stock, 6.625%, \$182,500 and \$182,500 liquidation preference, respectively (\$25.00 per share), 7,300,000 and 7,300,000 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	176,191	176,191
Series G Cumulative Redeemable Preferred Stock, 5.875%, \$250,000 and \$250,000 liquidation preference, respectively (\$25.00 per share), 10,000,000 and 10,000,000 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	241,468	241,468
Series H Cumulative Redeemable Preferred Stock, 7.375%, \$365,000 and \$365,000 liquidation preference, respectively (\$25.00 per share), 14,600,000 and 14,600,000 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	353,290	353,290
Series I Cumulative Redeemable Preferred Stock, 6.350%, \$250,000 and \$250,000 liquidation preference, respectively (\$25.00 per share), 10,000,000 and 10,000,000 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	242,012	242,014
Common Stock: \$0.01 par value, 265,000,000 and 215,000,000 shares authorized as of September 30, 2016 and December 31, 2015, respectively, 158,926,811 and 146,384,247 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	1,581	1,456
Additional paid-in capital	5,759,338	4,655,220
Accumulated dividends in excess of earnings	(1,483,220)	(1,350,089)
Accumulated other comprehensive loss, net	(131,939)	(96,590)
Total stockholders' equity	5,158,721	4,500,132
Noncontrolling Interests:		
Noncontrolling interests in operating partnership	31,088	29,612
Noncontrolling interests in consolidated joint ventures	6,839	6,758
Total noncontrolling interests	37,927	36,370
Total equity	5,196,648	4,536,502
Total liabilities and equity	\$12,299,035	\$11,416,063

See accompanying notes to the condensed consolidated financial statements.

Table of ContentsDIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS

(unaudited, in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues:				
Rental	\$395,212	\$336,679	\$1,143,449	\$983,695
Tenant reimbursements	95,665	95,484	268,094	268,885
Interconnection and other	53,897	1,651	149,223	4,477
Fee income	1,517	1,595	4,567	4,758
Other	2	580	93	1,078
Total operating revenues	546,293	435,989	1,565,426	1,262,893
Operating Expenses:				
Rental property operating and maintenance	177,192	140,538	490,909	394,640
Property taxes	20,620	19,953	75,400	64,116
Insurance	2,470	2,140	7,123	6,449
Change in fair value of contingent consideration	—	(1,594)	—	(44,276)
Depreciation and amortization	178,133	136,974	522,743	397,571
General and administrative	46,135	22,755	111,580	69,562
Transactions	6,015	11,042	11,530	14,301
Other	(22)	51	(23)	29
Total operating expenses	430,543	331,859	1,219,262	902,392
Operating income	115,750	104,130	346,164	360,501
Other Income (Expenses):				
Equity in earnings of unconsolidated joint ventures	4,152	4,169	12,362	12,170
Gain (loss) on sale of properties	169,000	(207)	170,097	94,282
Interest and other (expense) income	355	(358)	(3,594)	(2,879)
Interest expense	(63,084)	(48,138)	(180,254)	(139,718)
Tax expense	(3,720)	(1,754)	(8,081)	(6,044)
Loss from early extinguishment of debt	(18)	—	(982)	(148)
Net income	222,435	57,842	335,712	318,164
Net income attributable to noncontrolling interests	(3,247)	(864)	(4,600)	(5,492)
Net income attributable to Digital Realty Trust, Inc.	219,188	56,978	331,112	312,672
Preferred stock dividends	(21,530)	(18,456)	(66,378)	(55,367)
Issuance costs associated with redeemed preferred stock	(10,328)	—	(10,328)	—
Net income available to common stockholders	\$187,330	\$38,522	\$254,406	\$257,305
Net income per share available to common stockholders:				
Basic	\$1.27	\$0.28	\$1.73	\$1.89
Diluted	\$1.25	\$0.28	\$1.72	\$1.88
Weighted average common shares outstanding:				
Basic	147,397,853	135,832,503	146,930,939	135,782,831
Diluted	149,384,871	138,259,936	147,655,184	136,920,477

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited, in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$222,435	\$57,842	\$335,712	\$318,164
Other comprehensive income:				
Foreign currency translation adjustments	(18,438)	(19,105)	(37,388)	(41,480)
Increase (decrease) in fair value of interest rate swaps and foreign currency hedges	14,806	(2,534)	(2,113)	(4,374)
Reclassification to interest expense from interest rate swaps	1,313	574	3,569	2,077
Comprehensive income	220,116	36,777	299,780	274,387
Comprehensive income attributable to noncontrolling interests	(3,210)	(463)	(4,017)	(4,657)
Comprehensive income attributable to Digital Realty Trust, Inc.	\$216,906	\$36,314	\$295,763	\$269,730
See accompanying notes to the condensed consolidated financial statements.				

