

HEALTHCARE REALTY TRUST INC

FORM 10-K (Annual Report)

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Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

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

FORM 10-K

(Mark One)

X

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 1999

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: 1-11852

HEALTHCARE REALTY TRUST INCORPORATED

(Exact name of Registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

62-1507028
(I.R.S. Employer
Identification No.)

3310 WEST END AVENUE
SUITE 700
NASHVILLE, TENNESSEE 37203
(Address of principal executive offices)
(615) 269-8175
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value per share	New York Stock Exchange
8 7/8% Series A Voting Cumulative Preferred Stock, \$.01 par value per share	New York Stock Exchange
10 1/2% Convertible Subordinated Debentures due 2002	New York Stock Exchange
6.55% Convertible Subordinated Debentures due 2002	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports 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 if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the shares of Common Stock and Preferred Stock (based upon the closing prices of these shares on the New York Stock Exchange, Inc. on March 8, 2000) of the Registrant held by non-affiliates on March 8, 2000, were approximately \$626,350,554 and \$46,125,000, respectively.

As of March 8, 2000, 40,123,071 shares of the Registrant's Common Stock and 3,000,000 shares of the Registrant's Preferred Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Documents incorporated by reference and the part of Form 10-K into which the document is incorporated:

Portions of the Registrant's 1999 Annual Report to Shareholders are incorporated into Part II of this Report.

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 16, 2000 are incorporated into

Part III of this Report.

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PART I

ITEM 1. BUSINESS

THE COMPANY

Healthcare Realty Trust Incorporated ("Healthcare Realty" or the "Company") is a self-managed and self-administered real estate investment trust ("REIT") that integrates owning, acquiring, managing and developing income-producing real estate properties and mortgages associated with the delivery of healthcare services throughout the United States.

On October 15, 1998, Healthcare Realty completed its acquisition of Capstone Capital Corporation, a Maryland corporation ("Capstone"), through the merger of HR Acquisition I Corporation, a wholly owned subsidiary of the Company, into Capstone. The acquisition is accounted for as a tax-free reorganization for federal income tax purposes and as a purchase for financial reporting purposes. The following table sets forth the assets acquired in the transaction:

Property Type -----	No. of Facilities -----	Amount Invested (Millions) -----
Ancillary Hospital Facilities	19	\$215.3
Assisted Living Facilities	35	174.8
Physician Clinics	18	106.4
Inpatient Rehabilitation Facilities	6	93.0
Comprehensive Ambulatory Care Centers	12	79.9
Skilled Nursing Facilities	11	74.2
Ambulatory Surgery Centers	6	34.6
Other Facilities	4	26.0
	----	-----
TOTAL	111	\$804.2

The Company also acquired \$211.6 million in mortgage notes receivable, secured by mortgages on 45 assisted living facilities, 25 senior nursing facilities and 5 other facility types.

From the commencement of its operations in June 1993 through December 31, 1999, the Company has invested or committed to invest, directly and indirectly, over \$1.7 billion in 285 income-producing real estate properties and mortgages associated with the delivery of healthcare services. As of December 31, 1999, the Company's real estate portfolio, containing over 8.9 million square feet, was comprised of eight facility types and was operated pursuant to contractual arrangements with 46 healthcare providers. Also, the Company's mortgage portfolio was comprised of four facility types and was operated by 34 healthcare providers. At December 31, 1999, the Company provided property management services for 282 healthcare-related properties nationwide, totaling over 8.5 million square feet, and third-party asset management services for 274 properties nationwide, totaling over 1.6 million square feet. The Company intends to maintain a portfolio of properties that are focused predominantly on the outpatient services segment of the healthcare industry and are diversified by tenant, geographic location and facility type.

Healthcare Realty believes that it has a competitive advantage in the healthcare real estate industry as a result of its use of innovative transaction structures, the strength of its management expertise and its extensive experience and client relationships with healthcare providers. Management believes that the Company is the largest fully integrated real estate company focused on income-producing real estate properties related to the delivery of healthcare services. The Company believes that its experience and client relationships with a diverse group of healthcare providers and its access to the various capital markets make it one of a limited number of companies that can acquire, manage and develop income-producing real estate related to healthcare services on a national scale. Unlike other healthcare REITs, the Company seeks to generate internal growth by

actively managing the properties within its portfolio and by controlling and minimizing operating expenses with respect to its properties, and providing management services for properties owned by healthcare provider clients.

Healthcare Realty's strategy is to be a full service provider of integrated real estate solutions to quality healthcare providers. Consistent with this strategy, the Company seeks to provide a spectrum of services needed to own, acquire, manage and develop healthcare properties, including:

- leasing;
- development;
- management;
- market research;
- budgeting;
- accounting;
- collection;
- construction;
- management;
- tenant coordination; and
- financial services.

The Company's development activities are primarily accomplished through pre-leased build-to-suit projects.

Healthcare Realty was formed as an independent, unaffiliated healthcare REIT. The Company acquires income-producing real estate properties associated with a diverse group of quality healthcare provider clients in markets where the respective healthcare provider maintains a strong presence. Management believes that the Company has a strategic advantage in providing its services to a more diverse group of healthcare providers because the Company is not affiliated with any of its clients and does not expect to be affiliated with potential clients.

Management believes that client diversification reduces the Company's potential exposure to unsuccessful healthcare service strategies and to a concentration of credit with any one healthcare provider. Approximately 66% of the Company's real estate investments including mortgages, at cost, are in properties associated with publicly-traded companies or private companies with an investment grade credit rating. The following table sets forth the Company's five largest healthcare provider clients:

Client	Percent of Investments
HealthSouth Corporation	17.9%
Columbia/HCA Healthcare Corporation	13.0%
Tenet Healthcare Corporation	6.7%
Life Care Centers of America	6.0%
Balanced Care Corporation	4.4%

Healthcare Realty focuses predominantly on outpatient healthcare facilities, which are designed to provide medical services outside of traditional inpatient hospital or nursing home settings. Management believes the outpatient services segment of healthcare provides the most cost-effective delivery setting and, because of increasing cost pressures, this segment of the healthcare related real estate market offers the greatest potential for future growth. Company assets that are in categories outside of the Company's outpatient healthcare focus, such as its senior living assets, are under continuing management analysis with a view toward possible disposition through cash, like-kind exchange or securities transactions.

The Company acquires existing healthcare facilities, provides property management, leasing and build-to-suit development services, and capital for the construction of build-to-suit developments for qualified healthcare operators. The Company owns a diversified portfolio of healthcare properties, most of which are subject to long-term leases or financial support arrangements to ensure the continuity of revenues and coverage of costs and expenses relating to the properties by the tenants and the related healthcare operators.

Development funding arrangements require the Company to provide funding to enable healthcare operators to build facilities on property owned or leased by the Company. Prior to making any funding advance for a development, the Company enters into a contract to acquire or ground lease the real estate and enters into a long-term net lease with a healthcare operator or guarantee of the return on the Company's investment in the property or similar financial support agreement in favor of the Company. In most development transactions, the Company either acts as developer, or employs the healthcare operator to act as the developer of the property, and has approval authority with regard to plans, specifications, budgets and time schedules for the completion of the development of the property. Under its customary development funding format, the Company receives funding fees (the economic equivalent of construction period interest) on all funds advanced. Timely completion of the development in compliance with the plans, specifications, budgets and time schedules is the contractual responsibility of third parties, and construction costs are guaranteed by the healthcare operator or developer, or both. All construction and service contracts relating to the development are collaterally assigned to the Company. During the term of the development of a facility, funds are advanced pursuant to requests made by the developer in accordance with the terms and conditions of the applicable funding agreement based on costs incurred prior to the date of such requests.

Approximately 97.9% of the Company's investments in properties consist of properties currently leased to unaffiliated lessees pursuant to long-term net lease agreements or subject to financial support agreements with the healthcare operators that provide guarantees of the return on the Company's investment in the properties. Most of the current property agreements were entered into upon the conveyance to the Company of the facilities, and have initial terms of ten to 20 years with, in some cases, one or more renewal terms exercisable by the healthcare provider of five years each. Most of the agreements are subject to earlier termination upon the occurrence of certain contingencies. Certain of the agreements also have an option to repurchase the property at specified times during the term of the agreements for a price approximately equal to the greater of the fair market value of such property or the Company's investment in such property. Base rent or support payments vary by agreement taking into consideration various factors, including the credit of the property lessee, the healthcare operator, and the operating performance, location, and physical condition of the property. Many of the property agreements contain provisions for additional rent or support payment increases. The existence and nature of provisions for additional payments in any given agreement relate to, among other factors, the financial strength of the respective property lessee, the healthcare operator, or both, as well as other lease terms.

The Company operates so as to qualify as a REIT for federal income tax purposes. If so qualified, with limited exceptions, the Company will not be subject to corporate federal income tax with respect to net income distributed to its shareholders. See "Federal Income Tax Information" below.

PROPERTY ACQUISITIONS

During the fourth quarter of 1999, the Company acquired a 25,000 square-foot ambulatory surgery center in Boca Raton, Florida for approximately \$6.1 million.

PROPERTY DISPOSITIONS

During the fourth quarter of 1999, the Company sold an ancillary hospital facility in Dallas, Texas for approximately \$4.3 million in net proceeds, sold a physician clinic in Los Angeles, California for approximately \$700,000 in net proceeds; sold two ancillary hospital facilities in Savannah, Georgia for approximately \$12.8 million in net proceeds; and, four mortgage note receivables were repaid for approximately \$16.6 million in net proceeds.

COMMITMENTS

As of December 31, 1999, the Company had a net investment of approximately \$20.0 million in six build-to-suit developments in progress, which have a total remaining funding commitment of approximately \$37.6 million. Further, the Company has commitments to purchase or provide funding for the construction of other properties totaling \$12.4 million at December 31, 1999. The Company also has six mortgages under development at December 31, 1999, which have a total remaining funding commitment of approximately \$1.9 million.

As part of the Capstone merger, agreements were entered into with three individuals affiliated with Capstone that restrict competitive practices and which the Company believes will protect and enhance the value of the real estate properties acquired from Capstone. These agreements provide for the issuance of 150,000 shares per year of common stock of the Company to the individuals on October 15 of the years 1999, 2000, 2001, and 2002, provided all terms of the agreements are met. The shares will be recorded on the Company's books at the value of \$28.0714 per share, the value of the shares issued in the Capstone merger. The Company issued 150,000 shares during 1999 pursuant to these agreements.

MORTGAGE PORTFOLIO

Mortgage notes receivable, substantially all of which were acquired in the Capstone merger, were recorded at their fair value at the date of acquisition. Approximately 48% of the mortgage notes receivable are secured by assisted living facilities and 37% are secured by skilled nursing facilities. The 83 mortgages in the portfolio at December 31, 1999 represent 34 operators. Six of these mortgages, representing \$21.7 million, or 8.5%, of the balance at December 31, 1999, are secured by properties under development. The remaining loan commitment at December 31, 1999 on these mortgages totals \$1.9 million.

The weighted average maturity of the mortgage portfolio is approximately 5.9 years, with maturity dates ranging from February 2001 to October 2010. Interest rates, which range from 8% to 13%, are generally adjustable each year to reflect increases in the Consumer Price Index. Substantially all mortgages are subject to a prepayment penalty.

COMPETITION

The Company competes for property acquisitions with, among others:

- Investors;
- Healthcare providers;
- Other healthcare related REITs;

- Real estate partnerships; and

- Financial institutions.

From 1992 until late 1998, the REIT industry was in an expansion mode, and capital was readily available to REITs. By the end of 1998, however, market valuations of REIT shares (including the Company's shares) had declined substantially with the result that the Company presently has limited access to capital from the equity market. The Company may not be able to obtain additional equity or debt capital or dispose of assets at the time it requires additional capital. Moreover, the Company may not be able to obtain capital on terms that will enable it to acquire healthcare properties on a competitive basis.

The financial performance of all of the Company's properties is subject to competition from similar properties. Certain operators of other properties may have capital resources in excess of those of the operators of the Company's properties. In addition, the extent to which the Company's properties are utilized depends upon several factors, including the number of physicians using the healthcare facilities or referring patients there, competitive systems of healthcare delivery, and the area population, size and composition. Private, federal and state payment programs and other laws and regulations may also have a significant effect on the utilization of the properties. Virtually all of the Company's properties operate in a competitive environment, and patients and referral sources, including physicians, may change their preferences for a healthcare facility from time to time.

The business of providing services relating to the day-to-day management and leasing of multi-tenanted healthcare properties and to the supervision of the development of new healthcare facilities is highly competitive and is subject to price, personnel cost and other competitive pressures upon its profitability. The Company will compete for management contracts and development agreements with respect to properties owned or to be developed by the Company, as well as with respect to properties that are owned by third parties.

GOVERNMENT REGULATION

The investments made by the Company are with active participants in the healthcare industry. The healthcare industry is undergoing substantial changes due to rising costs in the delivery of healthcare services, rising competition for patients, and reduction of reimbursement by private and governmental payors. Further, the healthcare industry is faced with increased scrutiny by federal and state legislative and administrative authorities, thus presenting the industry and its individual participants with significant uncertainty. The Company believes that these changes and uncertainties present significant opportunities for the Company to assist in providing solutions to some of these pressures; however, these various changes can affect the economic performance of some or all of its tenants and clients. The Company cannot predict the degree to which these changes may affect the economic performance of the Company, positively or negatively.

The facilities leased by the Company are affected by changes in the reimbursement, licensing and certification policies of federal, state and local governments for healthcare related facilities. Facilities may also be affected by changes in accreditation standards or procedures of accrediting agencies that are recognized by governments in the certification process. In addition, expansion (including the addition of new beds or services or acquisition of medical equipment) and occasionally the discontinuation of services of healthcare facilities are generally subjected to state regulatory approval through certificate of need programs.

A significant portion of the revenue of healthcare operators is derived from government reimbursement programs, such as Medicare and Medicaid. Although lease payments to the Company are not directly affected by the level of government reimbursement, to the extent that changes in these programs adversely affect healthcare operators, such changes could have an impact

on their ability to make lease payments to the Company. The Medicare program is highly regulated and subject to frequent and substantial changes. In recent years, fundamental changes in the Medicare program (including the implementation of a prospective payment system in which facilities are reimbursed generally a flat amount based on a patient's diagnosis and not based on the facilities' cost for inpatient services at medical surgical hospitals) have resulted in reduced levels of payment for a substantial portion of healthcare services.

Considerable uncertainties surround the future determination of payment levels under government reimbursement programs. In addition, governmental budgetary concerns may significantly reduce future payments made to healthcare operators as a result of government financed programs. It is possible that future payment rates will not be sufficient to cover cost increases in providing services to patients. Reductions in payments pursuant to government healthcare programs could have an adverse impact on a healthcare operator's financial condition and, therefore, could adversely affect the ability of such operator to make rental payments.

Loss by a facility of its ability to participate in government sponsored programs because of licensing, certification or accreditation deficiencies or because of program exclusion resulting from violations of law would have material adverse effects on facility revenues.

Legislative Developments

A number of legislative proposals have been introduced or proposed in Congress and in some state legislatures that would effect major changes in the healthcare system, either nationally or at the state level. Among the proposals under consideration are cost controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, requirements that all businesses offer health insurance coverage to their employees and the creation of a single government health insurance plan that would cover all citizens. There can be no assurance whether any proposals will be adopted or, if adopted, what effect, if any, such proposals would have on the Company's business.

In recent years Congress and various state legislatures have considered various proposals that would have prohibited or severely limited the ability of physicians and other referral sources to refer Medicare or Medicaid patients to ventures with which the referral source has a financial relationship. The Company's leases require the lessees to covenant that they will comply with all applicable laws.

ENVIRONMENTAL MATTERS

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

A property can also be negatively impacted either through physical contamination or by virtue of an adverse effect on value, from contamination that has or may have emanated from other properties. Certain of the properties owned by the Company or managed or developed by its property management subsidiary are adjacent to or near properties that contain underground storage tanks or that have released petroleum products or other hazardous or toxic materials into the soils or groundwater.

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

The Company has had environmental assessments conducted on substantially all of the properties currently owned. The Company is not aware of any environmental condition or liability that management believes would have a material adverse effect on the Company's earnings, expenditures or continuing operations. While it is the Company's policy to seek indemnification relating to environmental liabilities or conditions, even where sale and purchase agreements do contain such provisions there can be no assurances that the seller will be able to fulfill its indemnification obligations. In addition, the terms of the Company's leases or financial support agreements do not give the Company control over the operational activities of its lessees or health care operators, nor will the Company monitor the lessees or healthcare operators with respect to environmental matters.

INSURANCE

The Company maintains appropriate liability and casualty insurance on its assets and operations. The Company has also obtained title insurance with respect to each of the properties it owns in amounts equal to their respective purchase prices, insuring that the Company holds title to each of the properties free and clear of all liens and encumbrances except those approved by the Company. Under their leases or financial support agreements, the healthcare operators are required to maintain, at their expense, certain insurance coverages relating to their operations at the leased facilities. In the opinion of management of the Company, each of the properties owned by the Company is adequately covered by hazard, liability and rent insurance.

EMPLOYEES

As of March 8, 2000, the Company employed 227 people. None of the employees is a member of a labor union, and the Company considers its relations with its employees to be excellent.

FEDERAL INCOME TAX INFORMATION

The Company is and intends to remain qualified as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company's net income which is distributed as dividends to shareholders will be exempt from federal taxation. Distributions to the Company's shareholders generally will be includable in their income; however, dividends distributed which are in excess of current and/or accumulated earnings and profits will be treated for tax purposes as a return of capital to the extent of a shareholder's basis and will reduce the basis of shareholders' shares.

Introduction

The Company believes that it has qualified and intends to remain qualified to be taxed as a REIT for federal income tax purposes under Sections 856 through 860 of the Code. The following discussion addresses the material tax considerations relevant to the taxation of the Company and summarizes certain federal income tax consequences that may be relevant to certain shareholders. However, the actual tax consequences of holding particular securities issued by the Company may vary in light of a prospective securities holder's particular facts and circumstances. Certain holders, such as tax-exempt entities, insurance companies and financial institutions, are generally subject to special rules. In addition, the following discussion does not address issues under any foreign, state or local tax laws. The tax treatment of a holder of any of the securities issued by the Company will vary depending upon the terms of the specific securities acquired by such holder, as well as his particular situation, and this discussion does not attempt to address aspects of federal income taxation relating to holders of particular securities of the Company. This summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof. The Code, rules, regulations, and administrative and judicial interpretations are all subject to change (possibly on a retroactive basis).

The Company believes that it is organized and is operating in conformity with the requirements for qualification and taxation as a REIT and that its method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code. The Company's qualification and taxation as a REIT depend upon its ability to meet, through actual annual operating results, the various income, asset, distribution, stock ownership and other tests discussed below. Accordingly, the Company can not guarantee that the actual results of operations for any one taxable year will satisfy such requirements.

If the Company were to cease to qualify as a REIT, and the relief provisions were found not to apply, the Company's income that it distributed to shareholders would be subject to the "double taxation" on earnings (once at the corporate level and again at the shareholder level) that generally results from investment in a corporation. Failure to maintain qualification as a REIT would force the Company to significantly reduce its distributions and possibly incur substantial indebtedness or liquidate substantial investments in order to pay the resulting corporate taxes. In addition, the Company, once having obtained REIT status and having thereafter lost such status, would not be eligible to re-elect REIT status for the four subsequent taxable years, unless its failure to maintain its qualification was due to reasonable cause and not willful neglect and certain other requirements were satisfied. In order to elect again to be taxed as a REIT, just as with its original election, the Company would be required to distribute all of its earnings and profits accumulated in any non-REIT taxable year.

Taxation of the Company

As long as the Company remains qualified to be taxed as a REIT, it generally will not be subject to federal income taxes on that portion of its ordinary income or capital gain that is currently distributed to shareholders.

However, the Company will be subject to federal income tax as follows:

first, the Company will be taxed at regular corporate rates on any undistributed "real estate investment trust taxable income," including undistributed net capital gains. Second, under certain circumstances, the Company may be subject to the "alternative minimum tax" on its items of tax preference, if any. Third, if the Company has (i) net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business, or (ii) other nonqualifying income from foreclosure property, it will be subject to tax on such income at the highest corporate rate. Fourth, any net income that the Company has from prohibited transactions (which are, in general, certain sales or other dispositions of property other than foreclosure property held primarily for sale to customers in the ordinary course of business) will be subject to a 100% tax. Fifth, if the Company should fail to satisfy either the 75% or 95% gross income test (as discussed below), and has nonetheless maintained its qualification as a REIT because certain other requirements have been met, it will be subject to a 100% tax on the net income attributable to the greater of the amount by which the Company fails the 75% or 95% gross income test. Sixth, if the Company fails to distribute during each year at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain net income for such year, and (iii) any undistributed taxable income from preceding periods, then the Company will be subject to a four percent excise tax on the excess of such required distribution over the amounts actually distributed. Seventh, to the extent that the Company recognizes gain from the disposition of an asset with respect to which there existed "built-in gain" upon its acquisition by the Company from a C corporation in a carry-over basis transaction and such disposition occurs within a ten-year recognition period beginning on the date on which it was acquired by the Company, the Company will be subject to federal income tax at the highest regular corporate rate on the amount of its "net recognized built-in gain."

Requirements for Qualification as a REIT

To qualify as a REIT for a taxable year under the Code, the Company must have no earnings and profits accumulated in any non-REIT year. The Company also must elect or have in effect an election to be taxed as a REIT and must meet other requirements, some of which are summarized below, including percentage tests relating to the sources of its gross income, the nature of the Company's assets and the distribution of its income to shareholders. Such election, if properly made and assuming continuing compliance with the qualification tests described herein, will continue in effect for subsequent years.

Organizational Requirements and Share Ownership Tests

Section 856(a) of the Code defines a REIT as a corporation, trust or association: (1) which is managed by one or more trustees or directors; (2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest; (3) which would be taxable, but for Sections 856 through 860 of the Code, as a domestic corporation; (4) which is neither a financial institution nor an insurance company subject to certain provisions of the Code; (5) the beneficial ownership of which is held by 100 or more persons, determined without reference to any rules of attribution (the "share ownership test"); (6) that during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) (the "five or fewer test"); and (7) which meets certain other tests, described below, regarding the nature of its income and assets.

Section 856(b) of the Code provides that conditions (1) through (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of fewer than 12 months. The "five or fewer test" and the share ownership test do not apply to the first taxable year for which an election is made to be treated as a REIT.

The Company has issued sufficient shares to a sufficient number of people to allow it to satisfy the share ownership test and the five or fewer test. In addition, to assist in complying with the five or fewer test, the Company's Articles of Incorporation contain provisions restricting share transfers where the transferee (other than specified individuals involved in the formation of the Company, members of their families and certain affiliates, and certain other exceptions) would, after such transfer, own (a) more than 9.9% either in number or value of the outstanding common stock of the Company or (b) more than 9.9% either in number or value of the outstanding preferred stock of the Company. Pension plans and certain other tax-exempt entities have different restrictions on ownership. If, despite this prohibition, stock is acquired increasing a transferee's ownership to over 9.9% in value of either the outstanding common stock of the Company or preferred stock of the Company, the stock in excess of this 9.9% in value is deemed to be held in trust for transfer at a price which does not exceed what the purported transferee paid for the stock and, while held in trust, the stock is not entitled to receive dividends or to vote. In addition, under these circumstances, the Company also has the right to redeem such stock.

For purposes of determining whether the "five or fewer test" (but not the "share ownership test") is met, any stock held by a qualified trust (generally, pension plans, profit-sharing plans and other employee retirement trusts) is, generally, treated as held directly by the trust's beneficiaries in proportion to their actuarial interests in the trust, and not as held by the trust.

Income Tests

In order to maintain qualification as a REIT, two gross income requirements must be satisfied annually. First, at least 75% of the Company's gross income (excluding gross income from certain sales of property held primarily for sale) must be derived directly or indirectly from investments relating to real property (including "rents from real property") or mortgages on real property. When the Company receives new capital in exchange for its shares (other than dividend reinvestment amounts) or in a public offering of debt instruments with maturities of five years or longer, income attributable to the temporary investment of such new capital, if received or accrued within one year of the Company's receipt of the new capital, is qualifying income under the 75% test. Second, at least 95% of the Company's gross income (excluding gross income from certain sales of property held primarily for sale) must be derived from such real property investments, dividends, interest, certain payments under interest rate swap or cap agreements, and gain from the sale or other disposition of stock, securities not held for sale in the ordinary course of business or from any combination of the foregoing.

The Company may temporarily invest its working capital in short-term investments. Although the Company will use its best efforts to ensure that its income generated by these investments will be of a type which satisfies the 75% and 95% gross income tests, there can be no assurance in this regard (see the discussion above of the "new capital" rule under the 75% gross income test). The Company has analyzed its gross income through December 31, 1999, and has determined that it has met and expects to meet in the future the 75% and 95% gross income tests through the rental of the property it has or acquires.

