

Digital Realty Trust, Inc.  
Form 10-Q  
November 02, 2018  
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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, 2018

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 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).

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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated

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

Digital Realty Trust, Inc.:

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

Digital Realty Trust, L.P.:

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

Digital Realty Trust, Inc.

Digital Realty Trust, L.P.

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 October 31, 2018
Common Stock, \$.01 par value per share	206,282,023

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2018 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, 2018, Digital Realty Trust, Inc. owned an approximate 96.1% common general partnership interest in Digital Realty Trust, L.P. The remaining approximate 3.9% of the common limited partnership interests of Digital Realty Trust, L.P. are owned by non-affiliated third parties and certain directors and officers of Digital Realty Trust, Inc. As of September 30, 2018, 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. does not conduct business itself, other than acting as the sole general partner of Digital Realty Trust, L.P., issuing public equity 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 does not issue any indebtedness but guarantees the unsecured debt of Digital Realty Trust, L.P. and certain of its subsidiaries and affiliates, 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. generates the capital required by the Company’s business through Digital Realty Trust, L.P.’s operations, by Digital Realty Trust, L.P.’s 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.

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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 Loss, Net" and "Capital and Accumulated Other Comprehensive Loss";

• 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 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 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.

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 FOR THE QUARTER ENDED SEPTEMBER 30, 2018  
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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except share and per share data)

	September 30, 2018	December 31, 2017
	(unaudited)	
<b>ASSETS</b>		
Investments in real estate:		
Properties:		
Land	\$1,226,729	\$1,136,341
Acquired ground leases	10,762	11,150
Buildings and improvements	16,007,132	15,215,405
Tenant improvements	566,751	553,040
Total investments in properties	17,811,374	16,915,936
Accumulated depreciation and amortization	(3,755,596)	(3,238,227)
Net investments in properties	14,055,778	13,677,709
Investments in unconsolidated joint ventures	169,919	163,477
Net investments in real estate	14,225,697	13,841,186
Cash and cash equivalents	46,242	51
Accounts and other receivables, net of allowance for doubtful accounts of \$9,060 and \$6,737 as of September 30, 2018 and December 31, 2017, respectively	308,709	276,347
Deferred rent	454,412	430,026
Acquired above-market leases, net	135,127	184,375
Goodwill	3,373,342	3,389,595
Acquired in-place lease value, deferred leasing costs and intangibles, net	2,734,158	2,998,806
Restricted cash	8,068	13,130
Assets held for sale	—	139,538
Other assets	176,355	131,291
Total assets	\$21,462,110	\$21,404,345
<b>LIABILITIES AND EQUITY</b>		
Global revolving credit facility, net	\$590,289	\$550,946
Unsecured term loans, net	1,352,969	1,420,333
Unsecured senior notes, net	7,130,541	6,570,757
Mortgage loans, including premiums, net	106,072	106,582
Accounts payable and other accrued liabilities	1,059,355	980,218
Accrued dividends and distributions	—	199,761
Acquired below-market leases, net	208,202	249,465
Security deposits and prepaid rents	233,667	217,898
Obligations associated with assets held for sale	—	5,033
Total liabilities	10,681,095	10,300,993
Redeemable noncontrolling interests – operating partnership	17,553	53,902
Commitments and contingencies		
Equity:		
Stockholders' Equity:		
Preferred Stock: \$0.01 par value per share, 110,000,000 shares authorized; 50,650,000 and 50,650,000 shares issued and outstanding as of September 30, 2018 and December	1,249,560	1,249,560



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31, 2017, respectively		
Common Stock: \$0.01 par value per share, 315,000,000 shares authorized, 206,267,055		
and 205,470,300 shares issued and outstanding as of September 30, 2018 and December 2,049		2,044
31, 2017, respectively		
Additional paid-in capital	11,333,035	11,261,461
Accumulated dividends in excess of earnings	(2,455,189 )	(2,055,552 )
Accumulated other comprehensive loss, net	(103,201 )	(108,432 )
Total stockholders' equity	10,026,254	10,349,081
Noncontrolling Interests:		
Noncontrolling interests in operating partnership	671,269	698,126
Noncontrolling interests in consolidated joint ventures	65,939	2,243
Total noncontrolling interests	737,208	700,369
Total equity	10,763,462	11,049,450
Total liabilities and equity	\$21,462,110	\$21,404,345
See accompanying notes to the condensed consolidated financial statements.		