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(unaudited, in thousands, except share data)

	Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Dividends in Excess of Earnings	Accumulated Other Comprehensive Loss, Net	Total Stockholders' Equity	Noncontrolling Interests in Operating Partnership	Noncontrolling Interests in Consolidated Joint Ventures
Balance as of December 31, 2015	\$1,290,135	146,384,247	\$ 1,456	\$4,655,220	\$(1,350,089)	\$(96,590)	\$4,500,132	\$29,612	\$6,375
Conversion of units to common stock	—	339,146	4	4,045	—	—	4,049	(4,049)	—
Issuance of unvested restricted stock, net of forfeitures	—	119,122	—	—	—	—	—	—	—
Issuance of common stock, net of offering costs	—	12,000,000	120	1,085,971	—	—	1,086,091	—	—
Exercise of stock options	—	33,948	—	1,380	—	—	1,380	—	—
Shares issued under employee stock purchase plan	—	50,348	1	3,348	—	—	3,349	—	—
Preferred stock offering costs	(2)	—	—	—	—	—	(2)	—	—
Redemption of series E preferred stock	(277,172)	—	—	—	(10,328)	—	(287,500)	—	—
Amortization of share-based compensation	—	—	—	18,496	—	—	18,496	—	—
Reclassification of vested share-based awards	—	—	—	(9,122)	—	—	(9,122)	9,122	—
Dividends declared on preferred stock	—	—	—	—	(66,378)	—	(66,378)	—	—
Dividends and distributions on common stock and common and incentive units	—	—	—	—	(387,537)	—	(387,537)	(7,158)	—
Distributions to noncontrolling interests in consolidated joint ventures, net of contributions	—	—	—	—	—	—	—	—	(37,125)
Net income	—	—	—	—	331,112	—	331,112	4,144	456

Edgar Filing: Digital Realty Trust, Inc. - Form 10-Q

Other comprehensive income—foreign currency translation adjustments	—	—	—	—	—	(36,789)	(36,789)	(599)	—
Other comprehensive loss—fair value of interest rate swaps	—	—	—	—	—	(2,071)	(2,071)	(42)	—
Other comprehensive income—reclassification of accumulated other comprehensive loss to interest expense	—	—	—	—	—	3,511	3,511	58	—
Balance as of September 30, 2016	\$1,012,961	158,926,811	\$1,581	\$5,759,338	\$(1,483,220)	\$(131,939)	\$5,158,721	\$31,088	\$6,...

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$335,712	\$318,164
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of properties	(170,097)	(94,282)
Equity in earnings of unconsolidated joint ventures	(12,362)	(12,170)
Change in fair value of accrued contingent consideration	—	(44,276)
Distributions from unconsolidated joint ventures	12,578	10,786
Write-off of net assets due to early lease terminations	(23)	(8)
Depreciation and amortization of buildings and improvements, tenant improvements and acquired ground leases	387,492	346,459
Amortization of share-based compensation	13,459	5,717
Allowance for doubtful accounts	4,208	739
Amortization of deferred financing costs	7,453	6,360
Loss on early extinguishment of debt	982	148
Amortization of debt discount/premium	1,947	1,472
Amortization of acquired in-place lease value and deferred leasing costs	135,252	51,112
Amortization of acquired above-market leases and acquired below-market leases, net	(6,303)	(6,856)
Changes in assets and liabilities:		
Restricted cash	4,398	2,878
Accounts and other receivables	(46,497)	(1,382)
Deferred rent	(20,347)	(41,447)
Deferred leasing costs	(3,905)	(2,611)
Other assets	(146,763)	(14,869)
Accounts payable and other accrued liabilities	127,139	13,213
Security deposits and prepaid rents	7,128	60
Net cash provided by operating activities	631,451	539,207
Cash flows from investing activities:		
Acquisitions of real estate	(873,285)	(48,424)
Proceeds from sale of properties, net	359,319	185,565
Investment in unconsolidated joint ventures	—	(7,547)
Receipt of value added tax refund	7,807	2,934
Refundable value added tax paid	(36,328)	(24,142)
Change in restricted cash	2,028	1,520
Improvements to investments in real estate	(549,364)	(535,141)
Improvement advances to tenants	(7,937)	(26,977)
Collection of advances from tenants for improvements	25,369	26,971
Net cash used in investing activities	(1,072,391)	(425,241)
See accompanying notes to the condensed consolidated financial statements.		