In order to qualify as "rents from real property," the amount of rent received must not be based on the income or profits of any person, but may be based on a fixed percentage or percentages of receipts or sales. The Code also provides that the rents will not qualify as "rents from real property," in satisfying the gross income tests, if the REIT owns ten percent or more of the tenant,

whether directly or under certain attribution rules. The Company leases and intends to lease property only under circumstances such that substantially all, if not all, rents from such property qualify as "rents from real property." Although it is possible that a tenant could sublease space to a sublessee in which the Company is deemed to own directly or indirectly ten percent or more of the tenant, the Company believes that as a result of the provisions of the Company's Articles of Incorporation which limit ownership to 9.9%, such occurrence would be unlikely. Application of the ten percent ownership rule is, however, dependent upon complex attribution rules provided in the Code and circumstances beyond the control of the Company. Ownership, directly or by attribution, by an unaffiliated third party of more than ten percent of the Company's stock and more than ten percent of the stock of any tenant or subtenant would result in a violation of the rule.

In order to qualify as "interest on obligations secured by mortgages on real property," the amount of interest received must not be based on the income or profits of any person, but may be based on a fixed percentage or percentages of receipts or sales.

In addition, the Company must not manage its properties or furnish or render services to the tenants of its properties, except through an independent contractor from whom the Company derives no income unless (i) the Company is performing services which are usually or customarily furnished or rendered in connection with the rental of space for occupancy only and the services are of the sort which a tax-exempt organization could perform without being considered in receipt of unrelated business taxable income or (ii) the income earned by the Company for other services furnished or rendered by the Company to tenants of a property or for the management or operation of the property does not exceed a de minimis threshold generally equal to 1% of the income from such property. The Company self-manages some of its properties, but does not believe it provides services to tenants which are outside the exception.

If rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as "rents from real property." Generally, this 15% test is applied separately to each lease. The portion of rental income treated as attributable to personal property is determined according to the ratio of the adjusted tax basis of the personal property to the total adjusted tax basis of the property which is rented. The determination of what fixtures and other property constitute personal property for federal tax purposes is difficult and imprecise. Based upon allocations of value as found in the purchase agreements and/or upon review by employees of the Company, the Company currently does not have and does not believe that it is likely in the future to have 15% by value of any of its properties classified as personal property. If, however, rent payments do not qualify, for reasons discussed above, as rents from real property for purposes of Section 856 of the Code, it will be more difficult for the Company to meet the 95% and 75% gross income tests and continue to qualify as a REIT.

The Company is and expects to continue performing third-party management and development services. If the gross income to the Company from this or any other activity producing disqualified income for purposes of the 95% or 75% gross tests approaches a level which could potentially cause the Company to fail to satisfy these tests, the Company intends to take such corrective action as may be necessary to avoid failing to satisfy the 95% or 75% gross income tests.

If the Company were to fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for such year if it is entitled to relief under certain provisions of the Code. These relief provisions would generally be available if the Company's failure to meet such test or tests was due to reasonable cause and not to willful neglect, if the Company attaches a schedule of the sources of its income to its return, and if any incorrect information on the schedule was not due to fraud with intent to evade tax. It is not possible, however, to know whether the Company would be entitled to the benefit of these relief provisions since the application of the relief provisions is dependent on future facts and circumstances. If these

provisions were to apply, the Company would be subjected to tax equal to 100% of the net income attributable to the greater of the amount by which the Company failed either the 75% or the 95% gross income test.

Asset Tests

At the close of each quarter of its taxable year, the Company must also satisfy three tests relating to the nature of its assets. First, at least 75% of the value of the Company's total assets must consist of real estate assets (including interests in real property and interests in mortgages on real property as well as its allocable share of real estate assets held by joint ventures or partnerships in which the Company participates), cash, cash items and government securities. Second, not more than 25% of the Company's total assets may be represented by securities other than those includable in the 75% asset class. Finally, of the investments included in the 25% asset class, the value of any one issuer's securities owned by the Company may not exceed five percent of the value of the Company's total assets, and the Company may not own more than ten percent of any one issuer's outstanding voting securities. The Company, however, may own 100% of the stock of a corporation, which is called a "qualified REIT subsidiary". Under that circumstance, the qualified REIT subsidiary is ignored and its assets, income, gain, loss and other attributes are treated as being owned or generated by the Company for federal income tax purposes. The Company currently has 49 qualified REIT subsidiaries and other affiliates which it employs in the conduct of its business.

If the Company meets the 25% requirement at the close of any quarter, it will not lose its status as a REIT because of a change in value of its assets unless the discrepancy exists immediately after the acquisition of any security or other property which is wholly or partly the result of an acquisition during such quarter. Where a failure to satisfy the 25% asset test results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of such quarter. The Company maintains and intends to continue to maintain adequate records of the value of its assets to maintain compliance with the 25% asset test and to take such action as may be required to cure any failure to satisfy the test within 30 days after the close of any quarter.

In order to qualify as a REIT, the Company is required to distribute dividends (other than capital gain dividends) to its shareholders in an amount equal to or greater than the excess of (A) the sum of (i) 95% of the Company's "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and the Company's net capital gain) and (ii) 95% of the net income, if any, (after tax) from foreclosure property, over (B) the sum of certain non-cash income (from certain imputed rental income and income from transactions inadvertently failing to qualify as like-kind exchanges). These requirements may be waived by the IRS if the REIT establishes that it failed to meet them by reason of distributions previously made to meet the requirements of the four percent excise tax described below. To the extent that the Company does not distribute all of its net long-term capital gain and all of its "real estate investment trust taxable income," it will be subject to tax thereon. In addition, the Company will be subject to a four percent excise tax to the extent it fails within a calendar year to make "required distributions" to its shareholders of 85% of its ordinary income and 95% of its capital gain net income plus the excess, if any, of the "grossed up required distribution" for the preceding calendar year over the amount treated as distributed for such preceding calendar year. For this purpose, the term "grossed up required distribution" for any calendar year is the sum of the taxable income of the Company for the taxable year (without regard to the deduction for dividends paid) and all amounts from earlier years that are not treated as having been distributed under the provision. Dividends declared in the last quarter of the year and paid during the following January will be treated as having been paid and received on December 31 of such earlier year. The Company's distributions for 1999 were adequate to satisfy its distribution requirement.

It is possible that the Company, from time to time, may have insufficient cash or other liquid assets to meet the 95% distribution requirement due to timing differences between the actual receipt of income and the actual payment of deductible expenses or dividends on the one hand and the inclusion of such income and deduction of such expenses or dividends in arriving at "real estate investment trust taxable income" on the other hand. The problem of not having adequate cash to make required distributions could also occur as a result of the repayment in cash of principal amounts due on the Company's outstanding debt, particularly in the case of "balloon" repayments or as a result of capital losses on short-term investments of working capital. Therefore, the Company might find it necessary to arrange for short-term, or possibly long-term, borrowing or new equity financing. If the Company were unable to arrange such borrowing or financing as might be necessary to provide funds for required distributions, its REIT status could be jeopardized.

Under certain circumstances, the Company may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to shareholders in a later year, which may be included in the Company's deduction for dividends paid for the earlier year. The Company may be able to avoid being taxed on amounts distributed as deficiency dividends; however, the Company may in certain circumstances remain liable for the four percent excise tax described above.

The Company is also required to request annually (within 30 days after the close of its taxable year) from record holders of specified percentages of its shares written information regarding the ownership of such shares. A list of shareholders failing to fully comply with the demand for the written statements is required to be maintained as part of the Company's records required under the Code. Rather than responding to the Company, the Code allows the shareholder to submit such statement to the IRS with the shareholder's tax return.

Nonqualified REIT Subsidiary

The Company participated in the organization of certain corporations affiliated with the Company which are not qualified REIT subsidiaries ("Specified Affiliates") to enhance its management flexibility. Current tax law in effect through the year 2000 restricts the ability of REITs to engage in certain activities, such as certain third party management activities, but these restrictions do not apply to the activities of a company that is not a REIT, such as these Specified Affiliates, whose income is subject to federal income tax.

In order to permit the Company to participate in the income of its third party management business and maintain its status as a REIT, portions of the Company's business will be conducted by the Specified Affiliates. The Company owns 100% of the nonvoting preferred stock and approximately 1% of the voting common stock, and senior executives of the Company own 99% of the voting common stock of the Specified Affiliates. The nonvoting preferred stock of the Specified Affiliates represents substantially all of the equity interest in the Specified Affiliates, but does not enable the Company to elect directors of the Specified Affiliates who are elected by the senior executives of the Company as the holders of 99% of the voting common stock of the Specified Affiliates. The voting common stock held by the senior executives of the Company in the Specified Affiliates is subject to agreements that are designed to ensure that such stock will be held by officers of the Company.

Effective January 1, 2001, the ownership and use of nonqualified REIT subsidiaries such as the Specified Affiliates will be governed by new rules enacted by the Ticket to Work and Work Incentives Improvement Act of 1999. These rules are discussed in more detail under "Ticket to Work and Work Incentives Improvement Act of 1999 - Significant REIT Provisions - Taxable REIT Subsidiaries."

Federal Income Tax Treatment of Leases

The availability to the Company of, among other things, depreciation deductions with respect to the facilities owned and leased by the Company depends upon the treatment of the Company as the owner of the facilities and the classification of the leases of the facilities as true leases, rather than as sales or financing arrangements, for federal income tax purposes. The Company has not requested nor has it received an opinion that it will be treated as the owner of the portion of the facilities constituting real property and that the leases will be treated as true leases of such real property for federal income tax purposes. Based on the conclusions of the Company and its senior management as to the values of its personalty, the Company has met and plans to meet in the future its compliance with the 95% distribution requirement (and the required distribution requirement) by making distributions on the assumption that it is not entitled to depreciation deductions for that portion of the leased facilities which it believes constitutes personal property, but to report the amount of income taxable to its shareholders by taking into account such depreciation. The value of real and personal property and whether certain fixtures are real or personal property are factual evaluations that cannot be determined with absolute certainty under current IRS regulations.

Other Issues

With respect to property acquired from and leased back to the same or an affiliated party, the IRS could assert that the Company realized prepaid rental income in the year of purchase to the extent that the value of the leased property exceeds the purchase price paid by the Company for that property. In litigated cases involving sale-leasebacks which have considered this issue, courts have concluded that buyers have realized prepaid rent where both parties acknowledged that the purported purchase price for the property was substantially less than fair market value and the purported rents were substantially less than the fair market rentals. Because of the lack of clear precedent and the inherently factual nature of the inquiry, the Company cannot give complete assurance that the IRS could not successfully assert the existence of prepaid rental income in such circumstances. The value of property and the fair market rent for properties involved in sale-leasebacks are inherently factual matters and always subject to challenge.

Additionally, it should be noted that Section 467 of the Code (concerning leases with increasing rents) may apply to those leases of the Company which provide for rents that increase from one period to the next. Section 467 provides that in the case of a so-called "disqualified leaseback agreement," rental income must be accrued at a constant rate. If such constant rent accrual is required, the Company would recognize rental income in excess of cash rents and as a result, may fail to have adequate funds available to meet the 95% dividend distribution requirement. "Disqualified leaseback agreements" include leaseback transactions where a principal purpose of providing increasing rent under the agreement is the avoidance of federal income tax. Since the Section 467 regulations provide that rents will not be treated as increasing for tax avoidance purposes where the increases are based upon a fixed percentage of lessee receipts, additional rent provisions of leases containing such clauses should not result in these leases being disqualified leaseback agreements. In addition, the Section 467 regulations provide that leases providing for fluctuations in rents by no more than a reasonable percentage, 15% for long-term real property leases, from the average rent payable over the term of the lease will be deemed to not be motivated by tax avoidance. The Company, based on its evaluation of the value of the property and the terms of the leases, does not believe it has rent subject to the provisions of Section 467.

Subject to a safe harbor exception for annual sales of up to seven properties (or properties with a basis of up to 10% of the REIT's assets) that have been held for at least four years, gain from sales of property held for sale to customers in the ordinary course of business is subject to a 100% tax. The simultaneous exercise of options to acquire leased property that may be granted to certain tenants or other events could result in sales of properties by the Company that exceed this safe

harbor. However, the Company believes that in such event, it will not have held such properties for sale to customers in the ordinary course of business.

Depreciation of Properties

For tax purposes, the Company's real property is being and will continue to be depreciated over 31.5, 39 or 40 years using the straight-line method of depreciation and its personal property over various periods utilizing accelerated and straight-line methods of depreciation.

Failure to Qualify as a REIT

If the Company were to fail to qualify for federal income tax purposes as a REIT in any taxable year, and the relief provisions were found not to apply, the Company would be subject to tax on its taxable income at regular corporate rates (plus any applicable alternative minimum tax). Distributions to shareholders in any year in which the Company failed to qualify would not be deductible by the Company nor would they be required to be made. In such event, to the extent of current and/or accumulated earnings and profits, all distributions to shareholders would be taxable as ordinary income and, subject to certain limitations in the Code, eligible for the 70% dividends received deductions for corporate shareholders. Unless entitled to relief under specific statutory provisions, the Company would also be disqualified from taxation as a REIT for the following four taxable years. It is not possible to state whether in all circumstances the Company would be entitled to statutory relief from such disqualification. Failure to qualify for even one year could result in the Company's incurring substantial indebtedness (to the extent borrowings were feasible) or liquidating substantial investments in order to pay the resulting taxes.

Taxation of Tax-Exempt Shareholders

The IRS has issued a revenue ruling in which it held that amounts distributed by a REIT to a tax-exempt employees' pension trust do not constitute "unrelated business taxable income," even though the REIT may have financed certain of its activities with acquisition indebtedness. Although revenue rulings are interpretive in nature and are subject to revocation or modification by the IRS, based upon the revenue ruling and the analysis therein, distributions made by the Company to a U.S. shareholder that is a tax-exempt entity (such as an individual retirement account ("IRA") or a 401(k) plan) should not constitute unrelated business taxable income unless such tax-exempt U.S. shareholder has financed the acquisition of its shares with "acquisition indebtedness" within the meaning of the Code, or the shares are otherwise used in an unrelated trade or business conducted by such U.S. shareholder.

Special rules apply to certain tax-exempt pension funds (including 401(k) plans but excluding IRAs or government pension plans) that own more than 10% (measured by value) of a "pension-held REIT" at any time during a taxable year beginning after December 31, 1993. Such a pension fund may be required to treat a certain percentage of all dividends received from the REIT during the year as unrelated business taxable income. The percentage is equal to the ratio of the REIT's gross income (less direct expenses related thereto) derived from the conduct of unrelated trades or businesses determined as if the REIT were a tax-exempt pension fund, to the REIT's gross income (less direct expenses related thereto) from all sources. The special rules will not apply to require a pension fund to recharacterize a portion of its dividends as unrelated business taxable income unless the percentage computed is at least 5%.

A REIT will be treated as a "pension-held REIT" if the REIT is predominantly held by tax-exempt pension funds and if the REIT would otherwise fail to satisfy the "five or fewer test" discussed above, if the stock or beneficial interests of the REIT held by such tax-exempt pension funds were not treated as held directly by their respective beneficiaries. A REIT is predominantly held by tax-exempt pension funds if at least one tax-exempt pension fund holds more than 25%

(measured by value) of the REIT's stock or beneficial interests, or if one or more tax-exempt pension funds (each of which owns more than 10% (measured by value) of the REIT's stock or beneficial interests) own in the aggregate more than 50% (measured by value) of the REIT's stock or beneficial interests. The Company believes that it will not be treated as a pension-held REIT. However, because the shares of the Company will be publicly traded, no assurance can be given that the Company is not or will not become a pension-held REIT.

Taxation of Non-U.S. Shareholders

The rules governing United States federal income taxation of any person other than (i) a citizen or resident of the United States, (ii) a corporation or partnership created in the United States or under the laws of the United States or of any state thereof, (iii) an estate whose income is includable in income for U.S. federal income tax purposes regardless of its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States fiduciaries have the authority to control all substantial decisions of the trust ("Non-U.S. Shareholders") are highly complex, and the following discussion is intended only as a summary of such rules. Prospective Non-U.S. Shareholders should consult with their own tax advisors to determine the impact of United States federal, state, and local income tax laws on investment in stock of the Company, including any reporting requirements.

In general, Non-U.S. Shareholders are subject to regular United States income tax with respect to their investment in stock of the Company in the same manner as a U.S. shareholder if such investment is "effectively connected" with the Non-U.S. Shareholder's conduct of a trade or business in the United States. A corporate Non-U.S. Shareholder that receives income with respect to its investment in stock of the Company that is (or is treated as) effectively connected with the conduct of a trade or business in the United States also may be subject to the 30% branch profits tax imposed by the Code, which is payable in addition to regular United States corporate income tax. The following discussion addresses only the United States taxation of Non-U.S. Shareholders whose investment in stock of the Company is not effectively connected with the conduct of a trade or business in the United States.

Ordinary Dividends

Distributions made by the Company that are not attributable to gain from the sale or exchange by the Company of United States real property interests and that are not designated by the Company as capital gain dividends will be treated as ordinary income dividends to the extent made out of current or accumulated earnings and profits of the Company. Generally, such ordinary income dividends will be subject to United States withholding tax at the rate of 30% on the gross amount of the dividend paid unless reduced or eliminated by an applicable United States income tax treaty. The Company expects to withhold United States income tax at the rate of 30% on the gross amount of any such dividends paid to a Non-U.S. Shareholder unless a lower treaty rate applies and the Non-U.S. Shareholder has filed an IRS Form 1001 with the Company, certifying the Non-U.S. Shareholder's entitlement to treaty benefits.

Non-Dividend Distributions

Distributions made by the Company in excess of its current and accumulated earnings and profits to a Non-U.S. Shareholder who holds 5% or less of the stock of the Company (after application of certain ownership rules) will not be subject to U.S. income or withholding tax. If it cannot be determined at the time a distribution is made whether or not such distribution will be in excess of the Company's current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to a dividend distribution. However, the Non-U.S. Shareholder may seek a refund from the IRS of any amount withheld if it is subsequently determined that such

distribution was, in fact, in excess of the Company's then current and accumulated earnings and profits.

Capital Gain Dividends

As long as the Company continues to qualify as a REIT, distributions made by the Company that are attributable to gain from the sale or exchange by the Company of any United States real property interests ("USRPI") will be taxed to a Non-U.S. Shareholder under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA"). Under FIRPTA, such distributions are taxed to a Non-U.S. Shareholder as if such distributions were gains "effectively connected" with the conduct of a trade or business in the United States. Accordingly, a Non-U.S. Shareholder will be taxed on such distributions at the same capital gain rates applicable to U.S. Shareholders (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). Distributions subject to FIRPTA also may be subject to the 30% branch profits tax in the case of a corporate Non-U.S. Shareholder that is not entitled to treaty relief or exemption. The Company will be required to withhold tax from any distribution to a Non-U.S. Shareholder that could be designated by the Company as a USRPI capital gain dividend in an amount equal to 35% of the gross distribution. The amount of tax withheld is fully creditable against the Non-U.S. Shareholder's FIRPTA tax liability, and if such amount exceeds the Non-U.S. Shareholder's federal income tax liability for the applicable taxable year, the Non-U.S. Shareholder may seek a refund of the excess from the IRS. In addition, if the Company designates prior distributions as capital gain dividends, subsequent distributions, up to the amount of such prior distributions, will be treated as capital gain dividends for purposes of withholding.

Disposition of Stock of the Company

Gain recognized by a Non-U.S. Shareholder upon the sale or exchange of stock of the Company generally will not be subject to United States taxation unless such stock constitutes a USRPI within the meaning of FIRPTA. The stock of the Company will not constitute a USRPI so long as the Company is a "domestically controlled REIT." A "domestically controlled REIT" is a REIT in which at all times during a specified testing period less than 50% in value of its stock or beneficial interests are held directly or indirectly by Non-U.S. Shareholders. The Company believes that it will be a "domestically controlled REIT," and therefore that the sale of stock of the Company will not be subject to taxation under FIRPTA. However, because the stock of the Company is publicly traded, no assurance can be given that the Company is or will continue to be a "domestically controlled REIT." Notwithstanding the foregoing, gain from the sale or exchange of stock of the Company that is not otherwise subject to FIRPTA will be taxable to a Non-U.S. Shareholder if the Non-U.S. Shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States. In such case, the nonresident alien individual will be subject to a 30% United States withholding tax on the amount of such individual's gain.

If the Company did not constitute a "domestically controlled REIT," gain arising from the sale or exchange by a Non-U.S. Shareholder of stock of the Company would be subject to United States taxation under FIRPTA as a sale of a USRPI unless (i) the stock of the Company is "regularly traded" (as defined in the applicable Treasury regulations) and (ii) the selling Non-U.S. Shareholder's interest (after application of certain constructive ownership rules) in the Company is 5% or less at all times during the five years preceding the sale or exchange. If gain on the sale or exchange of the stock of the Company were subject to taxation under FIRPTA, the Non-U.S. Shareholder would be subject to regular United States income tax with respect to such gain in the same manner as a U.S. Shareholder (subject to any applicable alternative minimum tax, a special alternative minimum tax in the case of nonresident alien individuals and the possible application of the 30% branch profits tax in the case of foreign corporations), and the purchaser of the stock of the Company (including the Company) would be required to withhold and remit to the IRS 10% of the

purchase price. Additionally, in such case, distributions on the stock of the Company to the extent they represent a return of capital or capital gain from the sale of the stock of the Company, rather than dividends, would be subject to a 10% withholding tax.

Capital gains not subject to FIRPTA will nonetheless be taxable in the United States to a Non-U.S. Shareholder in two cases: (i) if the Non-U.S. Shareholder's investment in the stock of the Company is effectively connected with a U.S. trade or business conducted by such Non-U.S. Shareholder, the Non-U.S. Shareholder will be subject to the same treatment as a U.S. shareholder with respect to such gain, or (ii) if the Non-U.S. Shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

Information Reporting Requirements and Backup Withholding Tax

The Company will report to its U.S. shareholders and to the IRS the amount of dividends paid during each calendar year and the amount of tax withheld, if any, with respect thereto. Under the backup withholding rules, a U.S. shareholder may be subject to backup withholding, at the rate of 31% on dividends paid unless such U.S. shareholder (i) is a corporation or falls within certain other exempt categories and, when required, can demonstrate this fact, or (ii) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. A U.S. shareholder who does not provide the Company with his correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the U.S. shareholder's federal income tax liability. In addition, the Company may be required to withhold a portion of any capital gain distributions made to U.S. shareholders who fail to certify their non-foreign status to the Company.

Additional issues may arise pertaining to information reporting and backup withholding with respect to Non-U.S. Shareholders, and Non-U.S. Shareholders should consult their tax advisors with respect to any such information reporting and backup withholding requirements.

State and Local Taxes

The Company and its shareholders may be subject to state or local taxation in various state or local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of the Company and its shareholders may not conform to the federal income tax consequences discussed above. Consequently, prospective holders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in the stock of the Company.

Ticket to Work and Work Incentives Improvement Act of 1999--Significant REIT Provisions

The Ticket to Work and Work Incentives Improvement Act of 1999 (the "Act"), which includes several provisions pertinent to REITs, was enacted on December 17, 1999 and will generally be effective for the Company beginning in 2001. The provisions of the Act that are pertinent to the Company are as follows:

Taxable REIT Subsidiaries ("TRS")

A REIT will be allowed to own up to 100% of the stock of TRS, which will be allowed to provide services to the REIT's tenants and others without disqualifying the rents that the REIT receives from its tenants. The scope of the activities of all such TRS in comparison to that of the REIT's overall business of real estate ownership and operation has been limited under the Act by requiring that the securities of all TRS may not exceed 20% of the value of the REIT's assets. The dividends of TRS will not constitute qualified income for purposes of the 75% income test. In addition, TRS will generally not be allowed to operate health care or lodging facilities. A health care facility is generally defined to be a hospital, nursing facility, assisted living facility, congregate care facility or other licensed facility extending medical, nursing or ancillary services to patients.

TRS will be, as implied by the name, subject to federal corporate income tax in much the same manner as other, non-REIT C corporations, with the exceptions that the deductions for debt and rental payments made by TRS to the REIT will be limited and a 100% excise tax will be imposed on transactions between a TRS and the affiliated REIT or that REIT's tenants that are not conducted on an arm's length basis. TRS are corporations in which a REIT owns stock, directly or indirectly, and for which both the REIT and the corporations have made TRS elections.

Subject to transition rules that exempt existing arrangements to the extent that the third party subsidiary does not engage in a substantial new line of business or acquire any substantial asset or that the REIT does not acquire any securities of the subsidiary, a REIT will not be allowed to own more than 10% of the vote or value of the securities (other than certain debt securities) of a non-REIT C corporation other than TRS. Existing third-party subsidiaries will be allowed to convert into a TRS on a tax-free basis.

Health Care Properties

The hiring of an independent contractor to manage a qualified health care property will not cause the property to cease to be foreclosure property solely because the REIT receives rental income from the contractor with respect to one or more properties. A REIT will also be able to make a foreclosure property election with respect to qualified health care properties acquired as the result of the termination of the lease of such property.

Distribution Requirement

A REIT will be required to distribute only 90% of its taxable income, as compared to the current law's 95% level.