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DIGITAL 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,	
	2018	2017	2018	2017
<b>Operating Revenues:</b>				
Rental and other services	\$603,833	\$500,442	\$1,792,457	\$1,432,670
Tenant reimbursements	163,104	107,613	468,906	288,243
Fee income	1,469	1,662	4,945	4,986
Other	518	208	1,903	584
Total operating revenues	768,924	609,925	2,268,211	1,726,483
<b>Operating Expenses:</b>				
Rental property operating and maintenance	245,971	190,061	701,933	534,116
Property taxes	34,871	32,586	97,418	87,666
Insurance	2,653	2,590	8,990	7,758
Depreciation and amortization	293,957	199,914	887,534	554,491
General and administrative	41,642	43,765	124,264	115,921
Transactions and integration	9,626	42,809	19,410	60,367
Impairment of investments in real estate	—	28,992	—	28,992
Other	1,139	3,051	1,722	3,075
Total operating expenses	629,859	543,768	1,841,271	1,392,386
Operating income	139,065	66,157	426,940	334,097
<b>Other Income (Expenses):</b>				
Equity in earnings of unconsolidated joint ventures	8,886	5,880	23,734	19,592
Gain on sale of properties	26,577	9,750	80,042	9,608
Interest and other income (expense)	(981)	2,813	2,375	3,331
Interest expense	(80,851)	(71,621)	(236,646)	(184,653)
Tax expense	(2,432)	(2,494)	(7,927)	(7,356)
Gain from early extinguishment of debt	—	1,990	—	1,990
Net income	90,264	12,475	288,518	176,609
Net income attributable to noncontrolling interests	(2,667)	(40)	(8,831)	(1,985)
Net income attributable to Digital Realty Trust, Inc.	87,597	12,435	279,687	174,624
Preferred stock dividends, including undeclared dividends	(20,329)	(16,575)	(60,987)	(48,473)
Issuance costs associated with redeemed preferred stock	—	—	—	(6,309)
Net income (loss) available to common stockholders	\$67,268	\$(4,140)	\$218,700	\$119,842
<b>Net income (loss) per share available to common stockholders:</b>				
Basic	\$0.33	\$(0.02)	\$1.06	\$0.73
Diluted	\$0.33	\$(0.02)	\$1.06	\$0.73
<b>Weighted average common shares outstanding:</b>				
Basic	206,118,472	270,194,254	205,931,031	163,481,306
Diluted	206,766,256	270,194,254	206,555,627	164,371,096
See accompanying notes to the condensed consolidated financial statements.				

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$90,264	\$12,475	\$288,518	\$176,609
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,368	(4,301 )	(8,608 )	25,954
Increase (decrease) in fair value of interest rate swaps and foreign currency hedges	2,925	(2,234 )	16,336	(8,926 )
Reclassification to interest expense from interest rate swaps	(1,271 )	396	(2,289 )	2,073
Comprehensive income	94,286	6,336	293,957	195,710
Comprehensive (income) loss attributable to noncontrolling interests	(2,820 )	76	(9,039 )	(2,213 )
Comprehensive income attributable to Digital Realty Trust, Inc.	\$91,466	\$6,412	\$284,918	\$193,497
See accompanying notes to the condensed consolidated financial statements.				

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

	Redeemable Noncontrolling Interests -- Operating Partnership	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	Non- Inter- in Oper- Part
Balance as of December 31, 2017	\$53,902	\$1,249,560	205,470,300	\$2,044	\$11,261,461	\$(2,055,552)	\$(108,432)	\$10,349,081	\$69,000
Conversion of common units to common stock	—	—	567,792	6	49,690	—	—	49,696	(49,696)
Issuance of unvested restricted stock, net of forfeitures	—	—	206,264	—	—	—	—	—	—
Issuance of common stock, net of offering costs	—	—	—	—	(1,292)	—	—	(1,292)	—
Shares issued under employee stock purchase plan	—	—	69,532	—	5,874	—	—	5,874	—
Shares repurchased and retired to satisfy tax withholding upon vesting	—	—	(46,833)	(1)	(4,951)	—	—	(4,952)	—
Amortization of share-based compensation	—	—	—	—	25,213	—	—	25,213	—
Reclassification of vested share-based awards	—	—	—	—	(3,631)	—	—	(3,631)	3,631
Adjustment to redeemable noncontrolling interests—operating partnership	(36,349)	—	—	—	671	—	—	671	35,678