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
 (unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from financing activities:		
Borrowings on revolving credit facility	\$2,355,166	\$1,430,671
Repayments on revolving credit facility	(3,161,016)	(1,240,340)
Borrowings on unsecured term loan	766,201	—
Repayments on unsecured term loan	(170,736)	—
Borrowings on unsecured senior notes	675,591	496,190
Principal payments on unsecured senior notes	—	(374,927)
Repayments on unsecured notes	(25,000)	(67,000)
Principal payments on mortgage loans	(191,302)	(73,724)
Earnout payments related to acquisition	(23,842)	(12,985)
Change in restricted cash	(99)	1,137
Payment of loan fees and costs	(19,274)	(5,116)
Capital distributions paid to noncontrolling interests in consolidated joint ventures, net	(375)	(372)
Gross proceeds from the issuance of common stock	1,089,154	—
Gross proceeds from the issuance of preferred stock	—	250,000
Common and preferred stock offering costs paid, net	(3,063)	(5,934)
Redemption of series E preferred stock	(287,500)	—
Proceeds from equity plans	4,729	798
Payment of dividends to preferred stockholders	(66,378)	(55,367)
Payment of dividends to common stockholders and distributions to noncontrolling interests in operating partnership	(521,620)	(468,813)
Net cash provided by (used in) financing activities	420,636	(125,782)
Net decrease in cash and cash equivalents	(20,304)	(11,816)
Effect of exchange rate changes on cash	(304)	—
Cash and cash equivalents at beginning of period	57,053	34,814
Cash and cash equivalents at end of period	\$36,445	\$22,998

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
 (unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$172,463	\$146,105
Cash paid for income taxes	3,646	2,979
Supplementary disclosure of noncash investing and financing activities:		
Change in net assets related to foreign currency translation adjustments	\$(37,388)	\$(41,480)
Decrease in accounts payable and other accrued liabilities related to change in fair value of interest rate swaps	(2,113)	(4,374)
Acquisition measurement period adjustment included in accounts payable and other accrued liabilities		
Noncontrolling interests in operating partnership redeemed for or converted to shares of common stock	4,049	1,364
Accrual for additions to investments in real estate and tenant improvement advances included in accounts payable and accrued expenses	125,104	115,632
Accrual for potential earnout contingency	—	18,900
Note receivable related to sale of property	—	9,000
Allocation of purchase price of real estate/investment in partnership to:		
Investments in real estate	\$874,220	\$48,424
Acquired below-market leases	(935)	—
Cash paid for acquisition of real estate	\$873,285	\$48,424
See accompanying notes to the condensed consolidated financial statements.		

Table of Contents

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except unit and per unit data)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Investments in real estate:		
Properties:		
Land	\$737,562	\$689,573
Acquired ground leases	11,916	12,639
Buildings and improvements	10,222,116	9,676,427
Tenant improvements	540,271	536,734
Total investments in properties	11,511,865	10,915,373
Accumulated depreciation and amortization	(2,565,368)	(2,251,268)
Net investments in properties	8,946,497	8,664,105
Investment in unconsolidated joint ventures	105,819	106,107
Net investments in real estate	9,052,316	8,770,212
Cash and cash equivalents	36,445	57,053
Accounts and other receivables, net of allowance for doubtful accounts of \$10,052 and \$5,844	208,097	177,398
as of September 30, 2016 and December 31, 2015, respectively		
Deferred rent	412,977	403,327
Acquired above-market leases, net	24,554	32,698
Goodwill	780,099	330,664
Acquired in-place lease value, deferred leasing costs and intangibles, net	1,526,563	1,391,659
Restricted cash	11,685	18,009
Assets held for sale	55,915	180,139
Other assets	190,384	54,904
Total assets	\$12,299,035	\$11,416,063
LIABILITIES AND CAPITAL		
Global revolving credit facility	\$153,189	\$960,271
Unsecured term loan	1,521,613	923,267
Unsecured senior notes, net of discount	4,238,435	3,712,569
Mortgage loans, including premiums	111,750	302,930
Accounts payable and other accrued liabilities	823,905	609,708
Accrued dividends and distributions	—	126,925
Acquired below-market leases, net	86,888	101,114
Security deposits and prepaid rents	163,787	138,347
Obligations associated with assets held for sale	2,820	5,795
Total liabilities	7,102,387	6,880,926
Commitments and contingencies		
Capital:		
Partners' capital:		
General Partner:		
Series E Cumulative Redeemable Preferred Units, 7.000%, \$0 and \$287,500 liquidation preference, respectively (\$25.00 per unit), 0 and 11,500,000 units issued and outstanding—		277,172
as of September 30, 2016 and December 31, 2015, respectively		