Personal Property Rents

Rents received by a REIT attributable to personal property leased with real property will be treated as qualified income to the extent that the fair market value of the personal property does not exceed 15% of the fair market value of the total rented property. The law currently in effect makes this determination based upon the relative adjusted tax basis of the personal property compared to that of the total rented property.

Other Changes

The Act also relaxes the requirements for testing whether an entity qualifies as an independent contractor, extends the deficiency procedure to assist REITs with distributing non-REIT earnings and profits and further restricts the estimated tax payment rules applicable to the owners of a closely held REIT. In changes not directly aimed at REITs, but nonetheless potentially affecting

them, the Act limits the availability of the installment method of accounting and extends through 2001 the availability of a deduction for certain environmental remediation expenditures.

Effect on the Company

The TRS rules will afford the Company the opportunity to offer services to its tenants that are prohibited or require undue administrative complexity under current law. In addition, the liberalization of the foreclosure property rules for qualified health care properties will offer the Company more flexibility in the event that the Company finds it necessary to operate any of its properties through an independent contractor due to foreclosure or lease termination. The Company is otherwise unable to anticipate the specific impact of these or any other of the Act's changes.

Real Estate Investment Trust Tax Proposals

The President's Fiscal Year 2001 Budget Proposal (the "Proposal") includes several provisions potentially affecting REITs. One notable provision would increase the percentage of a REIT's ordinary and capital gain income for a particular taxable year that the REIT must generally distribute within that year (in order to avoid the four percent excise tax on the undistributed portion) to 98%. This provision would be effective for taxable years beginning in 2001 and would largely eliminate the effect of the Taxpayer Relief Extension Act's reduction in a REIT's taxable income distribution requirement to 90%. Although the Company generally distributes in excess of 98% of its ordinary and capital gain income within the year in which it was earned, this provision would make it more difficult for the Company to consistently escape the four percent excise tax as it has done in the past. The Proposal also includes provisions affecting certain closely held REITs, limiting the dividend treatment of "fast-pay" preferred stock dividends by non-traded REITs, and permanently extending the deductibility of remediation expenditures for qualified contaminated sites. The Proposal is subject to significant contingencies, including the differing views of the President and Congress regarding the broader issues of tax and spending policy. The Company is unable to anticipate the resolution of these contingencies or, except as noted, the impact upon the Company should any or all of these provisions be enacted.

Investors must recognize that the present federal income tax treatment of the Company may be modified by future legislative, judicial or administrative actions or decisions at any time, which may be retroactive in effect, and, as a result, any such action or decision may affect investments and commitments previously made. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS in the Treasury Department, resulting in statutory changes as well as promulgation of new, or revisions to existing, regulations and revised interpretations of established concepts. No prediction can be made as to the likelihood as to passage of any new tax legislation or other provisions either directly or indirectly affecting the Company or its shareholders.

ERISA CONSIDERATIONS

The following is a summary of material considerations arising under ERISA and the prohibited transaction provisions of Section 4975 of the Code that may be relevant to a holder of stock of the Company. This discussion does not propose to deal with all aspects of ERISA or Section 4975 of the Code or, to the extent not preempted, state law that may be relevant to particular employee benefit plan shareholders (including plans subject to Title I of ERISA, other employee benefit plans and IRAs subject to the prohibited transaction provisions of Section 4975 of the Code, and governmental plans and church plans that are exempt from ERISA and Section 4975 of the Code but that may be subject to state law requirements) in light of their particular circumstances.

A fiduciary making the decision to invest in stock of the Company on behalf of a prospective purchaser which is an ERISA plan, a tax-qualified retirement plan, an IRA or other employee benefit plan is advised to consult its own legal advisor regarding the specific considerations arising under ERISA, Section 4975 of the Code, and (to the extent not preempted) state law with respect to the purchase, ownership or sale of stock by such plan or IRA.

Employee Benefit Plans, Tax-qualified Retirement Plans and IRAs

Each fiduciary of an employee benefit plan subject to Title I of ERISA (an "ERISA Plan") should carefully consider whether an investment in stock of the Company is consistent with its fiduciary responsibilities under ERISA. In particular, the fiduciary requirements of Part 4 of Title I of ERISA require (i) an ERISA Plan's investments to be prudent and in the best interests of the ERISA Plan, its participants and beneficiaries, (ii) an ERISA Plan's investments to be diversified in order to reduce the risk of large losses, unless it is clearly prudent not to do so, (iii) an ERISA Plan's investments to be authorized under ERISA and the terms of the governing documents of the ERISA Plan and (iv) that the fiduciary not cause the ERISA Plan to enter into transactions prohibited under Section 406 of ERISA. In determining whether an investment in stock of the Company is prudent for purposes of ERISA, the appropriate fiduciary of an ERISA Plan should consider all of the facts and circumstances, including whether the investment is reasonably designed, as a part of the ERISA Plan's portfolio for which the fiduciary has investment responsibility, to meet the objectives of the ERISA Plan, taking into consideration the risk of loss and opportunity for gain (or other return) from the investment, the diversification, cash flow and funding requirements of the ERISA Plan and the liquidity and current return of the ERISA Plan's portfolio. A fiduciary should also take into account the nature of the Company's business, the length of the Company's operating history and other matters described below under "Cautionary Statements".

The fiduciary of an IRA or of an employee benefit plan not subject to Title I of ERISA because it is a governmental or church plan or because it does not cover common law employees (a "Non-ERISA Plan") should consider that such an IRA or Non-ERISA Plan may only make investments that are authorized by the appropriate governing documents, not prohibited under Section 4975 of the Code and permitted under applicable state law.

Status of the Company under ERISA

A prohibited transaction may occur if the assets of the Company are deemed to be assets of the investing Plans and "parties in interest" or "disqualified persons" as defined in ERISA and Section 4975 of the Code, respectively deal with such assets. In certain circumstances where a Plan holds an interest in an entity, the assets of the entity are deemed to be Plan assets (the "look-through rule"). Under such circumstances, any person that exercises authority or control with respect to the management or disposition of such assets is a Plan fiduciary. Plan assets are not defined in ERISA or the Code, but the United States Department of Labor issued regulations in 1987 (the "Regulations") that outline the circumstances under which a Plan's interest in an entity will be subject to the look-through rule.

The Regulations apply only to the purchase by a Plan of an "equity interest" in an entity, such as common stock or common shares of beneficial interest of a REIT. However, the Regulations provide an exception to the look-through rule for equity interests that are "publicly-offered securities."

Under the Regulations, a "publicly-offered security" is a security that is (i) freely transferable, (ii) part of a class of securities that is widely-held and (iii) either (a) part of a class of securities that is registered under section 12(b) or 12(g) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or (b) sold to a Plan as part of an offering of securities to the public pursuant to an effective registration statement under the Securities Act and the class of securities of

which such security is a part is registered under the Exchange Act within 120 days (or such longer period allowed by the Securities and Exchange Commission) after the end of the fiscal year of the issuer during which the offering of such securities to the public occurred. Whether a security is considered "freely transferable" depends on the facts and circumstances of each case. Generally, if the security is part of an offering in which the minimum investment is \$10,000 or less, any restriction on or prohibition against any transfer or assignment of such security for the purposes of preventing a termination or reclassification of the entity for federal or state tax purposes will not of itself prevent the security from being considered freely transferable. A class of securities is considered "widely-held" if it is a class of securities that is owned by 100 or more investors independent of the issuer and of one another.

The Company believes that the stock of the Company will meet the criteria of the publicly-offered securities exception to the look-through rule in that the stock of the Company is freely transferable, the minimum investment is less than \$10,000 and the only restrictions upon its transfer are those required under federal income tax laws to maintain the Company's status as a REIT. Second, stock of the Company is held by 100 or more investors and at least 100 or more of these investors are independent of the Company and of one another. Third, the stock of the Company has been and will be part of offerings of securities to the public pursuant to an effective registration statement under the Securities Act and will be registered under the Exchange Act within 120 days after the end of the fiscal year of the Company during which an offering of such securities to the public occurs. Accordingly, the Company believes that if a Plan purchases stock of the Company, the Company's assets should not be deemed to be Plan assets and, therefore, that any person who exercises authority or control with respect to the Company's assets should not be treated as a Plan fiduciary for purposes of the prohibited transaction rules of ERISA and Section 4975 of the Code.

CAUTIONARY STATEMENTS

From time to time the Company may make forward-looking statements that reflect its current opinion about future events and financial performance. Readers should understand that the following important factors, among others, could affect the Company's actual results. These factors could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. The Company has discussed many of these factors in prior filings with the Securities and Exchange Commission.

RISKS RELATED TO THE COMPANY'S GENERAL GROWTH STRATEGY

The Company follows a general growth strategy of providing integrated real estate services to the healthcare industry, including the following:

- Asset management and strategic planning for real estate;
- Property administration, management and leasing services;
- Build-to-suit development of healthcare properties;
- The acquisition of existing healthcare properties; and
- Equity co-investment in healthcare provider acquisition transactions.

By providing these services, the Company believes it can differentiate its market position, acquire needed capital, expand its asset base and increase revenue. The Company believes, however, that there are various risks inherent in this growth strategy. The following factors, among others, could affect the Company's ability to grow, and investors should consider them carefully.

THERE IS CONSIDERABLE COMPETITION IN THE COMPANY'S MARKET.

The Company competes for property management, development and new purchases with, among others:

- Investors;
- Healthcare providers;
- Other healthcare related real estate investment trusts;
- Real estate partnerships; and
- Financial institutions.

Competition for attractive investments results in investment pressure on the Company. The Company intends to adhere to its established acquisition standards; however, increased competition for such assets from other REITs and traditional and non-traditional equity and debt capital sources may affect the growth and financial return of the Company. The Company's properties are also subject to competition from the properties of other healthcare providers, some of which have greater capital resources than the providers leasing the Company's facilities. All of the Company's properties operate in a competitive environment and patients and referral sources, including physicians, may change their preferences for a healthcare facility from time to time.

THE COMPANY PRESENTLY HAS LIMITED ACCESS TO CAPITAL WHICH WILL SLOW THE COMPANY'S GROWTH.

A REIT is required to make dividend distributions and retains little capital for growth. As a result, a REIT is required to grow through the steady investment of new capital in real estate assets. From 1992 until late 1998, the REIT industry was in an expansion mode, and capital was readily available to REITs. By the end of 1999, however, market valuations of REIT shares (including the Company's shares) had declined substantially with the result that the Company presently has limited access to capital from the equity market. Virtually all of the Company's available capital in 2000 will be used to meet existing commitments and to reduce debt. The Company will require additional capital to acquire healthcare properties. The Company may not be able to obtain additional equity or debt capital or dispose of assets at the time it requires additional capital. Moreover, the Company may not be able to obtain capital on terms that will permit it to acquire healthcare properties on a competitive basis.

THE COMPANY MAY NOT BE ABLE TO OBTAIN ADDITIONAL CAPITAL OR DISPOSE OF

ASSETS AT THE TIME IT REQUIRES THE FUNDS TO PAY ITS OBLIGATIONS.

The Company currently has substantial bank and institutional indebtedness with significant payments due in 2000. The Company may also be required to borrow money and mortgage its properties to fund any shortfall of cash necessary to meet cash distribution requirements necessary to maintain its REIT status. The Company anticipates that it will be able to obtain such financing, as needed; however, if the Company is unable to obtain sufficient funds within the necessary time periods, it will default on its obligations.

FAILURE OF THE COMPANY TO MAINTAIN OR INCREASE ITS DIVIDEND COULD REDUCE THE MARKET PRICE OF THE COMPANY'S STOCK WHICH COULD MAKE IT DIFFICULT FOR THE COMPANY TO RAISE ADDITIONAL EQUITY CAPITAL ON FAVORABLE TERMS, IF AT ALL.

The Company has raised its quarterly dividend each consecutive quarter since the Company's initial public offering. The ability to maintain or raise its dividend is dependent, to a large part, on growth of funds from operations. This growth in turn depends upon increased revenues from additional investments, rental increases and income from administrative and management services.

DEVELOPMENT FUNDING INVOLVES GREATER RISKS THAN ARE ASSOCIATED WITH THE

PURCHASE AND LEASE-BACK OF OPERATING PROPERTIES.

Development funding arrangements require the Company to provide the funding to enable healthcare operators to build facilities on property owned or leased by the Company. If the developer or contractor fails to complete the project under the terms of the development agreement, the Company would be forced to become involved in the development to ensure completion or the Company would lose the property.

TRANSFERS OF OPERATIONS OF HEALTHCARE FACILITIES ARE SUBJECT TO REGULATORY APPROVALS NOT REQUIRED FOR TRANSFERS OF OTHER TYPES OF COMMERCIAL OPERATIONS AND REAL ESTATE.

Many of the Company's properties are special-purpose facilities that may not be easily adaptable to uses unrelated to healthcare.

RISKS RELATED GROWTH OF REVENUE AND FUNDS FROM OPERATIONS

The Company's general growth strategy requires continuing growth in the Company's funds from operations which could be negatively affected by the following factors:

OPERATORS OF SENIOR LIVING ASSETS HAVE COME UNDER INCREASED FINANCIAL PRESSURE WHICH MAY AFFECT THEIR ABILITY TO MEET THEIR OBLIGATIONS TO THE COMPANY.

Due to increased competition in the senior living assets sector, operators of senior living facilities have come under increased financial pressure; additionally, the implementation of the "prospective payment system" for Medicare reimbursements had added pressure on operators. As a result of the Capstone merger, the Company's portfolio of senior living facilities increased substantially. Since the Capstone merger, three operators in this sector have declared bankruptcy; however, the Company has sold, leased or is in the process of leasing these properties. The Company cannot be certain that additional operator failures in this sector will not occur.

THE INVESTMENT RETURNS AVAILABLE FROM EQUITY INVESTMENTS IN REAL ESTATE DEPEND LARGELY ON THE AMOUNT OF INCOME EARNED AND CAPITAL APPRECIATION GENERATED BY THE RELATED PROPERTIES, AS WELL AS THE EXPENSES INCURRED.

Real property investments are generally subject to varying degrees of risk. To offset the threat of insufficient revenue to meet operating expenses, debt service, capital expenditures and dividend payments, the Company requires net master leases or similar financial support with primary term periods for most of its investments. Nevertheless, the Company's properties are subject to all of the normal risks associated with real estate investments.

ADVERSE TRENDS IN HEALTHCARE PROVIDER OPERATIONS CAN NEGATIVELY AFFECT

THE LEASE REVENUES AND VALUES OF THE COMPANY'S INVESTMENTS.

The healthcare service industry continues to be a profitable, growing segment of the economy, supported by fundamentals that ensure continued growth. However, the industry is currently experiencing:

- Substantial changes in the method of delivery of healthcare services;
- Rising competition among healthcare providers for patients;
- Continuing pressure by private and governmental payors; and
- Increased scrutiny by federal and state authorities.

The changes can affect the economic performance of some or all of the tenants and sponsors who provide financial support to the Company's investments and, in turn, the lease revenues and the value of the Company's property investments.

THE COMPANY'S CONCENTRATION ON A FEW HEALTHCARE PROVIDERS WOULD MAGNIFY THE NEGATIVE EFFECT ON THE COMPANY IF A LARGER PROVIDER WERE TO SUFFER FINANCIAL HARDSHIPS.

Currently, 48% of the Company's real estate portfolio, including mortgages, is leased to, or supported by its five largest healthcare provider clients. To varying degrees, these providers have experienced the pressures listed above. Any financial problems experienced by these providers would negatively impact the support arrangements that the Company has with these providers and require the Company to rely solely upon rental revenue from occupant tenants. If the Company is required to rely solely upon tenant occupants with respect to one or more properties, it will experience the typical risks associated with real estate investments enjoying no supplemental credit support, including competition for individual tenants and the renewal or roll-over of existing leases.

IF THE INPATIENT OCCUPANCY RATE AT A HOSPITAL NEAR A COMPANY FACILITY DETERIORATED TO A LEVEL AT WHICH OPERATING CASH FLOWS WOULD BE INSUFFICIENT TO COVER THE PAYMENTS TO THE COMPANY, THE COMPANY WOULD HAVE TO RELY UPON THE GENERAL CREDIT OF THE PROVIDER OR THE RELATED GUARANTOR, IF ANY.

Most of the hospitals adjacent to or associated with the Company's current properties and those to be acquired by the Company are substantially less than fully occupied on an inpatient basis. Despite such occupancy rates, however, the operating cash flow produced by such hospitals adequately covers related payments to the Company.

IF A PROVIDER LOST ITS LICENSURE OR CERTIFICATION, THE COMPANY WOULD HAVE TO OBTAIN ANOTHER PROVIDER FOR THE AFFECTED FACILITY.

Healthcare providers are subject to federal and state laws and regulations which govern financial and other arrangements between healthcare operators. If the Company could not attract another healthcare provider on a timely basis or on acceptable terms, the Company's revenues would suffer.

A FAILURE OF THE COMPANY TO REINVEST THE PROCEEDS FROM SECURITIES OFFERINGS AND PROPERTY DISPOSITIONS COULD HAVE AN ADVERSE EFFECT ON THE COMPANY'S FUTURE REVENUES.

From time to time, the Company will have cash available from (1) the proceeds of sales of shares of its securities, (2) the sale of its properties, including non-elective dispositions, under the terms of master leases or similar financial support arrangements, and (3) principal payments on its mortgage investments. These arrangements require, among other items, a disposition of properties in the event of a healthcare provider's default, and upon the healthcare provider's exercise of an option to repurchase these properties. The Company must re-invest these proceeds, on a timely basis, in another healthcare investment or in a qualified short-term investment. While the Company has been able to do so in the past, the Company may not be able to invest proceeds on a timely basis or on acceptable terms in the future.

Delays in acquiring properties will negatively impact revenues and may have the potential to adversely effect the Company's ability to increase its distributions to shareholders.

TERMINATION OF PROPERTY MANAGEMENT ENGAGEMENTS CAN RESULT IN LOST INCOME.

The Company is engaged on its own behalf, and for the benefit of third-party property owners, in the following activities:

- Asset and property management;
- Day-to-day property management;
- Leasing of multi-tenanted healthcare properties; and
- Supervision of the development of new healthcare properties.

The terms of these service engagements can vary in duration from month-to-month to 15 years. Additionally, the Company regularly terminates engagements as a result of completion of the engagement assignment or the sale of managed properties by the Company or third-party owners. Termination of engagements results in lost future income stream. In addition, unamortized capital costs incurred in obtaining engagements must be charged against current revenues or established reserves. The Company has experienced significant fluctuation in the number of engagements in effect at any given time. This fluctuation generates uncertainty as to the predictability of net revenues. The Company is also subject to significant uncertainties because of the dynamic nature of the healthcare service industry, and increased competition from other real estate management companies entering the healthcare services industry. The Company may not be able to continue to be able to market or cross-sell its property management services successfully.

RISKS RELATED TO THE COMPANY'S STATUS AS A REIT

FAILURE TO MAINTAIN ITS STATUS AS A REIT, EVEN IN ONE TAXABLE YEAR,

COULD CAUSE THE COMPANY TO REDUCE ITS DIVIDENDS DRAMATICALLY.

The Company intends to qualify at all times as a REIT under the Code. If in any taxable year the Company does not qualify as a REIT, it would be taxed as a corporation. As a result, the Company could not deduct its distributions to the shareholders in computing its taxable income. Depending upon the circumstances, a REIT that loses its qualification in one year may not be eligible to re-qualify during the four succeeding years. Further, certain transactions or other events could lead to the Company being taxed at rates ranging from four to 100 percent on certain income or gains.

ITEM 2. PROPERTIES

EXECUTIVE OFFICES

The Company's headquarters, located in offices at 3310 West End Avenue in Nashville, Tennessee, are leased from an unrelated third party. The lease agreement, covering approximately 22,551 square feet of rented space, expires on October 31, 2003, with two five-year renewal options. Annual rental is approximately \$421,000.

PROPERTY OPERATIONS

The following table sets forth information regarding the Company's properties as of December 31, 1999.

FACILITY TYPE (4)	FACILITY LOCATION	TOTAL INVESTMENT	ENCUMBRANCES	DATE ACQUIRED
AHF	AL	\$ 4,697,059		1998
AHF	AL	6,899,236		1998
AHF	AL	14,091,201		1998
AHF	AL	8,507,164		1998
AHF	AL	2,353,118		1998
AHF	AL	6,416,670		1998
AHF	AZ	5,273,993		1993
AHF	CA	4,792,781		1995
AHF	CA	5,749,332		1994
AHF	CA	5,287,476		1994
AHF	CA	9,324,345		1994
AHF	CA	9,189,080		1994
AHF	CA	15,698,415		1997
AHF	CA	16,068,467		1998
AHF	CA	7,538,204		1993
AHF	CA	5,327,777		1993
AHF	FL	11,215,993		1994
AHF	FL	7,756,400		1998
AHF	FL	5,292,400		1994
AHF	FL	4,981,848		1994
AHF	FL	4,995,230		1994
AHF	FL	3,302,941		1998
AHF	FL	19,453,635		1998
AHF	FL	4,556,668		1994
AHF	FL	5,084,512		1996
AHF	FL	20,063,164	\$ 8,642,547	1998
AHF	FL	1,620,558		1995
AHF	FL	8,467,651		1994
AHF	GA	6,388,548		1993
AHF	GA	11,069,865		1994
AHF	KS	10,612,306		1995
AHF	NV	6,881,494		1998
AHF	NV	42,758,366	22,612,354	1998
AHF	PA (2)	1,266,252		1999
AHF	PA	4,775,583		1998
AHF	TN	9,354,010		1997
AHF	TN (2)	209,369		1999
AHF	TN	10,713,633	4,398,886	1998
AHF	TN	3,138,889		1994
AHF	TX	1,905,817		1993
AHF	TX	10,699,488		1998
AHF	TX	9,262,657		1998
AHF	TX	842,093		1996
AHF	TX	1,737,128		1993
AHF	TX	18,485,079		1993
AHF	TX	5,252,820		1994
AHF	TX	3,194,800		1998
AHF	TX	14,301,748		1993
AHF	TX	3,236,289		1998
AHF	TX	3,107,422		1996
AHF	VA	3,771,668		1994
AHF	VA	4,593,463		1994
AHF	VA	8,773,577		1994
AHF	VA	5,855,716		1994
AHF	VA	27,608,960		1996
AHF	VA	1,433,579		1996
AHF	VA	14,683,388		1998

FACILITY TYPE (4)	FACILITY LOCATION	TOTAL INVESTMENT	ENCUMBRANCES	DATE ACQUIRED
AHF	VA	3,082,977		1998
AHF	VA	9,551,370		1999
AHF	WY (2)	879,544		1999
ALF	CT	11,924,642		1998
ALF	FL	1,764,000		1998
ALF	FL	9,572,814		1998
ALF	FL (2)	8,791,535		1998
ALF	GA	5,894,100		1998
ALF	MO	1,528,562		1998
ALF	MO	1,528,561		1998
ALF	MO	1,528,562		1998
ALF	MO	1,528,562		1998
ALF	NC	3,669,603		1998
ALF	NJ	8,719,597		1998
ALF	NJ	8,982,861		1998
ALF	OH	4,337,865		1998
ALF	PA	4,117,404		1998
ALF	PA	4,544,157		1998
ALF	PA	4,100,876		1998
ALF	PA	3,886,033		1998
ALF	PA	2,698,505		1998
ALF	PA	8,245,717		1998
ALF	PA	2,805,932		1998
ALF	SC	3,004,764		1998
ALF	TX	9,941,467		1998
ALF	TX	10,318,933		1998
ALF	TX	5,842,697		1998
ALF	TX	6,912,461		1998
ALF	TX	7,525,955		1998
ALF	TX	7,986,831		1998
ALF	TX	10,840,056		1998
ALF	TX	11,455,702		1998
ALF	VA	5,930,081		1998
ALF	VA	5,228,517		1998
ALF	VA	5,576,337		1998
ASC	CA	1,046,229		1993
ASC	FL	6,144,037		1999
ASC	GA	1,560,659		1998
ASC	IL	1,453,447		1998
ASC	MO	5,307,122		1998
ASC	NV	3,800,571		1994
ASC	TX	2,039,563		1993
CAC	AZ	10,492,408		1998
CAC	CA	28,747,108		1998
CAC	FL	11,182,027	4,648,093	1998
CAC	FL	5,801,741	3,268,190	1998
CAC	FL	3,199,810		1998
CAC	FL	3,872,469		1998
CAC	FL	3,187,566		1998
CAC	FL (3) (2)	11,985,876		1996
CAC	MO	9,449,685		1998
CAC	MO	11,982,707		1998
CAC	TN	3,126,397		1998
CAC	TX	12,053,222		1993
CAC	TX	9,666,769		1994
IRF	AL	17,721,800		1998
IRF	FL	11,703,036		1998

FACILITY TYPE (4)	FACILITY LOCATION	TOTAL INVESTMENT	ENCUMBRANCES	DATE ACQUIRED
IRF	PA	19,895,520		1998
IRF	PA	20,891,771		1998
IRF	PA	14,391,440		1998
IRF	PA	19,616,487		1998
IRF	PA	17,835,429		1998
IRF	PA	19,616,574		1998
IRF	TX	12,916,201		1998
PC	AL	2,639,646		1998
PC	AL	8,368,389		1998
PC	CA	8,055,943		1998
PC	FL	6,745,314		1998
PC	FL	10,305,181		1993
PC	FL	2,199,246		1998
PC	FL	3,893,612		1998
PC	FL	5,213,956		1994
PC	FL	13,509,657		1998
PC	FL	8,332,183		1998
PC	FL	1,556,229		1998
PC	FL	3,604,186		1994
PC	FL	856,377		1998
PC	GA	2,624,880		1998
PC	GA	2,673,880		1994
PC	IL	11,680,200		1998
PC	MA	2,564,171		1998
PC	MA	7,634,926		1998
PC	MA	9,209,268		1998
PC	MA	3,963,588		1998
PC	MA	7,414,137		1998
PC	MO	5,333,435		1998
PC	MO	4,032,033		1998
PC	TN	2,554,651		1998
PC	TN	1,889,836		1998
PC	TN	2,057,416		1998
PC	TN	1,981,966		1998
PC	TN	2,186,828		1998
PC	TX	16,938,177		1998
PC	TX	4,458,322		1993
PC	VA	1,362,983		1996
PC	VA	901,107		1996
PC	VA	337,915		1996
PC	VA	182,269		1996
PC	VA	350,203		1996
PC	VA	674,806		1996
SNF	AZ	2,873,661		1997
SNF	CA	12,687,699		1994
SNF	CO	6,230,515		1994
SNF	CO	12,417,625		1997
SNF	CO	7,759,595		1996
SNF	FL	10,205,696		1995
SNF	IN	3,640,140		1993
SNF	KS	7,592,661		1996
SNF	MI	3,540,494		1993
SNF	MI	3,284,185		1993
SNF	MI	3,143,156		1993
SNF	MI	1,049,352		1993
SNF	MI	1,697,049		1993
SNF	NC	6,175,865		1998

(1)

FACILITY TYPE (4)	FACILITY LOCATION	TOTAL INVESTMENT	ENCUMBRANCES	DATE ACQUIRED

SNF	OK	606,100		1999
SNF	PA	2,936,955		1998
SNF	PA	5,011,011		1998
SNF	PA	12,669,190		1998
SNF	TN	5,046,153		1997
SNF	TN	3,289,203		1997
SNF	TX	9,445,015		1995
SNF	TX	10,020,503		1995
SNF	VA (1)	6,952,798	16,204,372	1998
SNF	VA (1)	5,296,037		1998
SNF	VA (1)	4,733,910		1998
SNF	VA (1)	3,458,764		1998
SNF	VA (1)	3,207,675		1998
OTH	AL	8,789,812		1993
OTH	AR	2,988,896		1998
OTH	AZ	3,533,540		1998
OTH	FL	3,336,907		1998
OTH	FL	1,417,038		1998
OTH	MI	13,558,158		1998
OTH	MO	10,896,833		1998
OTH	MS	4,290,408		1993
OTH	PA (2)	3,355,172		1999
OTH	TX	8,601,386		1993
OTH	TX	5,891,916		1998
OTH	TX	1,976,372		1994
OTH	VA	6,885,358		1996
OTH	VA	5,121,498		1996
OTH	VA	926,023		1993
OTH	VA	12,760,711		1998
OTH	VA	1,015,117		1993
OTH	VA	2,119,232		1998

Total Real Estate		\$ 1,395,576,876	\$ 59,774,442	
Corporate		3,568,771	--	

Total Property		\$ 1,399,145,647	\$ 59,774,442	
=====				

(1) All six of the properties are encumbered by one mortgage with a 12/31/99 balance of \$16,204,372.