Edgar Filing: Digital Realty Trust, Inc. - Form 10-Q

Series F Cumulative Redeemable Preferred Units, 6.625%, \$182,500 and \$182,500 liquidation preference, respectively (\$25.00 per unit), 7,300,000 and 7,300,000 units issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	176,191	176,191
Series G Cumulative Redeemable Preferred Units, 5.875%, \$250,000 and \$250,000 liquidation preference, respectively (\$25.00 per unit), 10,000,000 and 10,000,000 units issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	241,468	241,468
Series H Cumulative Redeemable Preferred Units, 7.375%, \$365,000 and \$365,000 liquidation preference, respectively (\$25.00 per unit), 14,600,000 and 14,600,000 units issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	353,290	353,290
Series I Cumulative Redeemable Preferred Units, 6.350%, \$250,000 and \$250,000 liquidation preference, respectively (\$25.00 per unit), 10,000,000 and 10,000,000 units issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	242,012	242,014
Common units: 158,926,811 and 146,384,247 units issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	4,277,699	3,305,222
Limited partners, 1,218,814 and 1,421,314 common units, 963,593 and 1,170,610 profits interest units and 338,584 and 379,237 class C units outstanding as of September 30, 2016 and December 31, 2015, respectively	36,045	33,986
Accumulated other comprehensive loss	(136,896) (100,964)
Total partners' capital	5,189,809	4,528,379
Noncontrolling interests in consolidated joint ventures	6,839	6,758
Total capital	5,196,648	4,535,137
Total liabilities and capital	\$12,299,035	\$11,416,063

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED INCOME STATEMENTS
 (unaudited, in thousands, except unit and per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues:				
Rental	\$395,212	\$336,679	\$1,143,449	\$983,695
Tenant reimbursements	95,665	95,484	268,094	268,885
Interconnection and other	53,897	1,651	149,223	4,477
Fee income	1,517	1,595	4,567	4,758
Other	2	580	93	1,078
Total operating revenues	546,293	435,989	1,565,426	1,262,893
Operating Expenses:				
Rental property operating and maintenance	177,192	140,538	490,909	394,640
Property taxes	20,620	19,953	75,400	64,116
Insurance	2,470	2,140	7,123	6,449
Change in fair value of contingent consideration	—	(1,594)	—	(44,276)
Depreciation and amortization	178,133	136,974	522,743	397,571
General and administrative	46,135	22,755	111,580	69,562
Transactions	6,015	11,042	11,530	14,301
Other	(22)	51	(23)	29
Total operating expenses	430,543	331,859	1,219,262	902,392
Operating income	115,750	104,130	346,164	360,501
Other Income (Expenses):				
Equity in earnings of unconsolidated joint ventures	4,152	4,169	12,362	12,170
Gain (loss) on sale of properties	169,000	(207)	170,097	94,282
Interest and other (expense) income	355	(358)	(3,594)	(2,879)
Interest expense	(63,084)	(49,291)	(180,254)	(140,871)
Tax expense	(3,720)	(1,754)	(8,081)	(6,044)
Loss from early extinguishment of debt	(18)	—	(982)	(148)
Net income	222,435	56,689	335,712	317,011
Net income attributable to noncontrolling interests in consolidated joint ventures	(223)	(117)	(456)	(342)
Net income attributable to Digital Realty Trust, L.P.	222,212	56,572	335,256	316,669
Preferred units distributions	(21,530)	(18,456)	(66,378)	(55,367)
Issuance costs associated with redeemed preferred units	(10,328)	—	(10,328)	—
Net income available to common unitholders	\$190,354	\$38,116	\$258,550	\$261,302
Net income per unit available to common unitholders:				
Basic	\$1.27	\$0.28	\$1.73	\$1.89
Diluted	\$1.25	\$0.27	\$1.72	\$1.88
Weighted average common units outstanding:				
Basic	149,777,524	38,467,947	149,352,237	138,481,046
Diluted	151,764,542	39,192,198	150,076,482	139,050,965
See accompanying notes to the condensed consolidated financial statements.				

Table of Contents

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited, in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$222,435	\$56,689	\$335,712	\$317,011
Other comprehensive income:				
Foreign currency translation adjustments	(18,438)	(19,105)	(37,388)	(41,480)
Increase (decrease) in fair value of interest rate swaps and foreign currency hedges	14,806	(2,534)	(2,113)	(4,374)
Reclassification to interest expense from interest rate swaps	1,313	574	3,569	2,077
Comprehensive income	\$220,116	\$35,624	\$299,780	\$273,234
Comprehensive income attributable to noncontrolling interests in consolidated joint ventures	(223)	(117)	(456)	(342)
Comprehensive income attributable to Digital Realty Trust, L.P.	\$219,893	\$35,507	\$299,324	\$272,892
See accompanying notes to the condensed consolidated financial statements.				

Table of Contents

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CAPITAL
(unaudited, in thousands, except unit data)

	General Partner Preferred Units		Common Units		Limited Partners Common Units		Accumulated Other Comprehensive Loss	Noncontrolling Interests in Consolidated Ventures	Total
	Units	Amount	Units	Amount	Units	Amount			
Balance as of December 31, 2015	53,400,000	\$1,290,135	146,384,247	\$3,305,222	2,833,326	\$33,986	\$(100,964)	\$6,758	\$4,5
Conversion of limited partner common units to general partner common units	—	—	339,146	4,049	(339,146)	(4,049)	—	—	—
Issuance of unvested restricted common units, net of forfeitures	—	—	119,122	—	—	—	—	—	—
Common unit offering costs, net	—	—	12,000	1,086,091	—	—	—	—	1,08
Issuance of common units in connection with the exercise of stock options	—	—	33,948	1,380	—	—	—	—	1,38
Issuance of common units, net of forfeitures	—	—	—	—	26,811	—	—	—	—
Units issued in connection with employee stock purchase plan	—	—	50,348	3,349	—	—	—	—	3,34
Preferred unit offering costs	—	(2)	—	—	—	—	—	—	(2
Redemption of series E preferred units	(11,500,000)	(277,172)	—	(10,328)	—	—	—	—	(287
Amortization of share-based compensation	—	—	—	18,496	—	—	—	—	18,4
Reclassification of vested share-based awards	—	—	—	(9,122)	—	9,122	—	—	—
Distributions	—	(66,378)	—	(386,172)	—	(7,158)	—	—	(459
Distributions to noncontrolling interests in consolidated joint ventures, net of contributions	—	—	—	—	—	—	—	(375)	(375
Net income	—	66,378	—	264,734	—	4,144	—	456	335,
Other comprehensive income—foreign	—	—	—	—	—	—	(37,388)	—	(37,

currency translation adjustments										
Other comprehensive loss—fair value of interest rate swaps	—	—	—	—	—	—	(2,113))	—	(2,113)
Other comprehensive income—reclassification of accumulated other comprehensive loss to interest expense	—	—	—	—	—	—	3,569	—	—	3,569
Balance as of September 30, 2016	41,900,000	\$1,012,961	158,926,811	\$4,277,699	2,520,991	\$36,045	\$(136,896)	\$6,839	\$5,111,111	\$5,111,111

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$335,712	\$317,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of properties	(170,097)	(94,282)
Equity in earnings of unconsolidated joint ventures	(12,362)	(12,170)
Change in fair value of accrued contingent consideration	—	(44,276)
Distributions from unconsolidated joint ventures	12,578	10,786
Write-off of net assets due to early lease terminations	(23)	(8)
Depreciation and amortization of buildings and improvements, tenant improvements and acquired ground leases	387,492	346,459
Amortization of share-based compensation	13,459	5,717
Allowance for doubtful accounts	4,208	739
Amortization of deferred financing costs	7,453	6,360
Loss on early extinguishment of debt	982	148
Amortization of debt discount/premium	1,947	1,472
Amortization of acquired in-place lease value and deferred leasing costs	135,252	51,112
Amortization of acquired above-market leases and acquired below-market leases, net	(6,303)	(6,856)
Changes in assets and liabilities:		
Restricted cash	4,398	2,878
Accounts and other receivables	(46,497)	(1,382)
Deferred rent	(20,347)	(41,447)
Deferred leasing costs	(3,905)	(2,611)
Other assets	(146,763)	(14,869)
Accounts payable and other accrued liabilities	127,139	14,366
Security deposits and prepaid rents	7,128	60
Net cash provided by operating activities	631,451	539,207
Cash flows from investing activities:		
Acquisitions of real estate	(873,285)	(48,424)
Proceeds from sale of properties, net	359,319	185,565
Investment in unconsolidated joint ventures	—	(7,547)
Receipt of value added tax refund	7,807	2,934
Refundable value added tax paid	(36,328)	(24,142)
Change in restricted cash	2,028	1,520
Improvements to investments in real estate	(549,364)	(535,141)
Improvement advances to tenants	(7,937)	(26,977)
Collection of advances from tenants for improvements	25,369	26,971
Net cash used in investing activities	(1,072,391)	(425,241)
See accompanying notes to the condensed consolidated financial statements.		