(2) Development at 12/31/99.

(3) Consists of three buildings, with one building being an MOB that is in construction as of 12/31/99.

(4) Facility Types:

AHF Ancillary Hospital Facilities

ALF Assisted Living Facilities

ASC Ambulatory Surgery Centers

CAC Comprehensive Ambulatory Care Centers IRH Inpatient Rehabilitation Facilities PC Physician Clinics

SNF Skilled Nursing Facilities

OTH Other

ITEM 3. LEGAL PROCEEDINGS

On March 22, 1999, HR Acquisitions I Corporation, formerly known as Capstone Capital Corporation ("HRT"), a wholly-owned subsidiary of the Company, filed suit against Medistar Corporation and its affiliate, Medix Construction Company in United States District Court for the Northern District of Alabama, Southern Division. HRT is seeking damages in excess of two million dollars arising out of the development and construction of four real estate projects located in different parts of the United States. Medistar and Medix served as the developer and contractor, respectively, for the projects. HRT has asserted claims for damages relating to, among others, alleged breaches of the development and contracting obligations, failure to perform in accordance with contract terms and specifications, and other deficiencies in performance by Medistar and Medix. On June 10, 1999, Medistar and Medix filed its answer and counterclaim asserting a variety of alleged legal theories, claims for damages for alleged deficiencies by HRT and the Company in the performance of alleged obligations, and for damage to their business reputation. Attempts at mediation have not resulted in a settlement of the disputes. The Company's prosecution of its claims and defense of the counterclaims will be vigorous. While the Company cannot predict the range of possible loss or outcome, the Company believes that, even though the asserted cross claims seek substantial monetary damages, the allegations made by Medistar and Medix are not factually or legally meritorious, are subject to sustainable defenses and are, to a significant extent, covered by liability insurance.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

No matter was submitted to a vote of shareholders during the fourth quarter of 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information relating to the Company's Common Stock, set forth on page 36 of the Company's 1999 Annual Report to Shareholders under the caption "Common Stock," is incorporated herein by reference.

On October 15, 1999, the Company issued an aggregate of 150,000 shares of its Common Stock to three former executive officers of Capstone Capital Corporation pursuant to Consulting Agreements with such individuals. Such sales were exempt under the registration requirements of the Securities Act of 1933 in reliance on the exemption contained in Section 4(2) of such Act. The Company made no other private sales of equity securities during 1999.

ITEM 6. SELECTED FINANCIAL DATA

The Company's selected financial data, set forth on page 9 of its 1999 Annual Report to Shareholders under the caption "Selected Financial Information," is incorporated herein by reference.

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

The Company's information relating to management's discussion and analysis of financial condition, set forth on pages 10 through 16 of the Company's 1999 Annual Report to Shareholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Market Risk" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," set forth on page 16 of the Company's 1999 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's financial statements and the related notes, together with the report of Ernst & Young LLP thereon, set forth on pages 17 through 34 of the Company's 1999 Annual Report to Shareholders, are incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS

Information with respect to directors, set forth on pages one through three of the Company's Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 16, 2000 under the caption "Election of Directors," is incorporated herein by reference.

EXECUTIVE OFFICERS

The executive officers of the Company are:

Name	Age	Position
----	---	-----
David R. Emery.....	55	Chairman of the Board, Chief Executive Officer & President
Timothy G. Wallace.....	41	Executive Vice President & Chief Financial Officer
Roger O. West.....	55	Executive Vice President & General Counsel

Mr. Emery formed the Company and has held his current positions since May 1992. Prior to 1992, Mr. Emery was engaged in the development and management of commercial real estate in Nashville, Tennessee. Mr. Emery has been active in the real estate industry for 30 years.

Mr. Wallace has held executive positions with the Company since January 1993. Prior to joining the Company, he was a Senior Manager with responsibility for healthcare and real estate in the Nashville, Tennessee office of Ernst & Young LLP from June 1989 to January 1993.

Mr. West has held executive positions with the Company since May 1994. Prior to joining the Company, he was a senior partner in the law firm of Geary, Porter and West, P.C. in Dallas, Texas from July 1992 to May 1994. Mr. West has extensive experience in the areas of corporate, tax and real estate law.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation, set forth on pages 8 through 14 of the Company's Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 16, 2000 under the caption "Executive Compensation," is incorporated herein by reference. The Comparative Performance Graph and the Compensation Committee Report on Executive Compensation also included in the Proxy Statement are expressly not incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to the security ownership of management and certain beneficial owners, set forth on pages 6 through 7 of the Company's Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 16, 2000 under the caption "Security Ownership of Certain Beneficial Owners and Management," is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information relating to certain relationships and related transactions, set forth on page 16 of the Company's Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 16, 2000 under the caption "Certain Relationships and Related Transactions," is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Index to Pro Forma and Historical Financial Statements, Financial Statement Schedules and Exhibits

(1) FINANCIAL STATEMENTS:

The following financial statements of Healthcare Realty Trust Incorporated are incorporated by reference in Item 8 from the 1999 Annual Report to Shareholders:

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

- Independent Auditors' Report.
- Consolidated Balance Sheets - December 31, 1999 and 1998.
- Consolidated Statements of Income for the years ended December 31, 1999, December 31, 1998 and December 31, 1997.
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 1999, December 31, 1997 and December 31, 1997.
- Consolidated Statements of Cash Flows for the years ended December 31, 1999, December 31, 1998 and December 31, 1997.
- Notes to Consolidated Financial Statements.

(2) FINANCIAL STATEMENT SCHEDULES:

Schedule II -- Valuation and Qualifying Accounts at December 31, 1999.....S-1

Schedule III -- Real Estate and Accumulated Depreciation at December 31, 1999.....S-2

Schedule IV - Mortgage Loans on Real Estate at December 31, 1999.....S-3

All other schedules are omitted because they are not applicable or not required or because the information is included in the consolidated financial statements or notes thereto.

(3) Exhibits:

Exhibit Number		Description of Exhibits
-----		-----
3.1	--	Second Articles of Amendment and Restatement of the Registrant.(1)
3.2	--	Amended and Restated Bylaws of the Registrant.(7)
4	--	Specimen stock certificate.(1)
10.1	--	1993 Employees Stock Incentive Plan of Healthcare Realty Trust Incorporated.(1)
10.2	--	1995 Restricted Stock Plan for Non-Employee Directors of Healthcare Realty Trust Incorporated.(4)
10.3	--	Executive Retirement Plan, as amended. (filed herewith)

10.4	--	Retirement Plan for Outside Directors.(1)
10.5	--	Non-Qualified Deferred Compensation Plan. (filed herewith)
10.6	--	Executive Variable Incentive Compensation Plan. (filed herewith)
10.7	--	2000 Employee Stock Purchase Plan. (filed herewith)
10.8	--	Dividend Reinvestment Plan.(2)
10.9	--	Amended and Restated Employment Agreement by and between David R. Emery and Healthcare Realty Trust Incorporated. (filed herewith)
10.10	--	Amended and Restated Employment Agreement by and between Roger O. West and Healthcare Realty Trust Incorporated. (filed herewith)
10.11	--	Amended and Restated Employment Agreement by and between Timothy G. Wallace and Healthcare Realty Trust Incorporated. (filed herewith)
10.12	--	Revolving Credit Agreement, dated as of October 15, 1998, among Healthcare Realty Trust Incorporated, NationsBank, N.A., First Union National Bank, Societe Generale, and Bank Austria Creditanstalt Corporate Finance, Inc. (6)
10.13	--	Term Credit Agreement, dated as of October 15, 1998, among Healthcare Realty Trust Incorporated, Capstone Capital Corporation, NationsBank, N.A., and the other lending banks.(6)
10.14	--	Amendment No. 1 to Term Credit Agreement. (7)
10.15	--	Amendment No. 2 to Term Credit Agreement. (filed herewith)
10.16	--	Form of Note Purchase Agreement, dated as of September 1, 1995, pertaining to \$90,000,000 aggregate principal amount of 7.41% Senior Notes due September 1, 2002.(3)
11	--	Statement re computation of per share earnings (contained in Note 9 to the Notes to the Consolidated Financial Statement in the Annual Report to Shareholders for the year ended December 31, 1999 filed herewith as Exhibit 13).
13	--	Annual Report to Shareholders for the year ended December 31, 1999 (filed herewith).
21	--	Subsidiaries of the Registrant (filed herewith).
23	--	Consent of Ernst & Young LLP, independent auditors (filed herewith).
27	--	Financial Data Schedule (For SEC Use Only)

(1) Filed as an exhibit to the Company's Registration Statement on Form S-11 (Registration No. 33-60506) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.

(2) Filed as an exhibit to the Company's Registration Statement on Form S-11 (Registration No. 33-72860) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.

(3) Filed as an exhibit to the Company's Form 10-Q for the quarter ended September 30, 1995 and hereby incorporated by reference.

(4) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 1995 and hereby incorporated by reference.

(5) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 1996 and hereby incorporated by reference.

(6) Filed as an exhibit to the Company's Form 10-K for the year ended December 31, 1998 and hereby incorporated by reference.

(7) Filed as an exhibit to the Company's Form 10-Q for the quarter ended September 30, 1999 and hereby incorporated by reference.

EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

The following is a list of all executive compensation plans and arrangements filed as exhibits to this Annual Report on Form 10-K:

1. 1993 Employees Stock Incentive Plan of Healthcare Realty Trust Incorporated (filed as Exhibit 10.1)
2. 1995 Restricted Stock Plan for Non-Employee Directors of Healthcare Realty Trust Incorporated (filed as Exhibit 10.2)
3. Executive Retirement Plan, as amended (filed as Exhibit 10.3)
4. Retirement Plan for Outside Directors (filed as Exhibit 10.4)
5. Non-Qualified Deferred Compensation Plan (filed as Exhibit 10.5)
6. Executive Variable Incentive Compensation Plan (filed as Exhibit 10.6)
7. 2000 Employee Stock Purchase Plan (filed as Exhibit 10.7)
8. Amended and Restated Employment Agreement by and between David R. Emery and Healthcare Realty Trust Incorporated (filed as Exhibit 10.8)
9. Amended and Restated Employment Agreement by and between Roger O. West and Healthcare Realty Trust Incorporated (filed as Exhibit 10.9)
10. Amended and Restated Employment Agreement by and between Timothy G. Wallace and Healthcare Realty Trust Incorporated (filed as Exhibit 10.10)

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1999.

(c) Exhibits

The response to this portion of Item 14 is submitted as a separate section of this report. See Item 14(a)(3).

(d) Financial Statement Schedules

The response to this portion of Item 14 is submitted as a separate section of this report. See Item 14(a)(2).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Nashville, State of Tennessee, on March 14, 2000.

HEALTHCARE REALTY TRUST INCORPORATED

By: /s/ David R. Emery

David R. Emery
Chairman, President and
Chief Executive Officer

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

Signature -----	Title -----	Date ----
/s/ David R. Emery ----- David R. Emery	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 14, 2000
/s/ Timothy G. Wallace ----- Timothy G. Wallace	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 14, 2000
/s/ Fredrick M. Langreck ----- Fredrick M. Langreck	Senior Vice President and Treasurer	March 14, 2000
/s/ Scott W. Holmes ----- Scott W. Holmes	Senior Vice President - Financial Reporting	March 14, 2000
/s/ Errol L. Biggs, Ph.D. ----- Errol L. Biggs, Ph.D.	Director	March 14, 2000
/s/ Thompson S. Dent ----- Thompson S. Dent	Director	March 14, 2000

/s/ Charles Raymond Fernandez, M.D. ----- Charles Raymond Fernandez, M.D.	Director	March 14, 2000
/s/ Batey M. Gresham, Jr. ----- Batey M. Gresham, Jr.	Director	March 14, 2000
/s/ Marliese E. Mooney ----- Marliese E. Mooney	Director	March 14, 2000
/s/ Edwin B. Morris, III ----- Edwin B. Morris, III	Director	March 14, 2000
/s/ John Knox Singleton ----- John Knox Singleton	Director	March 14, 2000

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AT DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

Description	Balance at Beginning of Period	ADDITIONS			Deductions(1)	Balance at End of Period
		Charged to costs and expenses	Charged to other accounts	Assumed from Capstone Capital Corp.		
1999						
Mortgage notes receivable allowance	\$3,000	\$ --	\$ --	\$ --	\$ 717	\$2,283
Accounts receivable allowance	419	576	--	--	--	995
	3,419	576	--	--	717	3,278
1998						
Mortgage notes receivable allowance	--	--	--	3,000	--	3,000
Accounts receivable allowance	15	73	--	346	15	419
	15	73	--	3,346	15	3,419
1997						
Mortgage notes receivable allowance	--	--	--	--	--	--
Accounts receivable allowance	20	15	--	--	20	15
	\$ 20	\$ 15	\$ --	\$ --	\$ 20	\$ 15

(1) Write-off or collection of the related receivable accounts.

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AT DECEMBER 31, 1999

Facility Type	State	Land			Buildings, Improvements, and CIP			Personal Property
		Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	
Ancillary Hospital Facilities								
	AL	1,194,515	136,087	1,330,602	3,366,457	0	3,366,457	0
	AL	1,018,666	112,325	1,130,991	5,768,245	0	5,768,245	0
	AL	2,710,081	151,076	2,861,157	11,230,044	0	11,230,044	0
	AL	60,030	83,455	143,485	8,363,679	0	8,363,679	0
	AL	109,811	29,650	139,461	2,213,657	0	2,213,657	0
	AL	120,060	65,885	185,945	6,230,725	0	6,230,725	0
	AZ	308,070	0	308,070	4,965,923	0	4,965,923	0
	CA	1,337,483	0	1,337,483	3,122,980	332,318	3,455,297	0
	CA	2,218,847	0	2,218,847	3,319,804	210,680	3,530,484	0
	CA	2,059,953	0	2,059,953	3,068,881	158,642	3,227,523	0
	CA	3,149,515	0	3,149,515	5,666,654	505,588	6,172,242	2,587
	CA	3,160,865	0	3,160,865	5,859,967	165,865	6,025,832	2,383
	CA	0	0	0	15,342,398	355,075	15,697,473	941
	CA	3,190,439	16,030	3,206,469	12,861,998	0	12,861,998	0
	CA	1,720,127	0	1,720,127	5,797,840	0	5,797,840	20,237
	CA	1,522,222	0	1,522,222	3,787,288	0	3,787,288	18,267
	FL	0	0	0	5,072,041	220,359	5,292,400	0
	FL	45,216	0	45,216	4,936,632	0	4,936,632	0
	FL	0	0	0	4,843,314	151,915	4,995,230	0
	FL	0	0	0	19,928,451	129,087	20,057,538	5,626
	FL	0	0	0	8,042,864	424,788	8,467,651	0
	FL	0	0	0	1,620,558	0	1,620,558	0
	FL	2,201,396	110,437	2,311,833	991,108	0	991,108	0
	FL	1,071,287	50,061	1,121,348	18,332,287	0	18,332,287	0
	FL	0	4,470	4,470	4,278,351	1,227,385	5,505,737	115,656
	FL	0	0	0	3,830,316	185,000	4,015,316	0
	FL	532,112	0	532,112	10,677,707	5,454	10,683,162	719
	FL	2,026,672	0	2,026,672	5,729,728	0	5,729,728	0
	GA	696,248	0	696,248	4,834,104	819,788	5,653,892	38,409
	GA	1,268,962	0	1,268,962	8,604,603	1,182,151	9,786,754	14,150
	KS	0	0	0	10,460,566	142,961	10,603,527	8,779
	NV	0	0	0	41,736,845	1,021,521	42,758,366	0
	NV	2,127,851	165,073	2,292,924	4,588,570	0	4,588,570	0
	PA	282,295	0	282,295	983,957	0	983,957	0
	PA	330,877	0	330,877	4,444,707	0	4,444,707	0
	TN	0	0	0	209,369	0	209,369	0
	TN	3,212,188	24,550	3,236,738	6,117,271	0	6,117,271	0
	TN	395,056	0	395,056	2,643,834	100,000	2,743,834	0
	TN	1,733,202	576	1,733,778	8,968,458	6,000	8,974,458	5,397
	TX	125,471	0	125,471	1,767,800	0	1,767,800	12,547
	TX	2,349,321	0	2,349,321	6,882,712	30,624	6,913,336	0
	TX	999,193	0	999,193	17,445,918	0	17,445,918	39,968
	TX	682,867	0	682,867	4,569,953	0	4,569,953	0
	TX	3,833,077	0	3,833,077	10,295,139	0	10,295,139	173,532
	TX	124,000	0	124,000	3,112,289	0	3,112,289	0
	TX	0	0	0	10,613,689	47,802	10,661,491	37,997

Facility Type	State	Total Assets	(1)		Date Acquired	Dated Constructed
			Accum. Depreciation	Encumbrances		

Ancillary Hospital Facilities						
	AL	4,697,059	132,541		1998	1992, 1993
	AL	6,899,236	219,383		1998	1981
	AL	14,091,201	422,792		1998	1991
	AL	8,507,164	313,022		1998	1993
	AL	2,353,118	83,332		1998	1977
	AL	6,416,670	233,430		1994	1991
	AZ	5,273,993	1,031,343		1993	1988
	CA	4,792,781	398,620		1994	1973
	CA	5,749,332	451,511		1994	1975
	CA	5,287,476	416,674		1994	1981
	CA	9,324,345	778,219		1994	1984
	CA	9,189,080	796,813		1997	1997
	CA	15,698,415	982,050		1993	1988
	CA	16,068,467	523,702		1998	1994
	CA	7,538,204	1,222,912		1993	1981
	CA	5,327,777	803,523		1993	1961, 1968, 1984-85
	FL	5,292,400	713,661		1994	1994
	FL	4,981,848	648,748		1994	1994
	FL	4,995,230	627,575		1994	1994
	FL	20,063,164	735,102	8,642,547	1998	1995
	FL	8,467,651	1,081,894		1994	1994
	FL	1,620,558	199,107		1995	1977
	FL	3,302,941	43,517		1998	1970, 1980
	FL	19,453,635	677,628		1998	1973, 1989-1990
	FL	5,625,863	710,221		1994	1994
	FL	4,015,316	327,355		1998	1994
	FL	11,215,993	1,563,151		1995	1984
	FL	7,756,400	211,642		1998	1994

GA	6,388,548	833,878		1993	1983
GA	11,069,865	1,323,658		1994	1975
KS	10,612,306	810,011		1995	1996
NV	42,758,366	1,561,274	22,612,354	1998	1996
NV	6,881,494	179,347		1998	1974
PA	1,266,252	0		1999	under const.(3)
PA	4,775,584	124,757		1998	1982
TN	209,369	0		1999	under const.(3)
TN	9,354,010	207,224		1997	1998
TN	3,138,889	392,540		1994	1991
TN	10,713,633	330,296	4,398,886	1998	1992
TX	1,905,817	378,795		1993	1989
TX	9,262,657	255,603		1998	1995
TX	18,485,079	3,660,355		1993	1992
TX	5,252,820	659,148		1994	1982
TX	14,301,748	2,299,263		1993	1985
TX	3,236,289	422,287		1998	1995
TX	10,699,488	398,130		1998	1995

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AT DECEMBER 31, 1999

Facility Type	State	Land			Buildings, Improvements, and CIP			Personal Property
		Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	
	TX	159,384	0	159,384	598,293	84,416	682,709	0
	TX	497,982	0	497,982	2,040,742	568,697	2,609,439	0
	TX	0	0	0	3,194,800	0	3,194,800	0
	TX	217,941	0	217,941	1,507,164	0	1,507,164	12,023
	VA	0	0	0	3,771,668	0	3,771,668	0
	VA	874,497	0	874,497	3,718,966	0	3,718,966	0
	VA	1,912,645	0	1,912,645	6,860,932	0	6,860,932	0
	VA	0	0	0	4,729,002	1,126,714	5,855,716	0
	VA	7,507,301	291,752	7,799,053	6,884,335	0	6,884,335	0
	VA	330,953	50,705	381,658	2,701,319	0	2,701,319	0
	VA	1,366,860	0	1,366,860	8,179,867	0	8,179,867	4,642
	VA	1,455,813	3,136	1,458,949	26,061,170	0	26,061,170	88,841
	VA	38,604	0	38,604	1,394,974	0	1,394,974	0
	WY	0	0	0	879,544	0	879,544	0

Ancillary Hospital Facilities		62,279,955	1,295,268	63,575,223	410,052,457	9,202,830	419,255,288	602,701
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Assisted Living Facilities

CT	441,212	0	441,212	11,483,429	0	11,483,429	0
FL	281,064	0	281,064	1,482,936	0	1,482,936	0
FL	0	0	0	8,791,535	0	8,791,535	0
FL	890,000	0	890,000	8,682,814	0	8,682,814	0
GA	0	0	0	5,894,100	0	5,894,100	0
MO	53,578	0	53,578	1,474,983	0	1,474,983	0
MO	12,893	0	12,893	1,515,669	0	1,515,669	0
MO	85,955	0	85,955	1,442,607	0	1,442,607	0
MO	53,279	0	53,279	1,475,283	0	1,475,283	0
NC	368,835	0	368,835	3,300,768	0	3,300,768	0
NJ	931,764	0	931,764	7,787,833	0	7,787,833	0
NJ	877,175	0	877,175	8,105,687	0	8,105,687	0
OH	173,615	0	173,615	4,164,250	0	4,164,250	0
PA	98,260	0	98,260	4,019,144	0	4,019,144	0
PA	288,029	0	288,029	3,812,847	0	3,812,847	0
PA	66,577	0	66,577	3,819,456	0	3,819,456	0
PA	48,398	0	48,398	2,650,107	0	2,650,107	0
PA	471,207	0	471,207	7,774,511	0	7,774,511	0
PA	467,244	0	467,244	4,076,913	0	4,076,913	0
PA	50,759	0	50,759	2,755,173	0	2,755,173	0
SC	106,050	0	106,050	2,898,714	0	2,898,714	0
TX	0	0	0	9,941,467	0	9,941,467	0
TX	0	0	0	10,318,933	0	10,318,933	0
TX	0	0	0	10,840,056	0	10,840,056	0
TX	0	0	0	10,629,211	826,491	11,455,702	0
TX	0	0	0	7,525,955	0	7,525,955	0
TX	0	0	0	5,842,697	0	5,842,697	0
TX	0	0	0	6,912,461	0	6,912,461	0
TX	0	0	0	7,986,831	0	7,986,831	0
VA	375,509	0	375,509	5,554,572	0	5,554,572	0