Table of Contents

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
 (unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from financing activities:		
Borrowings on revolving credit facility	\$2,355,166	\$1,430,671
Repayments on revolving credit facility	(3,161,016)	(1,240,340)
Borrowings on unsecured term loan	766,201	—
Repayments on unsecured term loan	(170,736)	—
Borrowings on unsecured senior notes	675,591	496,190
Principal payments on unsecured senior notes	—	(374,927)
Repayments on unsecured notes	(25,000)	(67,000)
Principal payments on mortgage loans	(191,302)	(73,724)
Earnout payments related to acquisition	(23,842)	(12,985)
Change in restricted cash	(99)	1,137
Payment of loan fees and costs	(19,274)	(5,116)
Capital distributions paid to noncontrolling interests in consolidated joint ventures, net	(375)	(372)
General partner contributions, net	803,320	2,175
Due to Parent	—	242,689
Payment of distributions to preferred unitholders	(66,378)	(55,367)
Payment of distributions to common unitholders	(521,620)	(468,813)
Net cash provided by (used in) financing activities	420,636	(125,782)
Net decrease in cash and cash equivalents	(20,304)	(11,816)
Effect of exchange rate changes on cash	(304)	—
Cash and cash equivalents at beginning of period	57,053	34,814
Cash and cash equivalents at end of period	\$36,445	\$22,998

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
 (unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$172,463	\$146,105
Cash paid for income taxes	3,646	2,979
Supplementary disclosure of noncash investing and financing activities:		
Change in net assets related to foreign currency translation adjustments	\$(37,388)	\$(41,480)
Decrease in accounts payable and other accrued liabilities related to change in fair value of interest rate swaps	(2,113)	(4,374)
Accrual for additions to investments in real estate and tenant improvement advances included in accounts payable and accrued expenses	125,104	115,632
Accrual for potential earnout contingency	—	18,900
Note receivable related to sale of property	—	9,000
Allocation of purchase price of real estate/investment in partnership to:		
Investments in real estate	\$874,220	\$48,424
Acquired below-market leases	(935)	—
Cash paid for acquisition of real estate	\$873,285	\$48,424
See accompanying notes to the condensed consolidated financial statements.		

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and 2015

1. Organization and Description of Business

Digital Realty Trust, Inc. through its controlling interest in Digital Realty Trust, L.P. (the Operating Partnership) and the subsidiaries of the Operating Partnership (collectively, we, our, us or the Company) is engaged in the business of owning, acquiring, developing and operating data centers. The Company is focused on providing data center, colocation and interconnection solutions for domestic and international tenants across a variety of industry verticals ranging from financial services, cloud and information technology services, to manufacturing, energy, healthcare, and consumer products. As of September 30, 2016, our portfolio consisted of 144 operating properties, including 14 properties held as investments in unconsolidated joint ventures, of which 106 are located throughout North America, 31 are located in Europe, three are located in Australia and four are located in Asia.

We are diversified in major metropolitan areas where corporate data center and technology tenants are concentrated, including the Atlanta, Boston, Chicago, Dallas, Los Angeles, New York, Northern Virginia, Phoenix, San Francisco, Seattle and Silicon Valley metropolitan areas in the United States, the Amsterdam, Dublin, Frankfurt, London and Paris metropolitan areas in Europe and the Singapore, Sydney, Melbourne, Hong Kong and Osaka metropolitan areas in the Asia Pacific region. The portfolio consists of corporate data centers, Internet gateway data centers and office and other non-data center space.

The Operating Partnership was formed on July 21, 2004 in anticipation of Digital Realty Trust, Inc.'s initial public offering (IPO) on November 3, 2004 and commenced operations on that date. As of September 30, 2016, Digital Realty Trust, Inc. owns a 98.4% common interest and a 100.0% preferred interest in the Operating Partnership. As sole general partner of the Operating Partnership, Digital Realty Trust, Inc. has the full, exclusive and complete responsibility for the Operating Partnership's day-to-day management and control. The limited partners of the Operating Partnership do not have rights to replace Digital Realty Trust, Inc. as the general partner nor do they have participating rights, although they do have certain protective rights.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation and Basis of Presentation

The accompanying interim condensed consolidated financial statements include all of the accounts of Digital Realty Trust, Inc., the Operating Partnership and the subsidiaries of the Operating Partnership. Intercompany balances and transactions have been eliminated.

The accompanying interim condensed consolidated financial statements are unaudited, but have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and in compliance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included. All such adjustments are considered to be of a normal recurring nature, except as otherwise indicated. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2015, as amended. The notes to the condensed consolidated financial statements of Digital Realty Trust, Inc. and the Operating Partnership have been combined to provide the following benefits:

- enhancing investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminating duplicative disclosure and providing a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and
- creating time and cost efficiencies through the preparation of one set of notes instead of two separate sets of notes.

There are a few differences between the Company and the Operating Partnership, which are reflected in these condensed consolidated financial statements. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how we operate as an interrelated consolidated company. As a result, Digital Realty Trust, Inc. generally does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public securities from time to time and guaranteeing certain unsecured debt of the Operating Partnership and certain of

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2016 and 2015

its subsidiaries and affiliates. Digital Realty Trust, Inc. itself has not issued any indebtedness but guarantees the unsecured debt of the Operating Partnership and certain of its subsidiaries and affiliates, as disclosed in these notes.