(1)

Facility Type	State	Total Assets	Accum. Depreciation	Encumbrances	Date Acquired	Dated Constructed
	TX	842,093	48,678		1996	1990
	TX	3,107,422	188,840		1996	1990
	TX	3,194,800	118,482		1996	1984
	TX	1,737,128	244,645		1998	1988
	VA	3,771,668	956,984		1994	1972-80
	VA	4,593,463	91,385		1994	1994
	VA	8,773,577	1,685,288		1994	1993,1994
	VA	5,855,716	82,561		1994	1993, 1994
	VA	14,683,388	274,990		1998	1977
	VA	3,082,977	100,066		1998	1992
	VA	9,551,370	86,727		1999	1975, 1984
	VA	27,608,960	2,142,558		1996	1981
	VA	1,433,579	113,267		1996	1994
	WY	879,544	0		1999	under const.(3)

Ancillary Hospital Facilities		483,433,216	36,320,505	35,653,787
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Assisted Living Facilities

CT	11,924,642	340,605	1998	1999
FL	1,764,000	54,908	1998	1976
FL	8,791,535	0	1998	under const.(3)
FL	9,572,814	23,094	1998	1999
GA	5,894,100	218,588	1998	1997
MO	1,528,561	54,613	1998	1996
MO	1,528,562	56,120	1998	1996
MO	1,528,562	53,415	1998	1993-94
MO	1,528,562	54,625	1998	1995
NC	3,669,603	139,638	1998	1999
NJ	8,719,597	218,108	1998	1999
NJ	8,982,861	258,584	1998	1999

OH	4,337,865	154,188	1998	1998
PA	4,117,404	148,815	1998	1996
PA	4,100,876	141,176	1998	1992, 1994
PA	3,886,033	141,421	1998	1989, 1993
PA	2,698,505	98,124	1998	1990
PA	8,245,717	208,761	1998	1999
PA	4,544,157	150,954	1998	1998
PA	2,805,932	102,014	1998	1993
SC	3,004,764	107,329	1998	1993, 1995
TX	9,941,467	368,688	1998	1986
TX	10,318,933	382,686	1998	1997
TX	10,840,056	402,013	1998	1997
TX	11,455,702	402,593	1998	1997
TX	7,525,955	278,660	1998	1997
TX	5,842,697	216,335	1998	1997
TX	6,912,461	255,944	1998	1997
TX	7,986,831	295,725	1998	1997
VA	5,930,081	204,872	1998	1998

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AT DECEMBER 31, 1999

Facility Type	State	Land			Buildings, Improvements, and CIP			Personal Property
		Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	
	VA	234,122	0	234,122	4,994,395	0	4,994,395	0
	VA	279,751	0	279,751	5,296,586	0	5,296,586	0
Assisted Living Facilities		6,655,276	0	6,655,276	183,251,923	826,491	184,078,414	0
Ambulatory Surgery Centers								
	CA	209,246	0	209,246	828,613	0	828,613	8,370
	FL	2,200,000	0	2,200,000	3,944,037	0	3,944,037	0
	GA	0	65,091	65,091	1,495,568	0	1,495,568	0
	IL	223,490	60,062	283,552	1,169,895	0	1,169,895	0
	MO	1,685,945	0	1,685,945	3,621,177	0	3,621,177	0
	NV	940,000	0	940,000	2,860,571	0	2,860,571	0
	TX	509,891	0	509,891	1,514,376	0	1,514,376	15,297
Ambulatory Surgery Centers		5,768,572	125,153	5,893,725	15,434,237	0	15,434,237	23,667
Comprehensive Ambulatory Care Centers								
	AZ	2,094,965	0	2,094,965	8,391,032	1,994	8,393,026	4,418
	CA	3,375,281	0	3,375,281	25,329,559	42,269	25,371,827	0
	FL	0	0	0	3,187,566	0	3,187,566	0
	FL	976,145	0	976,145	2,223,665	0	2,223,665	0
	FL	584,544	0	584,544	3,287,925	0	3,287,925	0
	FL	0	0	0	11,179,400	2,627	11,182,027	0
	FL	0	0	0	5,794,753	6,988	5,801,741	0
	FL(2)	1,032,261	0	1,032,261	10,953,616	0	10,953,616	0
	MO	1,471,792	0	1,471,792	7,975,420	0	7,975,420	2,473
	MO	1,676,402	577,655	2,254,057	9,728,650	0	9,728,650	0
	TN	0	0	0	3,126,397	0	3,126,397	0
	TX	601,475	0	601,475	11,169,134	213,206	11,382,339	69,408
	TX	1,041,298	0	1,041,298	8,518,528	106,943	8,625,471	0
Comprehensive Ambulatory Care Centers		12,854,163	577,655	13,431,818	110,865,645	374,027	111,239,670	76,299
Inpatient Rehabilitation Facilities								
	AL	0	0	0	17,721,800	0	17,721,800	0
	FL	0	0	0	11,703,036	0	11,703,036	0
	PA	0	0	0	20,891,771	0	20,891,771	0
	PA	1,330,054	0	1,330,054	18,565,466	0	18,565,466	0
	PA	982,859	0	982,859	13,408,581	0	13,408,581	0
	PA	1,191,530	0	1,191,530	18,424,957	0	18,424,957	0
	PA	1,213,750	0	1,213,750	18,402,824	0	18,402,824	0
	PA	0	0	0	17,835,429	0	17,835,429	0
	TX	1,116,455	0	1,116,455	11,799,746	0	11,799,746	0
Inpatient Rehabilitation Facilities		5,834,648	0	5,834,648	148,753,610	0	148,753,610	0
Facility Type	State	(1) Total Accum. Depreciation			Date		Dated Constructed	
		Assets	Encumbrances		Acquired			
	VA	5,228,517	185,259		1998		1998	
	VA	5,576,337	195,780		1998		1998	
Assisted Living Facilities		190,733,689	5,913,635	0				
Ambulatory Surgery Centers								
	CA	1,046,229	179,862		1993		1985	
	FL	6,144,037	8,419		1999		1992	
	GA	1,560,659	59,197		1998		1993	
	IL	1,453,447	46,941		1998	1960's, 1988		
	MO	5,307,122	132,324		1998		1988	
	NV	3,800,571	400,352		1994		1994	
	TX	2,039,563	328,717		1993		1985	
Ambulatory Surgery Centers		21,351,628	1,155,812	0				
Comprehensive Ambulatory Care Centers								

	AZ	10,492,408	148,833		1998	1999
	CA	28,747,108	905,550		1998	1997
	FL	3,187,566	134,289		1998	1997
	FL	3,199,810	117,361		1998	1999
	FL	3,872,469	129,739		1998	1996
	FL	11,182,027	411,299	4,648,093	1998	1995
	FL	5,801,741	213,216	3,268,190	1998	1995
	FL(2)	11,985,877	430,824		1996	1995(3)
	MO	9,449,685	172,543		1998	1999
	MO	11,982,707	395,657		1998	1993
	TN	3,126,397	123,325		1998	1997
	TX	12,053,222	2,396,647		1993	1991
	TX	9,666,769	954,929		1994	1995

Comprehensive Ambulatory Care Centers		124,747,786	6,534,212	7,916,283		

Inpatient Rehabilitation Facilities						
	AL	17,721,800	562,697		1998	1987
	FL	11,703,036	371,590		1998	1986
	PA	20,891,771	771,690		1998	1986
	PA	19,895,520	685,762		1998	1986
	PA	14,391,440	495,280		1998	1987
	PA	19,616,487	584,669		1998	1983
	PA	19,616,574	583,957		1998	1983
	PA	17,835,429	658,796		1998	1987
	TX	12,916,201	435,850		1998	1991

Inpatient Rehabilitation Facilities		154,588,258	5,150,291	0		

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AT DECEMBER 31, 1999

Facility Type	State	Land			Buildings, Improvements, and CIP			
		Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	Personal Property
Physician Clinics	AL	636,763	0	636,763	2,002,883	0	2,002,883	0
	AL	1,664,923	126,257	1,791,180	6,577,209	0	6,577,209	0
	CA	0	0	0	8,055,943	0	8,055,943	0
	FL	0	0	0	1,556,229	0	1,556,229	0
	FL	468,544	0	468,544	3,135,642	0	3,135,642	0
	FL	963,285	0	963,285	5,782,029	0	5,782,029	0
	FL	132,499	39,058	171,557	684,820	0	684,820	0
	FL	856,732	0	856,732	1,342,514	0	1,342,514	0
	FL	1,047,865	0	1,047,865	2,845,747	0	2,845,747	0
	FL	4,713,071	0	4,713,071	8,796,586	0	8,796,586	0
	FL	948,912	0	948,912	7,383,271	0	7,383,271	0
	FL	2,183,572	0	2,183,572	8,070,829	0	8,070,829	50,781
	FL	906,829	0	906,829	3,589,796	717,332	4,307,127	0
	GA	422,156	0	422,156	2,202,724	0	2,202,724	0
	GA	586,435	0	586,435	2,087,444	0	2,087,444	0
	IL	207,491	0	207,491	11,472,709	0	11,472,709	0
	MA	1,148,714	0	1,148,714	6,486,212	0	6,486,212	0
	MA	1,147,752	0	1,147,752	2,815,836	0	2,815,836	0
	MA	478,135	0	478,135	6,936,002	0	6,936,002	0
	MA	38,341	0	38,341	2,525,830	0	2,525,830	0
	MA	1,471,333	0	1,471,333	7,737,935	0	7,737,935	0
	MO	0	0	0	4,032,033	0	4,032,033	0
	MO	1,030,216	0	1,030,216	4,273,487	28,735	4,302,222	997
	TN	499,993	141,807	641,800	1,912,851	0	1,912,851	0
	TN	773,898	0	773,898	1,394,700	18,230	1,412,930	0
	TN	468,627	0	468,627	1,540,396	48,393	1,588,790	0
	TN	460,988	0	460,988	1,409,173	19,674	1,428,848	0
	TN	596,917	0	596,917	1,311,313	73,735	1,385,049	0
	TX	5,134,313	0	5,134,313	11,803,864	0	11,803,864	0
	TX	661,287	0	661,287	3,776,918	0	3,776,918	20,117
	VA	92,159	0	92,159	258,044	0	258,044	0
	VA	150,526	0	150,526	524,280	0	524,280	0
	VA	33,280	0	33,280	148,990	0	148,990	0
VA	182,522	0	182,522	969,461	211,000	1,180,461	0	
VA	78,437	0	78,437	259,478	0	259,478	0	
VA	83,967	0	83,967	817,140	0	817,140	0	
Physician Clinics		30,270,482	307,122	30,577,604	136,520,318	1,117,099	137,637,419	71,895

Skilled Nursing Facilities

AZ	266,596	0	266,596	2,521,319	85,746	2,607,065	0
CA	1,361,951	0	1,361,951	11,325,745	0	11,325,747	0
CO	1,651,477	0	1,651,477	4,579,039	0	4,579,039	0

Facility Type	State	Total Assets	(1)		Date Acquired	Dated Constructed
			Accum. Depreciation	Encumbrances		
Physician Clinics						
	AL	2,639,646	73,982		1998	1997
	AL	8,368,389	250,970		1998	1991
	CA	8,055,943	320,219		1998	1999
	FL	1,556,229	57,483		1998	1998
	FL	3,604,186	452,270		1994	1984
	FL	6,745,314	213,574		1998	1991
	FL	856,377	27,809		1998	1973
	FL	2,199,246	49,589		1998	1978
	FL	3,893,612	105,115		1998	1978
	FL	13,509,657	324,924		1998	1990
	FL	8,332,183	272,720		1998	1986
	FL	10,305,181	1,723,339		1993	1969,1973
	FL	5,213,956	589,531		1994	1991
	GA	2,624,880	81,363		1998	1991
	GA	2,673,880	309,996		1994	1991
	IL	11,680,200	422,072		1998	1973, 1984, 1989
	MA	7,634,926	239,585		1998	1982
	MA	3,963,588	104,010		1998	1963
	MA	7,414,137	256,199		1998	1985
	MA	2,564,171	93,298		1998	1987
	MA	9,209,268	285,820		1998	1968
	MO	4,032,033	149,531		1998	1994
	MO	5,333,435	158,608		1998	1996
	TN	2,554,651	79,711		1998	1955
	TN	2,186,828	65,078		1998	1982
	TN	2,057,416	72,900		1998	1992
	TN	1,889,836	65,928		1998	1992
	TN	1,981,966	63,107		1998	1982
	TX	16,938,177	434,255		1998	1997
	TX	4,458,322	803,087		1993	1961,1968
	VA	350,203	20,952		1996	1984

VA	674,806	42,570	1996	1995
VA	182,269	12,097	1996	1973
VA	1,362,983	81,422	1996	1905
VA	337,915	21,069	1996	1986
VA	901,107	66,349	1996	1992

Physician Clinics

168,286,916	8,390,532	0
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Skilled Nursing Facilities

AZ	2,873,661	188,669	1997	1972
CA	12,687,698	1,560,975	1994	1989
CO	6,230,515	631,106	1994	1994

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AT DECEMBER 31, 1999

Facility Type	State	Land			Buildings, Improvements, and CIP			Personal Property
		Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	Initial Investment	Costs Capitalized Subsequent to Acquisition	Total	
	CO	901,650	0	901,650	11,411,187	104,788	11,515,975	0
	CO	332,149	0	332,149	7,389,813	37,633	7,427,446	0
	FL	1,349,775	0	1,349,775	8,855,920	0	8,855,920	0
	IN	96,059	0	96,059	3,511,749	0	3,511,749	32,332
	KS	1,013,423	0	1,013,423	6,477,785	101,455	6,579,238	0
	MI	40,463	0	40,463	3,467,687	0	3,467,687	32,345
	MI	6,984	0	6,984	3,241,786	0	3,241,786	35,415
	MI	62,326	0	62,326	1,187,348	1,844,691	3,032,039	48,791
	MI	52,468	0	52,468	963,336	0	963,336	33,548
	MI	30,855	0	30,855	1,633,306	0	1,633,306	32,886
	NC	417,527	0	417,527	5,758,338	0	5,758,338	0
	OK	120,000	0	120,000	486,100	0	486,100	0
	PA	27,150	0	27,150	2,909,805	0	2,909,805	0
	PA	146,314	0	146,314	4,864,697	0	4,864,697	0
	PA	266,993	38,819	305,812	12,363,378	0	12,363,378	0
	TN	82,945	0	82,945	4,963,209	0	4,963,209	0
	TN	145,402	0	145,402	3,143,801	0	3,143,801	0
	TX	605,036	0	605,036	8,772,078	67,901	8,839,979	0
	TX	1,190,364	0	1,190,364	8,738,144	91,995	8,830,139	0
	VA	261,490	0	261,490	6,691,308	0	6,691,308	0
	VA	487,092	0	487,092	2,971,672	0	2,971,672	0
	VA	94,135	0	94,135	4,639,775	0	4,639,775	0
	VA	82,244	0	82,244	3,125,431	0	3,125,431	0
	VA	134,817	0	134,817	5,161,220	0	5,161,220	0
Skilled Nursing Facilities		11,227,685	38,819	11,266,504	141,154,976	2,334,209	143,489,185	215,317
Other								
	AL	180,633	0	180,633	8,601,151	0	8,601,151	8,028
	AR	478,532	169,031	647,563	2,341,333	0	2,341,333	0
	AZ	582,249	0	582,249	2,951,291	0	2,951,291	0
	FL	0	0	0	1,417,039	0	1,417,039	0
	FL	833,869	77,117	910,986	2,425,921	0	2,425,921	0
	MI	4,404,681	0	4,404,681	9,153,477	0	9,153,477	0
	MO	1,810,263	229,955	2,040,218	8,856,615	0	8,856,615	0
	MS	537,660	0	537,660	3,723,087	0	3,723,087	29,660
	PA	0	0	0	3,355,172	0	3,355,172	0
	TX	356,212	150,063	506,275	5,385,641	0	5,385,641	0
	TX	992,738	2,318	995,056	6,865,237	299,403	7,164,640	441,689
	TX	166,123	0	166,123	1,810,249	0	1,810,249	0
	VA	43,126	0	43,126	839,285	0	839,285	43,611
	VA	64,347	0	64,347	867,590	0	867,590	83,179
	VA	1,066,739	0	1,066,739	5,665,960	150,239	5,816,198	2,420
	VA	752,629	0	752,629	4,367,295	1,575	4,368,870	0
	VA	0	65,319	65,319	2,053,914	0	2,053,914	0
	VA	392,402	0	392,402	12,368,309	0	12,368,309	0
Other		12,662,203	693,803	13,356,006	83,048,566	451,217	83,499,782	608,587
Total Real Estate		147,552,984	3,037,820	150,590,804	1,229,081,732	14,305,873	1,243,387,605	1,598,466
Corporate Property		0	0	0	2,165	0	2,165	3,566,607
Total Property		147,552,984	3,037,820	150,590,804	1,229,083,897	14,305,873	1,243,389,770	5,165,073

Facility Type	State	(1)			Date Acquired	Dated Constructed
		Total Assets	Accum. Depreciation	Encumbrances		
	CO	12,417,625	528,149		1997	1998
	CO	7,759,595	502,462		1996	1998
	FL	10,205,696	765,489		1995	1996
	IN	3,640,140	759,358		1993	1987
	KS	7,592,661	508,035		1996	1997
	MI	3,540,494	750,228		1993	1968
	MI	3,284,185	706,155		1993	1971,1977
	MI	3,143,156	449,229		1993	1968
	MI	1,049,352	231,223		1993	1967
	MI	1,697,047	369,752		1993	1964,1974
	NC	6,175,865	213,211	(4)	1998	1991
	OK	606,100	5,079		1999	1974
	PA	2,936,955	107,740		1998	1992
	PA	5,011,011	180,123		1998	1995
	PA	12,669,190	460,204		1998	1976
	TN	5,046,153	328,760		1997	1981
	TN	3,289,203	208,243		1997	1991
	TX	9,445,015	705,131		1995	1996
	TX	10,020,503	635,042		1995	1997
	VA	6,952,798	247,756	16,204,372(4)	1998	1971, 1977
	VA	3,458,764	110,031	(4)	1998	1966
	VA	4,733,910	171,795	(4)	1998	1991

	VA	3,207,675	115,724	(4)	1998	1991
	VA	5,296,037	191,057	(4)	1998	1989
Skilled Nursing Facilities		154,971,004	11,630,726	16,204,372		
Other						
	AL	8,789,812	1,793,778		1993	1906,1986
	AR	2,988,896	97,066		1998	1991
	AZ	3,533,540	95,742		1998	1999
	FL	1,417,039	52,342		1998	1998
	FL	3,336,907	94,315		1998	1960, 1986
	MI	13,558,158	342,180		1998	1983
	MO	10,896,833	342,839		1998	1966, 1975
	MS	4,290,408	618,210		1993	1986,1991
	PA	3,355,172	0		1999	under const.(3)
	TX	5,891,916	211,153		1998	1983
	TX	8,601,385	1,454,091		1993	1993
	TX	1,976,372	248,256		1994	1994
	VA	926,023	214,805		1993	1988
	VA	1,015,117	257,428		1993	1989
	VA	6,885,358	465,412		1996	1995
	VA	5,121,498	354,720		1996	1990
	VA	2,119,233	79,863		1998	1993
	VA	12,760,711	458,689		1998	late 1950's, 1970
Other		97,464,378	7,180,889	0		
Total Real Estate		1,395,576,875	82,276,602	59,774,442		
Corporate Property		3,568,772	1,719,200	0		
Total Property		1,399,145,647	83,995,802	59,774,442		

(1) Depreciation is provided on buildings and improvements over 31.5 or 39.0 years and personal property over 3.0 to 7.0 years.

(2) Consists of three buildings, with one building being an MOB that is under construction as of 12/31/99.

(3) Development at 12/31/99.

(4) All 6 of the properties are encumbered by one mortgage with a 12/31/99 balance of \$16,204,372.

(5) Total assets at 12/31/99 have an estimated aggregate total cost of \$1,245,602,980.38 for Federal Income Tax purposes.

(6) Reconciliation of Total Property and Accumulated Depreciation for the twelve months ended December 31, 1999, 1998 and 1997:

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AT DECEMBER 31, 1999

	Year to Date Ending 12/31/99		Year to Date Ending 12/31/98		Year to Date Ending 12/31/97	
	Total Property	Accumulated Depreciation	Total Property	Accumulated Depreciation	Total Property	Accumulated Depreciation
Beginning Balance	1,387,554,751	50,116,154	505,698,610	34,718,380	439,177,928	23,143,511
Retirements/dispositions:						
Real Estate	(46,839,974)	(4,027,489)	(11,410,200)	(423,339)	(71,148)	(32,343)
Corporate Property	0	0	0	0	0	0
Additions during the period:						
Real Estate	24,633,438	37,686,289	847,262,872	15,507,502	59,822,598	11,035,703
Corporate Property	286,651	220,848	119,603	313,611	1,467,143	571,509
Construction in Progress	33,510,781	0	45,883,866	0	5,302,089	0
Ending Balance	1,399,145,647	83,995,802	1,387,554,751	50,116,154	505,698,610	34,718,380

SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE
AS OF DECEMBER 31, 1999
(dollars in thousands)

DESCRIPTION	INTEREST RATE	MATURITY DATE	PERIODIC PAYMENT TERMS	ORIGINAL FACE AMOUNT	CARRYING AMOUNT (9)	BALLOON PAYMENT
INDIVIDUAL MORTGAGES IN EXCESS OF 3% OF THE TOTAL CARRYING AMOUNT:						
CONSTRUCTION LOANS:						
One assisted living facility located in Illinois	10.00%	5 Years after Conversion	(2)	\$ 7,620	\$ 7,769	(3)
PERMANENT LOANS:						
Specialty hospital located in Arizona	9.31%	11/1/04	(1)	17,800	17,993	16,409(4)
Skilled nursing facility located in Maryland	10.15%	2/15/02	(1)	8,800	8,921	8,498(6)
Skilled nursing facility located in Michigan	11.14%	2/15/07	(1)	9,600	9,592	8,463(6)
Skilled nursing facility located in Tennessee	10.09%	10/27/13	(10)	12,380	12,781	12,380(5)
Ancillary hospital facility located in Florida	10.25%	10/5/10	(1)	9,400	9,563	8,006(7)
Acute care hospital located in California	11.99%	8/10/09	(1)	8,000	7,974	6,979(8)
OTHER MORTGAGES:						
Twenty three skilled nursing facilities located in the states of Alabama, California, Florida, Massachusetts, Maryland, Michigan, Ohio, Oklahoma, South Carolina, Tennessee, and Virginia; with face amounts ranging from \$.350 to \$6.3 million	From 8.02% to 13.00%	From Nov-01 to Aug-09			62,557	
Forty nine assisted living facilities located in the states of Alabama, Arizona, California, Florida, Georgia, Iowa, Indiana, Mississippi, Montana, North Carolina, Nebraska, New Mexico, Ohio, Oregon, Pennsylvania, Tennessee, Texas, and Washington; with face amounts ranging from \$.350 to \$6.8 million	From 8.23% to 13.00%	From Oct-01 to Dec-09			94,259	
One ancillary hospital facility located in Texas with an original face amount of \$2.4 million	11.50%	Feb-01			2,560	
Three construction loans for assisted living facilities located in California, Mississippi, and Wyoming	Earlier of 11/00 10.00% or tenant lease dates/5 Years after conversion				19,490	
TOTAL MORTGAGE NOTES RECEIVABLE					----- \$253,459 =====	

Notes:

- (1) Paid in monthly installments of principal and interest. Principal payable in full at maturity date. Amortized over 300 months.
- (2) Interest only while in development. Then identical to (1).
- (3) No prepayment penalty. Balloon payment amount is undeterminable until the final loan amount is known.
- (4) No prepayment penalty until 4th year, then 3% penalty scaling down 1% annually.
- (5) Prepayment penalty cannot be determined because future interest rate fluctuations are based on future Consumer Price Index.
- (6) Yield Maintenance Amount is defined generally as % of the Principal Amount Being Prepaid x [(Present Value of the principal and Interest payments remaining to maturity at a discount rate) - (Principal Amount outstanding at the time of prepayment)].
- (7) No prepayment until 5th anniversary, then 5% penalty scaling down 1% per year.
- (8) No prepayment before December 2001, then 3% penalty until August 2002, then scales down 1% per year.
- (9) Generally includes purchase accounting adjustment resulting from Capstone merger.
- (10) Interest only until maturity. Then principal is payable in full.