The Operating Partnership holds substantially all the assets of the Company and holds the ownership interests in the Company's joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from public equity issuances by Digital Realty Trust, Inc., which are generally contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generally generates the capital required by the Company's business through the Operating Partnership's operations, by the Operating Partnership's or its affiliates direct or indirect incurrence of indebtedness or through the issuance of partnership units.

The presentation of noncontrolling interests in operating partnership, stockholders' equity and partners' capital are the main areas of difference between the condensed consolidated financial statements of Digital Realty Trust, Inc. and those of the Operating Partnership. The common limited partnership interests held by the limited partners in the Operating Partnership are presented as limited partners' capital within partners' capital in the Operating Partnership's condensed consolidated financial statements and as noncontrolling interests in operating partnership within equity in Digital Realty Trust, Inc.'s condensed consolidated financial statements. The common and preferred partnership interests held by Digital Realty Trust, Inc. in the Operating Partnership are presented as general partner's capital within partners' capital in the Operating Partnership's condensed consolidated financial statements and as preferred stock, common stock, additional paid-in capital and accumulated dividends in excess of earnings within stockholders' equity in Digital Realty Trust, Inc.'s condensed consolidated financial statements. The differences in the presentations between stockholders' equity and partners' capital result from the differences in the equity issued at the Digital Realty Trust, Inc. and the Operating Partnership levels.

To help investors understand the significant differences between the Company and the Operating Partnership, these consolidated financial statements present the following separate sections for each of the Company and the Operating Partnership:

- condensed consolidated face financial statements; and
- the following notes to the condensed consolidated financial statements:
 - "Debt of the Company" and "Debt of the Operating Partnership";
 - "Income per Share" and "Income per Unit"; and
 - "Equity and Accumulated Other Comprehensive Income, Net" and "Capital and Accumulated Other Comprehensive Income".

In the sections that combine disclosure of Digital Realty Trust, Inc. and the Operating Partnership, these notes refer to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that enters into contracts and joint ventures and holds assets and debt, reference to the Company is appropriate because the business is one enterprise and the Company generally operates the business through the Operating Partnership.

(b) Cash Equivalents

For the purpose of the condensed consolidated statements of cash flows, we consider short-term investments with original maturities of 90 days or less to be cash equivalents. As of September 30, 2016, cash equivalents consist of investments in money market instruments.

(c) Investment in Unconsolidated Joint Ventures

The Company's investment in unconsolidated joint ventures is accounted for using the equity method, whereby the investment is increased for capital contributed and our share of the joint ventures' net income and decreased by

distributions we receive and our share of any losses of the joint ventures.

We amortize the difference between the cost of our investments in unconsolidated joint ventures and the book value of the underlying equity into equity in earnings from unconsolidated affiliates on a straight-line basis consistent with the lives of the underlying assets.

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2016 and 2015

(d) Capitalization of Costs

Direct and indirect project costs that are clearly associated with the development of properties are capitalized as incurred. Project costs include all costs directly associated with the development of a property, including construction costs, interest, property taxes, insurance, legal fees and costs of personnel working on the project. Indirect costs that do not clearly relate to the projects under development are not capitalized and are charged to expense as incurred.

Capitalization of costs begins when the activities necessary to get the development project ready for its intended use begins, which include costs incurred before the beginning of construction. Capitalization of costs ceases when the development project is substantially complete and ready for its intended use. Determining when a development project commences, and when it is substantially complete and ready for its intended use involves a degree of judgment. We generally consider a development project to be substantially complete and ready for its intended use upon receipt of a certificate of occupancy. If and when development of a property is suspended pursuant to a formal change in the planned use of the property, we will evaluate whether the accumulated costs exceed the estimated value of the project and write-off the amount of any such excess accumulated costs. For a development project that is suspended for reasons other than a formal change in the planned use of such property, the accumulated project costs are evaluated for impairment consistent with our impairment policies for long-lived assets. Capitalized costs are allocated to the specific components of a project that are benefited.

We capitalized interest of approximately \$3.8 million and \$2.4 million during the three months ended September 30, 2016 and 2015, respectively. We capitalized interest of approximately \$11.4 million and \$9.9 million during the nine months ended September 30, 2016 and 2015, respectively. We capitalized amounts relating to compensation and other overhead expense of employees direct and incremental to construction and successful leasing activities of approximately \$18.7 million and \$17.2 million during the three months ended September 30, 2016 and 2015, respectively, and approximately \$52.7 million and \$43.0 million during the nine months ended September 30, 2016 and 2015, respectively. Capitalized leasing costs of approximately \$31.4 million and \$37.8 million are included in improvements to investments in real estate in cash flows from investing activities in the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015, respectively.