	Years Ended December 31,		
	1999	1998	1997
Balance at beginning of period	\$ 237,617	\$ 4,708	\$ --
Additions during period:			
New or acquired mortgages	0	221,929	0
Commitments assumed in the Capstone merger	16,734	0	0
Construction fundings	21,804	19,864	4,488
Other	407	121	220
	-----	-----	-----
	38,945	241,914	4,708
Deductions during period:			
Collections of principal	(1,931)	(164)	0
Cost of mortgages sold	(20,249)	(8,646)	0
Amortization of premium	(923)	(195)	0
	-----	-----	-----
	(23,103)	(9,005)	0
Balance at end of period	\$ 253,459	\$ 237,617	\$4,708

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EXHIBIT 10.3

HEALTHCARE REALTY TRUST INCORPORATED

EXECUTIVE RETIREMENT PLAN

1. PURPOSE OF THE PLAN

The principal objective of this Executive Retirement Plan is to ensure the payment of a competitive level of retirement income in order to attract, retain, and motivate selected executives. The Plan is designed to provide a benefit which, when added to other retirement income of the executive, will meet the objective described above. Eligibility for participation in the plan shall be limited to executives selected by the Compensation Committee of the Board of Directors. This Plan will become effective on January 1, 1993.

2. DEFINITIONS

(A) "ACCRUED BENEFIT" means, as of any date, the Participant's retirement benefit to begin at his Normal Retirement Date (as hereinafter defined), determined pursuant to Section 4.2 and based on his Final Average Earnings on the date of calculation and Service projected to Normal Retirement Date multiplied by the ratio of years of Service as of calculation date over years of Service projected to age 65.

(B) "BASIC PLAN" means the retirement plan, a defined benefit and/or a defined contribution plan, covering essentially all employees of the Company, including a Participant.

(C) "BASIC PLAN BENEFIT" means the amount of benefit payable from the Basic Plan to a Participant in the form of a straight life annuity. If the Basic Plan includes a defined contribution plan, the lump sum value will be converted to a straight life annuity based on actuarial factors selected by the Committee. If the Basic Plan provides for employee contributions or employer contributions [other than matching contributions, if any, within the contemplation of Section 401(m) of the Internal Revenue Code] which are based upon an employee's deferral of compensation, such as under a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986, the Basic Plan Benefit shall not include benefits which are attributable to such contributions and any earnings thereon.

(D) "COMMITTEE" means the Compensation Committee of the Board of Directors of the Company, which the Board of Directors has given authority to administer this Plan.

(E) "COMPANY" means Healthcare Realty Trust Incorporated, a Maryland corporation.

(F) "DISABILITY" means any termination from the Company's employment during the life of a Participant and prior to age 65 by reason of a Participant's total and permanent disability, as determined by the Committee, in its sole and absolute discretion. A Participant, who makes application for and qualifies for disability benefits under the Company's disability plan or under any similar plan provided by the Company, as now in effect or as hereinafter amended (the "LTD Plans"), shall qualify for Disability under this Plan, unless the Committee determines that the Participant is not totally and permanently disabled. A Participant who fails to qualify for disability benefits under the LTD Plans (whether or not the Participant makes application for disability benefits thereunder) shall not be deemed to be totally and permanently disabled under this Plan, unless the Committee otherwise determines, based upon the opinion of a qualified physician or medical clinic selected by the Committee to the effect that a condition of total and permanent disability exists.

(G) "EARNINGS" means total annual cash compensation, including base salary, annual incentives awards, and deferred compensation.

(H) "FINAL AVERAGE EARNINGS" means the average of the three (3)

highest, not necessarily consecutive, years' Earnings.

(I) "OTHER RETIREMENT INCOME" means the Basic Plan Benefit payable to a Participant from the Basic Plan and Social Security.

(J) "PARTICIPANT" means an employee of the Company designated as a Participant by the Committee. An employee shall become a Participant in the Plan as of the date he or she is individually selected by, and specifically named in the resolutions of, the Committee to be included in the Plan.

(K) "PLAN" means the Company's Executive Retirement Plan.

(L) "RETIREMENT" means the termination of a Participant's employment with the Company on one of the retirement dates specified in Section 3.1.

(M) "SERVICE" means a Participant's total years of employment with the Company from date of hire to date of termination of employment.

(N) "SOCIAL SECURITY BENEFIT" means the annual Primary Insurance Amount estimated by the Committee to be payable to the Participant at age 65 under the Federal Social Security Act, provided, however, that:

(i) the Social Security Benefit for a Participant who dies, retires or terminates employment before age 65 will be calculated assuming:

(A) the Participant will not receive any future wages that would be treated as wages for purposes of the Federal Social Security Act; and

(B) the Participant will elect to begin receiving his Social Security Benefit as of the earliest age then allowable under the Act or, if later, at actual date of Retirement.

(ii) the Social Security Benefit for a Participant who retires on a Disability Retirement date will be calculated assuming that the Participant's disability would make him eligible for Social Security disability benefits.

(iii) once calculated, the Social Security Benefit will be frozen as of the date the Participant dies, retires, or terminates employment, whichever is applicable.

(O) "SURVIVING SPOUSE" means the spouse of a Participant who is legally married to the Participant on the Participant's termination or death.

Where appearing in the Plan, the masculine gender will be deemed to include the feminine gender, and the singular may include the plural, unless the context clearly indicates the contrary.

3. ELIGIBILITY FOR BENEFITS

3.1 Each Participant is eligible to retire and receive a benefit under this Plan beginning on one of the following dates:

(A) "NORMAL RETIREMENT DATE," which is the first day of the month following the month in which the Participant reaches age 65 and has completed five (5) years of Service.

(B) "EARLY RETIREMENT DATE," which is the first day of any month following the month in which the Participant reaches age 55 and has completed five (5) years of Service.

(C) "POSTPONED RETIREMENT DATE," which is the first day of the month following the Participant's Normal Retirement Date in which the Participant terminates employment with the Company.

3.2 No benefits are payable hereunder unless the Participant retires on an Early Retirement, Normal Retirement or Postponed Retirement Date. Notwithstanding the prior sentence, in the event a Participant has entered into an employment agreement with the Company which provides for vesting of his/her Accrued Benefit hereunder, whether as a result of a termination other than for cause or otherwise, any benefit paid with such agreement shall be funded and paid through this Plan.

3.3 If any Participant entitled to a benefit under this Plan is (i) discharged for cause after attaining his Early, Normal or Postponed Retirement Date, or (ii) enters into competition with the Company, or interferes with the relations between the Company and any person, firm or entity with whom the Company does business, or (iii) by reason of Participant's material, substantial and willful dishonesty towards, fraud upon, or deliberate injury or attempted injury has caused material injury to Corporation, the rights of such Participant to a benefit under this Plan, including the rights of a Surviving Spouse to a benefit, will be forfeited, unless the Committee determines that such activity is not detrimental to the best interests of the Company. However, if the individual ceases such activity and notifies the Committee of this action, then the Participant's right to receive a benefit, and any right of a Surviving Spouse to a benefit, may be restored within sixty (60) days of said notification, unless the Committee at its sole discretion determines that the prior activity has caused serious injury to the Company, which determination will be final and conclusive. Notwithstanding any provision herein to the contrary, item (ii) above shall not apply in the event of a Termination Upon a Change in Control.

4. AMOUNT AND FORM OF RETIREMENT BENEFIT

4.1 The annual retirement benefit payable to a Participant for his life time at a Normal Retirement Date under the Plan shall be equal to sixty percent (60%) of Final Average Earnings plus six percent (6%) of Final Average Earnings times years of Service after age 60 to a maximum of five (5) years, less one hundred percent (100%) of the Other Retirement Income of Participant.

4.2 The annual benefit payable to a Participant for his lifetime at an Early Retirement Date shall be equal to the benefit determined in Section 4.1 multiplied by the following factors according to the service of the Participant on Early Retirement Date and the age of the Participant on the date the benefit begins:

Service Reduction Factor		Age Reduction Factor	
-----		-----	
Completed Years of Service and Under Age 60	Factor	Age When Benefit Begins	Factor*
-----		-----	
4	0%	60	75%
5	50	61	80
6	60	62	85
7	70	63	90
8	80	64	95
9	90	65	100
10 or more	100		

*.417% for each month between whole ages.

Completed Years of Service and Age 60 and Over -----	Factor -----
4	0%
5 or more	100

4.3 The annual benefit payable to a Participant for his lifetime at a Postponed Retirement Date shall be equal to the benefit determined in accordance with Section 4.1 based on Service and Final Average Earnings as of the Participant's Retirement Date.

4.4 The benefit determined under this Plan will be payable in any form approved by the Committee and elected by the Participant.

5. PAYMENT OF RETIREMENT BENEFITS

5.1 Benefits payable in accordance with Section 4 will begin on the Participant's date of Retirement or, in the case of Early Retirement, on the first day of any month following the Participant's Early Retirement Date but not later than his Normal Retirement Date, as the Participant may elect. Benefits will continue to be paid on the first day of each succeeding month. The last payment will be on the first day of the month in which the retired Participant dies, unless otherwise elected in accordance with Section 4.4.

5.2 Any Participant who is under Disability upon reaching his Normal Retirement Date will be paid his retirement benefit under Section 4.1. Upon a Participant's Disability while an employee of the Company, the Participant will continue to accrue years of service during his Disability until the earliest of (a) his recovery from Disability, (b) his 65th birthday or (c) his death. For the purpose of determining the Participant's benefit hereunder, the Participant's Final Average Earnings shall be determined on the basis of his Earnings up to the date of Disability.

5.3 Any Participant who is entitled, in accordance with an employment agreement with the Company to continued accruals with respect to this Plan, shall be paid such benefit from this Plan, whether or not through any trust associated with this Plan.

6. DEATH BENEFITS PAYABLE

6.1 If a Participant should die after Retirement and after the commencement of payment of his benefits, the Surviving Spouse will receive an annual benefit equal to fifty percent (50%) of the amount of the Participant's retirement benefit determined in accordance with Section 4. If a Participant should die after Retirement but before commencement of payment of his benefits, the Participant's Surviving Spouse shall receive the amount of the Participant's retirement benefit as if Participant had retired on the day before his death.

6.2 A Surviving Spouse's benefits will be payable monthly, and will begin on the first day of the month following the month in which the Participant dies. The last payment will be on the first day of the month in which the Surviving Spouse dies.

6.3 If a Participant should die after Retirement, and is survived by dependent children each child will receive a benefit equal to \$1,500 per month until the later of the first day of the month in which the dependent child reaches age 18, or age 25 if a full-time student or dies if physically or mentally handicapped as determined by the Committee.

6.4 No benefits are payable to any person or persons in the event a Participant should die before Retirement.

7. MISCELLANEOUS

7.1 The Committee may, at its sole discretion, terminate, suspend, or amend this Plan at any time or from time to time, in whole or in part. However, no amendment or suspension of the Plan will affect a Participant's right to receive an Accrued Benefit, or a retired Participant's or Surviving Spouse's right to continue to receive a benefit in accordance with this Plan.

7.2 Nothing contained herein will confer upon any Participant the right to be retained in the service of the Company, nor will it interfere with the Company's right to discharge or otherwise deal with Participants without regard to the existence of this Plan.

7.3 This Plan is unfunded, and the Company will make Plan benefit payments solely on a current disbursement basis. The Company may establish such grantor trust(s) or other asset pool(s) as it deems necessary or appropriate to provide for the payment of benefits hereunder.

7.4 To the maximum extent permitted by law, no benefit under this Plan shall be assignable or subject in any manner to alienation, sale, transfer, claims of creditors, pledge, attachment, or encumbrances of any kind.

7.5 The Committee may adopt rules and regulations to assist it in administering the Plan.

7.6 Each Participant shall receive a copy of this Plan, and the Committee will make available for inspection by any Participant a copy of the rules and regulations used by the Committee in administering the Plan.

7.7 This Plan is established under and will be construed according to the Employee Retirement Income Security Act of 1974.

8. MINIMUM BENEFIT IN CERTAIN CASES

The provisions of this Section 8 apply only in the case of a Participant who has entered into an Employment Agreement with the Company which provides for accelerated vesting in the event of death, disability, termination other than for cause or a change in control. The provisions of this Section 8 apply notwithstanding Section 3.2 or any other provision of this Plan. In the event a Participant's employment with the Company is terminated by reason of death, disability, termination other than for cause or a change in control, each as contemplated by the Employment Agreement between such individual and the Company, then the benefit payable to or with respect to such Participant shall be the greater of the benefit otherwise determined in accordance with the provision of the Plan or the single sum benefit equal to the present value of the then-Accrued Benefit, determined by reducing such adjusted accrued benefit from age sixty-five (65) to the date as of which payment is made, using the actuarial assumptions which have been used for financial accounting purposes under generally accepted accounting principles.

EXHIBIT 10.5

HEALTHCARE REALTY TRUST

NON-QUALIFIED DEFERRED COMPENSATION PLAN

Effective - January 1, 1999

HEALTHCARE REALTY TRUST

NON-QUALIFIED DEFERRED COMPENSATION PL

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ARTICLE I

1.1 STATEMENT OF PURPOSE

This is the Healthcare Realty Trust Non-Qualified Deferred Compensation Plan (the "Plan") made in the form of this Plan and in related agreements between the Employer and certain management or highly compensated employees. The purpose of the Plan is to provide management and highly compensated employees of the Employer with the option to defer the receipt of portions of their compensation payable for services rendered to the Employer. It is intended that the Plan will assist in attracting and retaining qualified individuals to serve as officers and managers of the Employer. The Plan is effective as of January 1, 1999.

ARTICLE II

DEFINITIONS

When used in this Plan and initially capitalized, the following words and phrases shall have the meanings indicated:

2.1 ACCOUNT.

"Account" means the sum of a Participant's Deferral Account.

2.2 BASE SALARY.

"Base Salary" means a Participant's base earnings paid by an Employer to a Participant without regard to any increases or decreases in base earnings as a result of (i) an election to defer base earnings under this Plan or (ii) an election between benefits or cash provided under a Plan of an Employer maintained pursuant to Section 125 or 401(k) of the Code and as limited in Exhibit B attached hereto.

2.3 BENEFICIARY.

"Beneficiary" means the person or persons designated or deemed to be designated by the Participant pursuant to Article VII to receive benefits payable under the Plan in the event of the Participant's death.

2.4 BOARD.

"Board" means the Board of Directors of the Company.

2.5 BONUS

"Bonus" means a Participant's earnings, other than base earnings, paid by an Employer to a Participant as incentive compensation without regard to any increases or decreases in such earnings as a result of (i) an election to defer such earnings under this Plan or (ii) an election between benefits or cash provided under a Plan of an Employer maintained pursuant to Section 125 or 401 (k) of the Code and as limited in Exhibit B attached hereto.

2.6 CODE.

"Code" means the Internal Revenue Code of 1986, as amended.

2.7 COMMITTEE.

"Committee" has the meaning set forth in Section 8.1.

2.8 COMPENSATION.

"Compensation" means the Base Salary and Bonus payable with respect to an Eligible Employee for each plan year.

2.9 COMPANY.

"Company" means Healthcare Realty Trust, Selected Affiliate companies and any successor thereto.

2.10 CREDITED SERVICES.

"Credited Service" means the sum of all periods of a Participant's employment by the Company or a Selected Affiliate for which service credit is given under the Healthcare Realty Trust 401 (k) Plan.

2.11 DEFERRAL ACCOUNT.

"Deferral Account" means the account maintained on the books of the Employer for the purpose of accounting for the amount of Compensation that each Participant elects to defer under the Plan and for the amount of investment return credited thereto for each Participant pursuant to Article V.

2.12 DEFERRAL BENEFIT.

"Deferral Benefit" means the benefit payable to a Participant or his or her Beneficiary pursuant to Article VI.

2.13 DEFERRAL ELECTION.

"Deferral Election" means the written election made by a Participant to defer Compensation pursuant to Article IV.

2.14 DISABILITY.

"Disability" means a Participant's Disability as defined under the Company's Long Term Disability Plan or its successors.

2.15 EARLY RETIREMENT.

"Early Retirement" will be as set forth in any Company retirement plan applicable to a Participant or otherwise as granted by the Committee at its sole discretion.

2.16 ELIGIBLE EMPLOYEE.

"Eligible Employee" means a highly compensated or management employee of the Company who is designated by the Committee, by name or group or description, in accordance with Section 3.1 as eligible to participate in the Plan.

2.17 EMPLOYER.

"Employer" means, with respect to a Participant, the Company or the Selected Affiliate which pays such Participant's Compensation.

2.18 HARDSHIP WITHDRAWAL.

"Hardship Withdrawal" has the meaning set forth in Section 6.5.

2.19 INVESTMENT RETURN RATE.

"Investment Return Rate" means:

(a) In the case of an investment named in Exhibit C of a fixed income nature, the interest deemed to be credited,

(b) In the case of an investment named in Exhibit C of an equity investment nature, the increase and decrease in deemed value and dividends deemed to be credited.

2.20 PARTICIPANT.

"Participant" means any Eligible Employee who elects to participate by filing a Participation Agreement or who is automatically enrolled as provided in Section 3.2.

2.21 PARTICIPATION AGREEMENT.

"Participation Agreement" means the agreement filed by a Participant, in the form prescribed by the Committee, pursuant to Section 3.2.

2.22 PLAN.

"Plan" means the Healthcare Realty Trust Non-Qualified Deferred Compensation Plan, as amended from time to time.

2.23 PLAN YEAR.

"Plan Year" means a twelve-month period commencing January 1 and ending the following December 31.

2.24 RETIREMENT.

"Retirement" means the termination of a Participant who has retired on any date permitted for retirement pursuant to any Company retirement plan applicable to such Participant or otherwise has reached age 65.

2.25 SELECTED AFFILIATE.

"Selected Affiliate" means (1) any company in an unbroken chain of companies beginning with the Company if each of the companies other than the last company in the chain owns or controls, directly or indirectly, stock possessing not less than 50 percent of the total combined voting power of all classes of stock in one of the other companies, or (2) any partnership or joint venture in which one or more of such companies is a partner or venturer, each of which shall be selected by the Committee.

2.26 TRUST.

"Trust" has the meaning set forth in Section 5.6.

2.27 VALUATION DATE.

"Valuation Date" means a date on which the amount of a Participant's Account is valued as provided in Article V. The Valuation Date shall be the last day of each month and any other date determined by the Committee.

ARTICLE III

ELIGIBILITY AND PARTICIPATION

3.1 ELIGIBILITY.

Eligibility to participate in the Plan is limited to Eligible Employees. From time to time, and subject to Section 3.4, the Committee shall prepare, and attach to the Plan as Exhibit D, a complete list of the Eligible Employees, by individual name or by reference to an identifiable group of persons or by descriptions of the components of compensation of an individual which would qualify individuals which are eligible to participate and all of whom shall be a select group of management or highly compensated employees.

3.2 PARTICIPATION.

Participation in the Plan shall be limited to Eligible Employees who elect to participate in the Plan by filing a Participation Agreement with the Committee. An Eligible Employee shall commence participation in the Plan upon the first day of his or her first payroll period following the receipt of his or her Participation Agreement by the Committee.

3.3 CHANGE IN PARTICIPATION STATUS.

During the election period each December, a Participant may change a previously elected percentage of deferral of total compensation or elect to terminate his or her participation in the Plan. Changes will only become effective as of the beginning of the next Plan Year following receipt of the change in election by the Committee and in accordance with the Company's prevailing administrative procedures. Amounts credited to such Participant's Account with respect to periods prior to the effective date of such termination shall continue to be payable pursuant to, receive investment credit on, and otherwise be governed by, the terms of the Plan.

3.4 INELIGIBLE PARTICIPANT.

Notwithstanding any other provisions of this Plan to the contrary, if the Committee determines that any Participant may not qualify as a "select group of management or highly compensated employee" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or regulations thereunder, the Committee may determine, in its sole discretion, that such Participant shall cease to be eligible to participate in this Plan. Upon such determination, any future Participant's contributions to the Plan will cease, however, the Participants existing account balance will be maintained in the same manner as other Plan Participants.

ARTICLE IV

DEFERRAL OF COMPENSATION

4.1 AMOUNT OF DEFERRAL.

With respect to each Plan Year, a Participant may elect to defer a specified percentage of his or her Compensation up to the percentage of compensation defined and the terms described in Exhibit B attached hereto.

4.2 CREDITING REFERRED COMPENSATION.

The amount of Compensation that a Participant elects to defer under the Plan shall be credited by the Employer to the Participant's Deferral Account periodically, the frequency of which will be determined by the Committee, but which crediting shall occur no later than 30 days following the date upon which such Compensation would have otherwise been paid by the Employer to the Participant. To the extent that the Employer is required to withhold any taxes or other amounts from a Participant's deferred Compensation pursuant to any state, federal or local law, such amounts shall be withheld only from the Participant's compensation before such amounts are credited.

ARTICLE V

BENEFIT ACCOUNTS

5.1 VALUATION OF ACCOUNT.

As of each Valuation Date, a Participant's Account shall consist of the balance of the Participant's Account as of the immediately preceding Valuation Date, plus the Participant's Deferred Compensation credited pursuant to Section 4.2 since the immediately preceding Valuation Date, plus investment return credited as of such Valuation Date pursuant to Section 5.2, minus the aggregate amount of distributions, if any, made from such Account since the immediately preceding Valuation Date.

5.2 CREDITING OF INVESTMENT RETURN.

As of each Valuation Date, each Participant's Deferral Account shall be increased by the amount of investment return earned since the immediately preceding Valuation Date. Investment return shall be credited at the Investment Return Rate as of such Valuation Date based on the average balance of the Participant's Deferral Account, since the immediately preceding Valuation Date, but after such Accounts have been adjusted for any contributions or distributions to be credited or deducted for such period.

Investment return for the period prior to the first Valuation Date applicable to a Deferral Account shall be deemed earned ratably over such period. Until a Participant or his or her Beneficiary receives his or her entire Account, the unpaid balance thereof shall earn an investment return as provided in this Section 5.2.

5.3 STATEMENT OF ACCOUNTS.

The Committee shall provide to each Participant, within 30 days after the close of each calendar quarter, a statement setting forth the balance of such Participant's Account as of the last day of the preceding calendar quarter and showing all adjustments made thereto during such calendar quarter.

5.4 VESTING OF ACCOUNT.

Except as provided in Sections 10.1 and 10.2, a Participant shall be 100% vested in his or her Deferral Account at all times.

5.5 INVESTMENT VEHICLES.

The Company may select investment vehicles owned as general assets by the Company or as assets of a trust described in Section 10.1 to establish the Investment Return Rate. The deemed investment vehicles are set forth in Exhibit C, which the Company may amend from time to time in its sole discretion.

A Participant may request the Company to make deemed investments of the credit balance of his Deferral Account in one or more of such investment vehicles. A Participant may change the deemed investment of his Deferral Account or change the deemed investment of his existing Deferral Account balance may differ from the deemed investment of future amounts credited to the Deferral Account. Such changes shall be made in accordance with procedures as the Committee may establish from time to time. Such procedures may regulate the frequency of such changes and the form of notice required to make such election or changes. The Committee may also establish a deemed investment, which shall apply if the Participant makes no election.

The effective date of any change shall be the date for which the appropriate direction to the Company or its designee has been properly received in accordance with the procedures established by the Committee. The Committee shall have the right to refuse to honor any Participant direction related to investments or withdrawals, including transfers among investment options, where necessary or desirable to assure compliance with applicable law including U.S. and other securities laws. However, neither the Company nor the Committee assumes any responsibility for compliance by officers or others with any such laws, and any failure by the Company or the Committee to delay or dishonor any such direction shall not be deemed to increase the Company's legal obligations to the Participant or third parties.

5.6 ESTABLISHMENT OF "RABBI TRUST"

The Company shall establish a rabbi trust, which is intended to be a grantor trust, of which the Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly. The Company shall make regular deposits into the Trust in order to finance its obligations to Participants, the frequency of which deposits will be determined by the Committee, but which shall occur no later than the latest date upon which deferred compensation may be credited to Participants' Accounts pursuant to Section 4.2. Such deposits will be invested in accordance with the provisions of Section 5.5 as soon as practicable. The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of

Company and shall be used exclusively for the uses and purposes of Participants and general creditors. Participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under this Plan document and the Trust agreement shall be mere unsecured contractual rights of Participants and their beneficiaries against the Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of insolvency of the Company.

ARTICLE VI

PAYMENT OF BENEFITS

6.1 PAYMENT OF DEFERRAL BENEFIT UPON DEATH, DISABILITY OR RETIREMENT.

Upon the death, Disability, Early Retirement; or Retirement of a Participant, the Employer shall pay to the Participant or his Beneficiary a Deferral Benefit equal to the balance of his or her vested Account determined pursuant to Article V, less any amounts previously distributed, based on his written election pursuant to Section 6.5.

6.2 PAYMENT OF DEFERRAL BENEFIT UPON TERMINATION.

Upon the termination of service of the Participant as an employee of the Employer and all Selected Affiliates for reasons other than death, Disability, or Retirement, the Employer shall pay to the Participant a Deferral Benefit in a lump sum equal to the balance of his or her vested Account determined pursuant to Article V, less any amounts previously distributed, as soon as administratively practical.

6.3 PAYMENTS TO BENEFICIARIES.

In the event of the Participant's death prior to his or her receipt of all elected annual installments, his or her Beneficiary will receive the remaining annual installments at such times as such installments would have become distributable to the Participant.

6.4 HARDSHIP WITHDRAWAL.

In the event that the Committee, under written request of a Participant, determines, in its sole discretion, that the Participant has suffered an unforeseeable financial emergency, the Employer shall pay to the Participant, as soon as practicable following such determination, an amount necessary to meet the emergency (the "Hardship Withdrawal"), but not exceeding the aggregate balance of such Participant's Deferral Account as of the date of such payment. For purposes of this Section 6.4, an "unforeseeable financial emergency" shall mean an event that the Committee determines to give rise to an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal or other such unforeseeable occurrence. Amounts of Hardship Withdrawal may not exceed the amount the Committee reasonably determines to be necessary to meet such emergency needs (including taxes incurred by reason of a taxable distribution). The amount of the Deferral Benefit otherwise payable under the Plan to such Participant shall be adjusted to reflect the early payment of the Hardship Withdrawal.

6.5 FORM OF PAYMENT.

The Deferral Benefit payable pursuant to Section 6.1 shall be paid in one of the following forms, as elected by the Participant in his or her Participant Agreement on file as of one (1) year and one (1) day prior to the year of death, disability or retirement:

(a) Annual payments of a fixed amount which shall amortize the vested Account balance of the payment commencement date over a period of five (5) or ten (10) years (together, in the case of each annual payment, with interest thereon credited after the payment commencement date pursuant to Section 5.2).

(b) A lump sum as soon as administratively practical.

In the event a Participant fails to make a distribution election, his or her vested Account Balance shall be distributed as a lump sum distribution as soon as administratively practical after his or her death, disability or retirement.

6.6 COMMENCEMENT OF PAYMENTS

Commencement of payments under Section 6.1 of the Plan shall begin within ninety days following an event which entitles a Participant (or a Beneficiary) to payments in lump sum under the Plan or in the January following the event for annual payment.

6.7 SMALL BENEFIT.

In the event the Committee determines that the balance of a Participant's Account is less than \$5,000 at the time of commencement of payments, or the portion of the balance of the Participant's Account payable to any Beneficiary is less than \$5,000 at the time of commencement of payments, the Committee may inform the Employer, and the Employer, in its discretion, may choose to pay the benefit in the form of a lump sum payment, notwithstanding any provision of the Plan or a Participant election to the contrary. Such lump sum payment shall be equal to the balance of the Participant's Account or the portion thereof payable to a Beneficiary.

ARTICLE VII

BENEFICIARY DESIGNATION

7.1 BENEFICIARY DESIGNATION.

Each Participant shall have the sole right, at any time, to designate any person or persons as his or her Beneficiary to whom payment under the Plan shall be made in the event of his or her death prior to complete distribution to the Participant of his or her Account. Any Beneficiary designation shall be made in a written instrument provided by the Committee. All Beneficiary designations must be filed with the Committee and shall be effective only when received in writing by the Committee.

7.2 CHANGE OF BENEFICIARY DESIGNATION.

Any Beneficiary designation may be changed by a Participant by the filing of a new Beneficiary designation, which will cancel all Beneficiary designations previously filed. The designation of a Beneficiary may be made or changed at any time without the consent of any person.

7.3 NO DESIGNATION.

If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant, then the Participant's designated Beneficiary shall be deemed to be the Participant's estate.

7.4 EFFECT OF PAYMENT.

Payment of the Deferral Benefit to a Participant's Beneficiary (or, upon the death of a primary Beneficiary, to the contingent Beneficiary or, if none, to the Participant's estate) shall completely discharge the Employer's obligations under the Plan.

ARTICLE VIII

ADMINISTRATION

8.1 COMMITTEE.

Members of the Committee for the Healthcare Realty Trust Non-Qualified Deferred Compensation Plan are listed on Exhibit A. The Committee shall have complete discretion to i) supervise the administration and operation of the Plan, ii) adopt rules and procedures governing the Plan from time to time, and iii) shall have authority to give interpretive rulings with respect to the Plan.

8.2 AGENTS.

The Committee may appoint an individual, who may be an employee of the Company, to be the Committee's agent with respect to the day-to-day administration of the Plan. In addition, the Committee may, from time to time, employ other agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to the Company.

8.3 BINDING EFFECT OF DECISIONS.

Any decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan shall be final and binding upon all persons having any interest in the Plan.

8.4 INDEMNIFICATION OF COMMITTEE.

The Company shall indemnify and hold harmless the members of the Committee and their duly appointed agents under Section 8.2 against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to the Plan, except in the case of gross negligence or willful misconduct by any such member or agent of the Committee.

ARTICLE IX

AMENDMENT AND TERMINATION OF PLAN

9.1 AMENDMENT.

The Company, on behalf of itself and of each Selected Affiliate may at any time amend, suspend or reinstate any or all of the provisions of the Plan, except that no such amendment, suspension or reinstatement may adversely affect any Participant's Account, as it existed as of the day before the effective date of such amendment, suspension or reinstatement, without such Participant's prior written consent. The Committee or its delegate as the case may be, in its sole discretion, may accelerate the date of payment of a Participant's Account. Written notice of any amendment or other action with respect to the Plan shall be given to each Participant.

9.2 TERMINATION.

The Company, on behalf of itself and of each Selected Affiliate, in its sole discretion, may terminate this Plan at any time and for any reason whatsoever. Upon termination of the Plan, the Committee shall take those actions necessary to administer any Accounts existing prior to the effective date of such termination; provided, however, that a termination of the Plan shall not adversely affect the value of a Participant's Account, as it existed as of the day before the effective date of such termination, or the timing or method of distribution of a Participant's Account, without the Participant's prior written consent. Notwithstanding the foregoing, a termination of the Plan shall not give rise to accelerated or automatic vesting of any Participant's Account.

9.3 CHANGE OF CONTROL.

Upon a change of control, the plan is to be terminated with all benefits to be distributed to participants in a lump sum.

ARTICLE X

MISCELLANEOUS

10.1 FUNDING.

Participants, their Beneficiaries, and their heirs, successors and assigns, shall have no secured interest or claim in any property or assets of the Employer. The Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Employer's to pay money in the future.

10.2 NONASSIGNABILITY.

No right or interest under the Plan of a Participant or his or her Beneficiary (or any person claiming through or under any of them) shall be assignable or transferable in any manner or be subject to alienation, anticipation, sale, pledge, encumbrance or other legal process or in any manner be liable for or subject to the debts or liabilities of any such Participant or Beneficiary. If any Participant or Beneficiary shall attempt to or shall transfer, assign, alienate, anticipate, sell, pledge or otherwise encumber his or her benefits hereunder or any part thereof, or if by reason of his or her bankruptcy or other event happening at any time such benefits would devolve upon anyone else or would not be enjoyed by him or her, then

the Committee, in its discretion, may terminate his or her interest in any such benefit (including the Deferral Account) to the extent the Committee considers necessary or advisable to prevent or limit the effects of such occurrence. Termination shall be effected by filing a written "termination declaration" with the Healthcare Realty Trust Non-Qualified Deferred Compensation Plan Committee of the Company and making reasonable efforts to deliver a copy to the Participant or Beneficiary whose interest is adversely affected (the "terminated participant").

As long as the terminated participant is alive, any benefits affected by the termination shall be retained by the Employer and, in the Committee's sole and absolute judgment, may be paid to or expended for the benefit of the terminated participant, his or her spouse, his or her children or any other person or persons in fact dependent upon him or her in such a manner as the Committee shall deem proper. Upon the death of the terminated participant, all benefits withheld from him or her and not paid to others in accordance with the preceding sentence shall be disposed of according to the provisions of the Plan that would apply if he or she died prior to the time that all benefits to which he or she was entitled were paid to him or her.

10.3 CAPTIONS.

The caption contained herein is for convenience only and shall not control or affect the meaning or construction hereof.

10.4 GOVERNING LAW.

The provisions of the Plan shall be constructed and interpreted according to the laws of the State of Tennessee.

10.5 SUCCESSORS.

The provisions of the Plan shall bind and inure to the benefit of the Company, its Selected Affiliates, and their respective successors and assigns. The term successors as used herein shall include any corporate or other business entity that shall, whether by merger, consolidation, purchase or otherwise, acquire all or substantially all of the business and assets of the Company or a Selected Affiliate and successors of any such Company or other business entity.

10.6 RIGHT TO CONTINUED SERVICE.

Nothing contained herein shall be construed to confer upon any Eligible Employee the right to continue to serve as an Eligible Employee of the Employer or in any other capacity.

10.7 CLAIMS PROCEDURE.

If a benefit under this Plan is not paid to an Executive or Beneficiary and such person believes that he or she is entitled to receive it, a claim shall be made in writing to the Committee within sixty (60) days from the date payment was to be made. Such claim shall be reviewed by the Committee and the Corporation. If the claim is denied, in full or in part, the Committee shall provide written notice within ninety (90) days setting forth the specific reasons for denial. The notice shall include specific reference to the provisions of this Plan upon which the denial is based and any additional material or information necessary to perfect the claim, if any. Such written notice shall also indicate the steps to be taken if a review of the denial is desired.

If the claim is denied and a review is desired, the claimant shall notify the Committee in writing within sixty (60) days. A claim shall be treated as denied if the Committee does not take action in the aforesaid ninety (90) day period. In requesting review, the claimant may review this Plan or any documents relating to it and submit any written issues and comments he or she may feel appropriate in his or her sole discretion within sixty (60) days. This decision likewise shall state the specific provisions of this Plan on which the decision is based.

Executed this 9th day of February, 1999.

Healthcare Realty Trust Incorporated

By: /S/

Title: *Roger O. West*
 Executive Vice President

EXHIBIT A

RE: SECTION 8.1 - COMMITTEE

Date: _____, 19____.

The following indicates the Committee Members for the Healthcare Realty Trust Non-Qualified Deferred Compensation Plan.

COMMITTEE MEMBERS

1. Roger O. West, Executive Vice President and General Counsel
2. Fredrick M. Langreck, Senior Vice President and Treasurer
3. Michael W. Crisler, Vice President Financial Planning

EXHIBIT B

RE: SECTION 4.1 - AMOUNT OF DEFERRAL

Date: _____, 19__.

As of the date above, and effective until this Exhibit is Modified by the Committee, the table below indicates the types of compensation which are eligible for income deferral at the assigned percentages as noted:

Type of Compensation	Minimum Percentage That can be deferred	Maximum Percentage that can be deferred
Base Salary	5%	15%
Bonus	5%	25%

EXHIBIT C

RE: SECTION 2.18 - INVESTMENT RETURN RATE

Date: _____, 19__.

The following indicates the investment account equivalents available as of the date indicated that are used in determining the Investment Return Rate.

ACCOUNT NAME	EFFECTIVE DATE
-----	-----
Fidelity Advisor-Equity Growth Fund	01/01/99
Fidelity Advisor-Growth Opportunities Fund	01/01/99
Fidelity Cash Management Funds-Prime Fund	01/01/99

EXHIBIT D

Re: SECTION 3.2 - ELIGIBILITY

The following employees are eligible to participate in the plan, pursuant to the regulations of ERISA and the guidelines as set forth by the committee.

1. Michael Crisler	08/04/64 (34)
2. David Emery	09/28/44 (54)
3. Eric Fischer	03/18/64 (34)
4. Roland Hart	01/04/43 (56)
5. Keith Harville	04/20/44 (54)
6. Scott Holmes	05/11/54 (44)
7. Fredrick Langreck	01/16/59 (40)
8. Bryan Starr	01/09/34 (64)
9. Carter Steele	12/24/48 (50)
10. James Tainter	05/10/61 (37)
11. Tim Wallace	05/12/58 (40)
12. Roger West	12/19/44 (54)

FIRST AMENDMENT

TO THE

NON QUALIFIED DEFERRED COMPENSATION PLAN

The Healthcare Realty Trust Non-qualified Deferred Compensation plan (the "Plan"), as adopted effective January 1, 1999, is hereby amended in the following respects:

1. Effective as of July 1, 1999, Section 2.5 of the Plan is amended to provide as follows:

2.5 BONUS.

"Bonus" means the cash portion of a Participant's earnings, other than base earnings, paid by an Employer to a Participant as incentive compensation without regard to any increases or decreases in such earnings as a result of (i) an election to defer such earnings under this Plan or (ii) an election between benefits or cash provided under a Plan of an Employer maintained pursuant to Section 125 or 401 (k) of the Code and as limited in Exhibit B attached hereto.

Executed this 15th day of June, 1999.

BY: /S/

*Title: Roger O. West
Executive Vice President*

SECOND AMENDMENT

TO THE

NON-QUALIFIED DEFERRED COMPENSATION PLAN

The Healthcare Realty Trust Non-qualified Deferred Compensation plan (the "Plan"), as adopted effective January 1, 1999, is hereby amended in the following respects:

1. Effective as of December 1, 1999, Exhibit B, which pertains to Section 4.1 of the Plan is amended to provide as follows:

EXHIBIT B

Re: Section 4.1- Amount of Deferral

Date: December 1, 1999

As of the date above, and effective until this Exhibit is Modified by the Committee, the table below indicates the types of compensation which are eligible for income deferral at the assigned percentages as noted:

TYPE OF COMPENSATION	MINIMUM PERCENTAGE THAT CAN BE DEFERRED	MAXIMUM PERCENTAGE THAT CAN BE DEFERRED
Salary	5 %	25
Cash Bonus	5 %	50

Executed this 12th day of November, 1999.

By: /S/

Title: Roger O. West
Executive Vice President

THIRD AMENDMENT

TO THE

NON-QUALIFIED DEFERRED COMPENSATION PLAN

The Healthcare Realty Trust Non-qualified Deferred Compensation plan (the "Plan"), as adopted effective January 1, 1999, is hereby amended in the following respects:

1. Effective as of January 1, 2000, Exhibit C, which pertains to Section 2.19 of the Plan is amended to provide as follows:

EXHIBIT B

Re: SECTION 2.19 - INVESTMENT RETURN RATE

Date: January 1, 2000

The following indicates the investment account equivalents available as of the date indicated that are used in determining the Investment Return Rate.

ACCOUNT NAME -----	EFFECTIVE DATE -----
Fidelity Advisor-Equity Growth Fund	01/01/99
Fidelity Advisor-Growth Opportunities Fund	01/01/99
Fidelity Cash Management Funds-Prime Fund	01/01/99
Fidelity Advisor-Overseas Fund	01/01/00
Federated Max-Cap Fund (C shares)	01/01/00

Executed this 14th day of December, 1999.

By: /S/

Michael W. Crisler
Vice President Financial Planning

**TRUST UNDER HEALTHCARE REALTY TRUST
NON-QUALIFIED DEFERRED COMPENSATION PLAN**

This Agreement made this 28th day of January, by and between Healthcare Realty Trust (Company) and SunTrust Bank, Nashville, N.A. , (Trustee):

WHEREAS, Company has adopted the nonqualified deferred compensation Plan as listed in Appendix A;

WHEREAS, Company has incurred or expects to incur liability under the terms of such Plan with respect to the individuals participating in such Plan;

WHEREAS, Company wishes to establish a trust (hereinafter called "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of Company's creditors in the event of Company's Insolvency, as herein defined, until paid to Plan participants and their beneficiaries in such manner and at such times as specified in the Plan;

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974;

WHEREAS, it is the intention of Company to make contributions to the Trust to provide itself with a source of funds to assist in the meeting of its liabilities under Plan;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

SECTION 1

Establishment of the Trust

(a) Company hereby deposits with Trustee amounts which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which Company is the grantor, within the meaning of subpart E, part 1, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of Plan participants and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Trust Agreement shall be mere unsecured contractual rights of Plan participants and their beneficiaries against Company. Any assets held by the Trust will be subject to the claims of Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3 (a) herein. (e) Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor any Plan participant or beneficiary shall have any right to compel such additional deposits.

(f) Upon a Change of Control, Company shall, as soon as possible, but in no event longer than 45 days following the Change of Control, as defined herein, make an irrevocable contribution to the Trust in an amount that is sufficient to pay each Plan participant or beneficiary the benefits to which Plan participants or their beneficiaries would be entitled pursuant to the terms of the Plan as of the date on which the Change of Control occurred.

(g) Within 45 days following the end of the Plan year, ending after the Trust has become irrevocable pursuant to Section 1(b) hereof, Company shall be required to irrevocably deposit additional cash or other property to the Trust in an amount sufficient to pay each Plan participant or beneficiary the benefits payable pursuant to the terms of the Plan as of the close of the Plan year.

SECTION 2

Payments to Plan Participants and Their Beneficiaries

(a) Company shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Plan participant (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan), and the time of commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the Plan participants and their beneficiaries in accordance with such Payment Schedule. The Trustee shall make provisions for the reporting and withholding of any federal taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by Company.

(b) The entitlement of a Plan participant or his or her beneficiaries to benefits under the Plan shall be determined by Company or such party as it shall designate under the Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan.

(c) Company may make payment of benefits directly to Plan participants or their beneficiaries as they become due under the terms of the Plan. Company shall notify Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to participants or their beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan, Company shall make the balance of each such payment as it falls due. Trustee shall notify Company where principal and earnings are not sufficient.

SECTION 3

Trustee Responsibility Regarding Payments to Trust Beneficiary When Company Is Insolvent

(a) Trustee shall cease payment of benefits directly to Plan participants and their beneficiaries if the Company is Insolvent. Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Company is unable to pay its debts as they become due, or (ii) An order for relief has been entered with the Company as the debtor in a proceeding under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in

Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of Company under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer (or substitute the title of the highest-ranking officer of the Company) of Company shall have the duty to inform Trustee in writing of Company's Insolvency. If a person claiming to be a creditor of Company alleges in writing to Trustee that Company has become Insolvent, Trustee shall determine whether Company is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless Trustee has actual knowledge of Company's Insolvency, or has received notice from Company or a person claiming to be a creditor alleging that Company's is Insolvent, Trustee shall have no duty to inquire whether Company is Insolvent. Trustee may in all events rely on such evidence concerning Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning Company's solvency.

(3) If at any time Trustee has determined that Company is Insolvent, Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets

of the Trust for the benefit of Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of Company with respect to benefits due under the Plan or otherwise.

(4) Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after Trustee has determined that Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by Company in lieu of the payments provided for hereunder during any such period of discontinuance.

SECTION 4

Payments to Company

Except as provided in Section 3 hereof, after the Trust has become irrevocable, Company shall have no right or power to direct Trustee to return to Company or to divert to others any of the Trust assets before all payments of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plan.

SECTION 5

Investment Authority

In no event may Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by Company, other than a de minimis amount held in common investment vehicles in which Trustee invest. All rights associated with assets of the Trust shall be exercised by Trustee or the person designated by Trustee, and shall in no event be exercisable by or rest with Plan participants.

SECTION 6

Disposition of Income

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

SECTION 7

Accounting by Trustee

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing Between Company and Trustee. Within 30 days following the close of each calendar year and within 30 days after the removal or resignation of Trustee, Trustee shall deliver to Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities, and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

SECTION 8

Responsibility of Trustee

- (a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by Company which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by Company. In the event of a dispute between Company and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute.
- (b) If Trustee undertakes or defends any litigation arising in connection with this Trust, Company agrees to indemnify Trustee against Trustee's costs, expenses, and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If Company does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust.
- (c) Trustee may consult with legal counsel (who may also be counsel for Company generally) with respect to any of its duties or obligations hereunder.
- (d) Trustee may hire agents, accountants, actuaries, or other professionals to assist it in performing any of its duties or obligations hereunder.
- (e) Trustee shall have, without exclusion, all powers conferred in Trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.
- (f) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

SECTION 9

Compensation and Expenses of Trustee

Company shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

SECTION 10

Resignation and Removal of Trustee

- (a) Trustee may resign at any time by written notice to Company, which shall be effective 60 days after receipt of such notice unless Company and Trustee agree otherwise.
- (b) Trustee may be removed by Company on 60 days written notice or upon shorter notice accepted by Trustee.
- (c) Upon a Change of Control, as defined herein, Trustee may not be removed by Company for 2 years. (d) If Trustee resigns within 2 years after a Change of Control, as defined herein, Company shall apply to a court of competent jurisdiction for the appointment of a successor Trustee or for instructions.
- (e) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 60 days after receipt of notice of resignation, removal or transfer, unless Company extends the time limit.

SECTION 11
Appointment of Successor

- (a) If Trustee resigns (or is removed) in accordance with Section 10 (a) or
- (b) hereof, Company may appoint any third party, such as a bank trust department or other party that may be granted

IN WITNESS WHEREOF, this Trust Agreement has been duly executed under seal by the parties hereto, effective as of the day and year first above written.

ATTEST/WITNESS Healthcare Realty Trust Incorporated, Settlor

<i>/S/</i> ----- <i>Print Name: Laurie W. Matthews</i>	<i>By: /S/</i> ----- <i>Print Name: Roger O. West</i> <i>Executive Vice President</i>
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[SEAL]

<i>ATTEST/WITNESS</i>	<i>SunTrust Bank, Nashville, N. A. Trustee</i>
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<i>/S/</i> ----- <i>Print Name: Gayle J. Nichols</i>	<i>By: /S/</i> ----- <i>Print Name: Gayle R. Pearl</i> <i>Vice President & Trust Officer</i>
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(SEAL)

EXECUTIVE VARIABLE INCENTIVE COMPENSATION PLAN

1. PURPOSE OF THE PLAN.

The purpose of the Executive Variable Incentive Compensation Plan (the "Plan") is to maximize the efficiency and effectiveness of operations by providing significant incentive compensation opportunities to key executives. The Plan is intended to: (1) attract, retain and motivate key executives; (2) link compensation to performance; (3) shift part of future compensation expense from fixed to variable; and (4) reinforce the Company's objectives.

The Plan is designed to provide significant incentive compensation opportunities and presumes a market competitive base salary program. Incentive Awards made under the Plan are in addition to Base Salary and Base Salary adjustments awarded to maintain market competitiveness. The Plan is designed to reflect, by variable compensation, the degree to which executives, individually or collectively, contributed to the realization of the significant short term objectives of Healthcare Realty Trust Incorporated (the "Company").

2. DEFINITIONS; GENDER AND NUMBER.

2.1 DEFINITIONS.

Whenever used herein, the following terms shall have the respective meanings set forth below:

"BASE SALARY" means, with respect to each Participant for a Plan Year, the base rate of compensation paid to a Participant by the Company for the Plan Year and excludes all other forms of compensation such as benefits, pension contributions and other cash payments, but does not exclude employee or employer contributions which are based upon an employee's deferral of compensation, such as a non-qualified deferred compensation arrangement or a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986.

"BOARD" means the Board of Directors of the Company or the Executive Committee of the Board of Directors or any other committee thereof as designated by the Board.

"COMPANY" means Healthcare Realty Trust Incorporated.

"COMPANY PERFORMANCE INDEX" means the percentage, or portion thereof, determined by the Compensation Committee to measure the degree of performance that the Compensation Committee attributes to the Payout Percentage achieved.

"COMPENSATION COMMITTEE" means the Compensation Committee as designated by the Board, all of the members of which shall be "disinterested persons" (within the meaning of Rule 16b-3 promulgated by the United States Securities Exchange Commission ("Rule 16b-3")).

"FUNDS FROM OPERATIONS (FFO)" means net income (computed in accordance with generally accepted accounting principles), after determination of the Incentive Award pursuant to the Plan, excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization.

"FFO PER SHARE" means FFO for a Plan Year divided by the weighted average number of shares of common stock of the Company outstanding during such Plan Year.

"INCENTIVE AWARD" is the additional cash compensation, expressed as a percentage of Base Salary, received by Participants in the Plan when targeted performance results are attained. A Participant's Incentive Award shall be calculated as provided in Paragraph 8 of this Plan.

"INDIVIDUAL PERFORMANCE INDEX" means, in the case of a Participant other than the President, the percentage determined by the President to measure the degree the Participant achieved such Participant's Individual Performance Objectives for the Plan Year; or in the case of the President, the percentage determined by the Compensation Committee to measure the degree the President achieved the President's Individual Performance Objectives for the Plan Year.

"INDIVIDUAL PERFORMANCE OBJECTIVES" means, in the case of Participants other than the President, the objective goals established by the President to be achieved by the respective Participant during the course of the Plan Year; or, in the case of the President, the objective goals established by the Compensation Committee to be achieved by the President during the course of the Plan Year.

"PARTICIPANT" means an executive of the Company who is eligible to participate in the Plan and who has been designated a Participant by the Compensation Committee.

"PAYOUT PERCENTAGE" means, for the applicable Plan Year, the Target Dividend Payment for such Plan Year divided by the FFO per Share for such Plan Year.