(e) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. Goodwill is not amortized. Management performs an annual impairment test for goodwill and between annual tests, management will evaluate the recoverability of goodwill whenever events or changes in circumstances indicate that the carrying value of goodwill may not be fully recoverable. In its impairment tests of goodwill, management will first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If based on this assessment, management determines that the fair value of the reporting unit is not less than its carrying value, then performing the additional two-step impairment test is unnecessary. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. If the carrying value of goodwill exceeds its fair value, an impairment charge is recognized. We have not recognized any goodwill impairments since our inception. Goodwill amounted to approximately \$780.1 million and \$330.7 million as of

September 30, 2016 and December 31, 2015, respectively.

(f) Share-Based Compensation

The Company measures all share-based compensation awards at fair value on the date they are granted to employees, consultants and directors. The fair value of share-based compensation awards that contain a market condition, including market performance-based Class D units of the Operating Partnership and market performance-based restricted stock units (discussed in Note 13 "Incentive Plan"), is measured using a Monte Carlo simulation method and not adjusted based on actual achievement of the performance goals.

We recognize compensation cost, net of forfeitures, for all of our existing awards, including long-term incentive units, market performance-based awards and restricted stock, over a four-year period.

21

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2016 and 2015

(g) Income Taxes

Digital Realty Trust, Inc. has elected to be treated as a real estate investment trust (a "REIT") for federal income tax purposes. As a REIT, Digital Realty Trust, Inc. generally is not required to pay federal corporate income tax to the extent taxable income is currently distributed to its stockholders. If Digital Realty Trust, Inc. fails to qualify as a REIT in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates.

The Company is subject to foreign, state and local income taxes in the jurisdictions in which it conducts business. The Company's U.S. consolidated taxable REIT subsidiaries are subject to both federal and state income taxes to the extent there is taxable income. Accordingly, the Company recognizes current and deferred income taxes for its taxable REIT subsidiaries, certain states and non-U.S. jurisdictions, as appropriate.

We assess our significant tax positions in accordance with U.S. GAAP for all open tax years and determine whether we have any material unrecognized liabilities from uncertain tax benefits. If a tax position is not considered "more-likely-than-not" to be sustained solely on its technical merits, no benefits of the tax position are to be recognized (for financial statement purposes). As of September 30, 2016 and December 31, 2015, we have no assets or liabilities for uncertain tax positions. We classify interest and penalties from significant uncertain tax positions as interest expense and operating expense, respectively, in our condensed consolidated income statements. For the three and nine months ended September 30, 2016 and 2015, we had no such interest or penalties. The tax year 2013 and thereafter remain open to examination by the major taxing jurisdictions with which the Company files tax returns. See Note 10 "Income Taxes" for further discussion on income taxes.

(h) Presentation of Transactional-based Taxes

We account for transactional-based taxes, such as value added tax, or VAT, for our international properties on a net basis.

(i) Fee Income

Occasionally, customers engage the company for certain services. The nature of these services historically involves property management, construction management, and assistance with financing. The proper revenue recognition of these services can be different, depending on whether the arrangements are service revenue or contractor type revenue. Service revenues are typically recognized on an equal monthly basis based on the minimum fee to be earned. The monthly amounts could be adjusted depending on if certain performance milestones are met.

Fee income also includes management fees. These fees arise from contractual agreements with entities in which we have a noncontrolling interest. The management fees are recognized as earned under the respective agreements. Management and other fee income related to partially owned entities are recognized to the extent attributable to the unaffiliated interest.

(j) Assets and Liabilities Measured at Fair Value

Fair value under U.S. GAAP is a market-based measurement, not an entity-specific measurement. Therefore, our fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair-value measurements, we use a fair-value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or

Table of Contents

DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES

DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2016 and 2015

(k) Transactions Expense

Transactions expense includes acquisition-related expenses, other business development expenses and other expenses to integrate newly acquired investments, which are expensed as incurred. Acquisition-related expenses include closing costs, broker commissions and other professional fees, including legal and accounting fees related to acquisitions and significant transactions.

(l) Gains on Sale of Properties

Gains on sale of properties are recognized using the full accrual or partial sale methods, as applicable, in accordance with U.S. GAAP, provided various criteria relating to the terms of sale and any subsequent involvement with the real estate sold are satisfied.

(m) Management's Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates made. On an on-going basis, we evaluate our estimates, including those related to the valuation of our real estate properties, contingent consideration, accounts receivable and deferred rent receivable, performance-based equity compensation plans, the completeness of accrued liabilities and Digital Realty Trust, Inc.'s qualification as a REIT. We base our estimates on historical experience, current market conditions, and various other assumptions that are believed to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could vary under different assumptions or conditions.