"PERFORMANCE PERCENTAGE" means the percentage of each Participant's portion of the total Incentive Award to be based upon performance of the Company or of the individual, as applicable.

"PLAN" means this Executive Variable Incentive Compensation Plan.

"RESPONSIBILITY FACTOR PERCENTAGE" is the assigned responsibility factor expressed as a percentage to represent a Participant's level of responsibility for Company performance.

"TARGET DIVIDEND PAYMENT" means the annual targeted dividend payment determined on a weighted average per share basis of the common stock outstanding for the applicable Plan Year as determined by the Compensation Committee upon adoption of the Plan.

"YEAR" or "PLAN YEAR" means the Company's fiscal year.

2.2 GENDER AND NUMBER.

Except when otherwise indicated by the context, words in the masculine gender shall include the feminine gender, the singular shall include the plural, and the plural shall include the singular.

3. ADMINISTRATION.

The Plan is administered by the Compensation Committee. The Compensation Committee has the sole authority to: (1) add Participants, (2) approve the Performance Percentages for each Participant, (3) approve the Responsibility Factor Percentage for each Participant, (4) approve the Company Performance

Index, (5) approve the Target Dividends and (6) establish any rules or regulations relating to the Plan and to make any other determinations necessary to administer the Plan. All modifications or amendments to the Plan shall be approved by the Compensation Committee. All actions, determinations and decisions made by the Compensation Committee will be reviewed by the Board and, upon approval by the Board, will be final, conclusive and binding upon all parties concerned.

Any action or recommendation by the Compensation Committee will be based on a majority of those members verbally expressing their vote at a meeting of the Compensation Committee, or in writing without a meeting. No Participant may participate in any way in any decisions affecting his personal Incentive Award. Individuals serving as Compensation Committee members or Board members will not be liable in any way to any Participant or his designated beneficiaries as a result of decisions rendered in the proper administration of this Plan.

4. PARTICIPATION.

Employees eligible to participate in this Plan are those executives who have a major impact on the overall operations of the Company. Upon adoption of the Plan, the initial Participants shall be designated by action of the Compensation Committee. The Compensation Committee may add Participants to the Plan at any time.

Following adoption of the Plan, the Incentive Award calculation for Participants who have responsibility changes during the Plan Year or who enter or exit the Plan shall be modified to adjust for the time spent in each position of responsibility.

5. RESPONSIBILITY FACTOR PERCENTAGE.

Each Participant shall be assigned a Responsibility Factor Percentage which will be based on the Participant's level of responsibility and potential impact on corporate profitability. Assignments of Responsibility Factor Percentages shall be approved by the Compensation Committee. The Responsibility Factor Percentage for each of the Participants as of the Plan Year of adoption of this Plan shall be designated by action of the Compensation Committee.

Additional Participants in the Plan shall be approved by the Compensation Committee prior to the beginning of the Plan Year during which they are to become a Participant and will be added to the Plan, together with their respective Responsibility Factor Percentage and Performance Percentages, by action of the Compensation Committee.

Following adoption of the Plan, if a Participant changes positions during the Plan Year such that the Participant's Responsibility Factor Percentage changes, the calculation of the Incentive Award shall be prorated to reflect the time served in each position.

6. PERFORMANCE PERCENTAGE.

Each Participant shall be assigned Performance Percentages which shall determine the portion of his Incentive Award which shall be derived from Company performance and individual performance. The assignments of the Performance Percentages to the Participants as of the Plan Year of adoption shall be designated by action of the Compensation Committee.

The Company Performance Index shall be determined by the Compensation Committee, and shall correspond to a Payout Percentage also determined by the Compensation Committee.

The President shall have the responsibility of establishing the Individual Performance Objectives of individual Participants, other than the President. The Compensation Committee shall have the responsibility of establishing the Individual Performance Objectives of the President. All Individual Performance Objectives will be reviewed for approval by the Compensation Committee and communicated to the Participants in order to allow them sufficient time to focus on these objectives. The President shall have the responsibility of determining the Individual Performance Index for a Participant, other than the President, for a Plan Year. The Compensation Committee shall have the responsibility of determining the Individual Performance Index for the President for a Plan Year.

7. ADJUSTMENTS.

In the event that the FFO of the Plan Year in which the Company has successfully completed an offering of its common stock for cash consideration is negatively affected, the effect to the FFO shall be considered as a basis for increasing the Company Performance Index applicable for such Plan Year.

The Compensation Committee shall have the discretion to increase the Incentive Awards to Participants with respect to the Plan Year and/or the succeeding Plan Years in the event that the Company exceeds the maximum amount as determined by the Compensation Committee or the Company successfully concludes an extraordinary transaction that, in the opinion of the Compensation Committee, is of significant value to the Company.

8. CALCULATION OF INCENTIVE AWARD.

The Incentive Award for a Participant for a Plan Year shall be (A) the sum of (i) the Company Performance Index multiplied by the Company portion of the Participant's Performance Percentage, and (ii) the Individual Performance Index multiplied by the individual portion of the Participant's Performance Percentage; multiplied by (B) the product of (i) the Participant's Responsibility Factor Percentage and (ii) the Participant's Base Salary.

9. PAYMENT OF INCENTIVE AWARD.

Incentive Awards shall be payable in cash as soon as practicable after the end of the Plan Year, following verification of the mathematical accuracy of the calculation of all Incentive Awards by the Company's external auditor and approval of the Compensation Committee.

The Company shall not be liable for payment of interest upon any Incentive Award.

10. TERMINATION OF EMPLOYMENT

Participants who terminate employment voluntarily or are terminated for cause in accordance with the terms of their respective employment agreements shall forfeit their Incentive Awards for the entire Plan Year of termination. All other Participants who terminate during a Plan Year shall have their participation in Incentive Awards for the Plan Year of termination determined by multiplying (i) the amount of Incentive Award such Participant would have received had such Participant been employed by the Company for the entire Plan Year, by (ii) a fraction with a numerator equal to the number of days the Participant was employed during the Plan Year and a denominator of 365.

11. MISCELLANEOUS PROVISIONS.

11.1 NO TRANSFERS. No Incentive Awards payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any such attempted action shall be void and no such Incentive Award shall be in any manner liable for or subject to debts, contracts, liabilities, engagements, or torts of any Participants. If any Participant shall become bankrupt or shall attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge any Incentive Award payable under the Plan, then the Compensation Committee in its discretion may hold or apply such benefit or any part thereof to or for the benefit of such Participant or his beneficiary, spouse, children, blood relatives, or other dependents, or any of them, in such manner and in such proportions as the Compensation Committee may in its sole discretion consider proper.

11.2 EMPLOYMENT CONTRACTS. The Plan is not a contract of employment. Accordingly, neither the establishment of the Plan nor the awarding of any Incentive Awards under the Plan shall interfere with or limit, in any way, the rights of a Participant and the Company pursuant to written contracts of employment or the rights of the Company to terminate any Participant's employment, nor confer upon any Participant any right to continue in the employ of the Company, except as set forth in written contracts of employment between the Company and the Participant.

11.3 AMENDMENTS. The Compensation Committee may from time to time amend or modify the Plan, provided that no such action shall adversely affect Incentive Awards previously established in accordance with the Plan.

11.4 TAX WITHHOLDING. Payments under the Plan shall be subject to applicable federal, state, and local tax withholding requirements.

11.5 FUNDING. The Plan shall be unfunded. The Company shall not be required to segregate any assets to pay Incentive Awards. The liability of the Company to pay any Participant with respect to Incentive Awards shall be based solely upon the written provisions of the Plan; no such obligation shall be deemed to be secured by any pledge or encumbrance on any property of the Company.

IN WITNESS WHEREOF, the Company has caused the Plan to be executed in its name and behalf on this 1st day of November, 1999 by its officers thereunto duly authorized.

**HEALTHCARE REALTY TRUST
INCORPORATED**

*By: _____/S/_____
Name: David R. Emery
Title: President and Chairman*

EXHIBIT "A "

ANNUAL INCENTIVE AWARD CALCULATION

The Incentive Award for a Participant for a Plan Year shall be (A) the sum of (i) the Company Performance Index multiplied by the Company portion of the Participant's Performance Percentage, and (ii) the Individual Performance Index multiplied by the individual portion of the Participant's Performance Percentage; multiplied by (B) the product of (i) the Participant's Responsibility Factor Percentage and (ii) the Participant's Base Salary.

STEP 1 PERFORMANCE %

Add the award percentages determined by evaluating Company and Individual Performance

(Company Performance Index X Company portion of the Participant's Performance %)
+ (Individual Performance Index X individual portion of the Participant's Performance %) = Award % (expressed as a decimal fraction)

STEP 2 RESPONSIBILITY FACTOR

Multiply the Award % (expressed as a decimal fraction) times the Participant's Responsibility Factor Percentage (expressed as a decimal fraction) times the Participant's Base Salary to calculate the Participant's Incentive Award.

Award % X Responsibility Factor % X Base Salary = Incentive Award

EXHIBIT "B"

PAYOUT PERCENTAGE
REQUIRED TO PAY
TARGET DIVIDEND

COMPANY PERFORMANCE INDEX

95%	10%
94%	20%
93%	30%
92%	40%
91%	50%
90%	60%
89%	70%
88%	80%
87%	90%
86%	100%
85%	110%
84%	120%
83%	130%
82%	140%
81%	150%
80%	160%
<80%	170%

Payout Percentages for other than whole integers shall be prorated with the corresponding Company Performance Index. For Example, a Payout Percentage of 94.5% shall equate to a Company Performance Index of 15%.

TARGET DIVIDENDS

PLAN YEAR	TARGET DIVIDEND
1994	1.7700
1995	1.8525
1996	1.9400
1997	2.0275
1998	2.1275
1999	2.2275
2000	2.3350
2001	2.4445
2002	2.5650
2003	2.6850

PARTICIPANT PERFORMANCE PERCENTAGES

PARTICIPANTS	COMPANY	INDIVIDUAL	RESPONSIBILITY FACTOR
David R. Emery	80%	20%	100%
Roger O. West	80%	20%	100%
Timothy G. Wallace	80%	20%	100%

EXHIBIT 10.7

HEALTHCARE REALTY TRUST INCORPORATED

2000 EMPLOYEE STOCK PURCHASE PLAN

EFFECTIVE JANUARY 25, 2000

HEALTHCARE REALTY TRUST INCORPORATED
2000 EMPLOYEE STOCK PURCHASE PLAN

PREAMBLE

WHEREAS, Healthcare Realty Trust Incorporated (the "Company") established the Healthcare Realty Trust Incorporated 1995 Employee Stock Purchase Plan through which employees of the Company and its affiliates could purchase from the Company shares of its common stock;

WHEREAS, the Company wishes to continue to provide a plan through which employees of the Company and its affiliates may purchase Company common stock; and

WHEREAS, the Company intends that the new plan be an "employee stock purchase plan" within the meaning of section 423 of the Internal Revenue Code of 1986, and has designed the plan to conform to the provisions of Rule 16b-3 of the Exchange Act;

NOW, THEREFORE, the Company hereby establishes the Healthcare Realty Trust Incorporated 2000 Employee Stock Purchase Plan (the "Plan"):

ARTICLE I.
PURPOSE OF PLAN

The purpose of the Plan is to secure for the Company and its shareholders the benefits of the incentive inherent in the ownership of the Company's common stock by present and future employees of the Company and its Affiliates.

ARTICLE II.
DEFINITIONS

2.1 Affiliate. Each corporation that is designated as an Affiliate by the Company pursuant to Section 5.3.

2.2 Agreement. An agreement between a Participant and the Company or an Affiliate through which the Participant elects to exercise the Options granted to him hereunder and authorizes payment of the Option exercise price.

2.3 Board. The board of directors of the Company.

2.4 Code. The Internal Revenue Code of 1986, as amended.

2.5 Committee. The committee designated by the Board as the "compensation committee" or is otherwise designated by the Board to administer the Plan.

2.6 Company. Healthcare Realty Trust Incorporated and its successors and assigns.

HEALTHCARE REALTY TRUST INCORPORATED
2000 EMPLOYEE STOCK PURCHASE PLAN

2.7 Eligible Employee. An employee of the Company or an Affiliate, except for the following:

- (a) An employee who has been employed by the Company or an Affiliate for less than 90 days.
- (b) An employee whose customary employment is less than 20 hours per week.
- (c) An employee whose customary employment is for five months or less in a calendar year.

(d) An employee who would own more than 5% of the total combined voting power of all classes of stock of the Company or an Affiliate at the time such employee would be granted an Option. For the purpose of determining if an employee owns more than 5% of such stock, he shall be deemed to own (i) any stock owned (directly or indirectly) by or for his brothers and sisters (whether by whole or half blood), spouse, ancestors or lineal descendants, (ii) any stock owned (directly or indirectly) by or for a corporation, partnership, estate or trust of which such individual is a shareholder, partner or beneficiary in proportion to his interest in such corporation, partnership, estate or trust, and (iii) any stock the individual may purchase under an outstanding stock option.

2.8 Exchange Act. The Securities Exchange Act of 1934, as amended.

2.9 Exercise Date. The last day of each calendar quarter, which shall be March 31st, June 30th, September 30th and December 31st of each year.

2.10 Fair Market Value. On any given date, Fair Market Value shall be the applicable description below (unless, where appropriate, the Committee determines in good faith the fair market value of the Stock to be otherwise):

- (a) If the Stock is traded on the New York Stock Exchange, Fair Market Value shall be the closing price of the Stock on such exchange on the trading day on which Fair Market Value is being determined, or on the next preceding day on which such Stock is traded if no Stock was traded on such trading day.
- (b) If the Stock is not traded on the New York Stock Exchange, but is reported on the Nasdaq National Market System or another Nasdaq automated quotation system, and market information is published on a regular basis, then Fair Market Value shall be the closing price of the Stock, as so published, on the trading day on which Fair Market Value is being determined, or the closing price on the next preceding trading day on

HEALTHCARE REALTY TRUST INCORPORATED
2000 EMPLOYEE STOCK PURCHASE PLAN

which such prices were published if no Stock was traded on such trading day.

(c) If market information is not so published on a regular basis, then Fair Market Value shall be the average of the high bid and low asked prices of the Stock in the over-the-counter market during the trading period during which Fair Market Value is being determined or during the next preceding trading period in which such high bid and low asked prices were recorded, as reported by a generally accepted reporting service.

(d) If the Stock is not publicly traded, Fair Market Value shall be the value determined in good faith by the Committee or the Board, determined without regard to any restriction on the Stock, other than a restriction which by its terms will never lapse.

2.11 Grant Date. The first Grant Date shall be the date determined by the board of directors of the Company at the time the Plan is adopted. Thereafter, the Grant Date shall be the first day of each calendar year.

2.12 Option. The right that is granted hereunder to a Participant to purchase from the Company a stated number of shares of Stock at a stated exercise price.

2.13 Participant. An Eligible Employee who has elected to exercise an Option and participate in the Plan in accordance with Article 3.

2.14 Payroll Account. A bookkeeping account to which are added the amounts withheld on behalf of each Participant under regular payroll deductions authorized by Participants hereunder, and which is reduced by amounts due to the Company to pay the exercise price of Options exercised hereunder.

2.15 Plan. The Healthcare Realty Trust Incorporated 2000 Employee Stock Purchase Plan.

2.16 Stock. The common stock of the Company, \$0.01 par value.

ARTICLE III. GRANT AND EXERCISE OF OPTIONS

3.1 General Conditions. On each Grant Date, each employee who is an Eligible Employee on such date shall, without further action of the Committee, be granted an Option to purchase whole shares of Stock, provided that no Eligible Employee may be granted an Option which permits his rights to purchase Stock under the Plan and all other employee stock purchase plans (described in section 423(b) of the Code) of the Company and its Affiliates to accrue at a rate that exceeds \$25,000 of Fair Market Value of such Stock (determined on the date that the Option is granted) for each calendar year in which such Option is outstanding at any time. Each Option grant is subject to the following terms and conditions:

HEALTHCARE REALTY TRUST INCORPORATED 2000 EMPLOYEE STOCK PURCHASE PLAN

(a) The exercise price of each Option shall be 85% of Fair Market Value of each share of Stock that is subject to the Option, based on the Stock's Fair Market Value that is determined on the Grant Date or, if less, on the date the Option is exercised.

(b) Each Option, or portion thereof, that has not been exercised shall expire 27 months after the Grant Date on which the Option was granted, unless it expires sooner pursuant to Section 3.1(c).

(c) Each Option that has not yet expired pursuant to Section 3.1(b) shall expire on the date that the Eligible Employee terminates employment with the Company and all of its Affiliates or revokes his election pursuant to Section 3.4; provided, however, if termination is due to the death or disability (as determined in the discretion of the Committee by reference to any disability benefit plan of the Company) of the Eligible Employee, the Participant (or his personal representative) may elect to revoke his election pursuant to Section 3.4.

(d) A right to purchase Stock which has accrued under one Option granted hereunder may not be carried over to any other Option.

3.2 Right to Exercise. An Option shall be exercisable at any time prior to its expiration in a manner described in Section 3.3. An Eligible Employee must exercise an Option while he is an employee of the Company or an Affiliate or within the periods that are specified herein after termination of employment.

3.3 Method of Exercise. An Eligible Employee may exercise an Option only on an Exercise Date by providing written notice of intent to exercise prior to or coincident with the applicable Exercise Date and by payment of the exercise price in cash or such other form that is acceptable to the Committee. An Eligible Employee may also elect to exercise an Option through a Payroll Account election described in Section 3.4.

3.4 Payment of Exercise Price from Payroll Account. An Eligible Employee who desires to pay the exercise price of an Option from his Payroll Account as described in Section 3.3 must timely execute an Agreement in the form and manner prescribed by the Committee prior to the applicable Exercise Date. The Agreement shall provide for authorization of deductions from the Eligible Employee's regular payroll that is credited to a Payroll Account. Amounts credited to a Participant's Payroll Account shall be accumulated and reserved for payment of the exercise price of Options granted hereunder.

(a) The funds held in the Payroll Account shall first be applied to exercise options with the lowest exercise price. In the event that all Options have the same exercise price on an Exercise Date, the funds held in the Payroll Account shall be first applied to exercise Options in the order they were granted

**HEALTHCARE REALTY TRUST INCORPORATED
2000 EMPLOYEE STOCK PURCHASE PLAN**

(b) A Participant may initiate, modify or revoke his election to contribute to his Payroll Account at any time by timely providing the Committee written notice in the form prescribed by the Committee. An election to begin or modify contributions shall be effective on the February 8th or August 8th that coincides with or next follows such written notice with the exception of a Participant's initial election in the year the Plan is adopted, which may be submitted and effective as late as March 8, 2000. An election to revoke contributions shall be effective on the first payroll date following written notice thereof.

(c) Each Participant's election specified under an Agreement shall remain in effect until modified or revoked by the Participant in accordance with Section 3.4(b).

(d) The Options granted hereunder for the calendar years 2000 and 2001 are conditioned on the Eligible Employee revoking the Option granted to him on January 1, 2000, under the Healthcare Realty Trust Incorporated 1995 Employee Stock Purchase Plan. Such revocation may be evidenced by written notice to the Company or by the exercise of an Option hereunder in a manner specified in Section 3.3

3.5 Issuance of Stock. The Company shall issue whole shares of Stock to a Participant after each Exercise Date. For Options that are not exercised through a Payroll Account election, the number of shares to be issued shall be determined by the instructions contained in the written notice of exercise described in Section 3.2. For shares acquired through a Payroll Account election, shares shall be issued as follows:

(a) The Company shall determine the number of whole shares of Stock to be issued to each Participant with respect to an Exercise Date by dividing the balance of such Participant's Payroll Account by the applicable exercise price of the Option.

(b) The Company shall deduct from a Participant's Payroll Account the amount necessary to purchase the greatest number of whole shares of Stock that can be acquired under the applicable Option.

(c) Any amounts remaining in the Payroll Account after deducting the exercise price for whole shares of Stock shall generally be held for use on a subsequent Exercise Date. However, a Participant who has made contributions to a Payroll Account and has revoked his election to exercise an Option under the terms of Section 3.3 may obtain payment of the amounts held in his Payroll Account from the Company by requesting such payment in writing to the Committee in the time and manner specified by the Committee. A Participant who has terminated

HEALTHCARE REALTY TRUST INCORPORATED
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employment shall be paid any amounts remaining in his Payroll Account after the expiration of all Options hereunder.

3.6 Nontransferability. Any Option granted under this Plan shall not be transferable except by will or by the laws of descent and distribution. Only the Participant to whom an Option is granted may exercise such Option, unless he is deceased. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation or liability of such Participant.

3.7 Shareholder Rights. No Participant shall have any rights as a shareholder with respect to shares subject to his Option prior to the time that such Option is exercised.

3.8 Issuance and Delivery of Shares. Shares of Stock issued pursuant to the exercise of Options hereunder shall be delivered to Participants by the Company (or its transfer agent) as soon as administratively feasible after a Participant exercises an Option hereunder, executes any applicable shareholder agreement that the Company requires at the time of exercise and requests delivery of the shares.

ARTICLE IV. STOCK SUBJECT TO PLAN

4.1 Source of Shares. Upon the exercise of an Option, the Company may deliver to the Participant authorized but unissued shares of Stock.

4.2 Maximum Number of Shares. The maximum aggregate number of shares of Stock that may be issued pursuant to the exercise of Options is 1,000,000 subject to increases and adjustments as provided in Article 6.

4.3 Forfeitures. If an Option is terminated, in whole or in part, the number of shares of Stock allocated to such Option or portion thereof may be reallocated to other Options to be granted under this Plan.

ARTICLE V. ADMINISTRATION OF THE PLAN

5.1 General Authority. The Plan shall be administered by the Committee. The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. No member of the Committee shall be liable for any act done in good faith with respect to this Plan or any Agreement or Option. The Company shall bear all expenses of Plan administration. The interpretation and construction by the Committee of any terms or provisions of this Plan or of any rule or regulation promulgated in connection herewith, shall be conclusive and binding on all persons. In addition to all other authority vested with the Committee under the Plan, the Committee shall have complete authority to:

(a) Interpret all provisions of this Plan;

HEALTHCARE REALTY TRUST INCORPORATED 2000 EMPLOYEE STOCK PURCHASE PLAN

(b) Prescribe the form of any Agreement and notice and manner for executing or giving the same;

(c) Adopt, amend, and rescind rules for Plan administration; and

(d) Make all determinations it deems advisable for the administration of this Plan.

5.2 Persons Subject to Section 16(b). Notwithstanding anything in the Plan to the contrary, the Board, in its absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan to Participants who are members of the Committee subject to Section 16(b) of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Participants.

5.3 Designation of Affiliates. The Company may from time to time designate a "parent corporation," as defined in section 424(e) of the Code, or "subsidiary corporation," as defined in section 424(f) of the Code, to be a participating corporation in a manner that is consistent with Treasury Regulation ss. 1.423-2(c)(4). Corporations that are so designated shall be Affiliates for purposes of this Plan. Such designation shall be evidenced by the express inclusion of the corporation as an Affiliate within Section 2.1, the intentional act of the Company or the Committee to communicate in writing the grant of Options hereunder to employees of a corporation, or such other written document that is intended to evidence such designation. The Company or Committee may rescind the designation of a corporation as an Affiliate by adopting a writing that is intended to evidence such rescission.

ARTICLE VI. ADJUSTMENT UPON CORPORATE CHANGES

6.1 Adjustments to Shares. The maximum number and kind of shares of stock with respect to which Options hereunder may be granted and which are the subject of outstanding Options shall be adjusted by way of increase or decrease as the Committee determines (in its sole discretion) to be appropriate, in the event that:

(a) the Company or an Affiliate effects one or more stock dividends, stock splits, reverse stock splits, subdivisions, consolidations or other similar events;

(b) the Company or an Affiliate engages in a transaction to which section 424 of the Code applies; or

(c) there occurs any other event which in the judgment of the Committee necessitates such action.

Provided, however, that if an event described in paragraph (a) or (b) occurs, the Committee shall make adjustments to the limits on Options and on the award of Options specified hereunder that are proportionate to the modifications of the Stock that are on account of such corporate changes.

HEALTHCARE REALTY TRUST INCORPORATED 2000 EMPLOYEE STOCK PURCHASE PLAN

6.2 Substitution of Options on Merger or Acquisition. The Committee may grant Options in substitution for stock awards, stock options, stock appreciation rights or similar awards held by an individual who becomes an employee of the Company or an Affiliate in connection with a transaction to which section 424(a) of the Code applies. The terms of such substituted Options shall be determined by the Committee in its sole discretion, subject only to the limitations of Article 4.

6.3 No Preemptive Rights. The issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services rendered, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, outstanding Options.

6.4 Fractional Shares. Only whole shares of Stock may be acquired through the exercise of an Option. The Company will return to each Participant's Payroll Account any amount tendered in the exercise of an Option remaining after the maximum number of whole shares has been purchased.

ARTICLE VII. LEGAL COMPLIANCE CONDITIONS

7.1 General. No Option shall be exercisable, no Stock shall be issued, no certificates for shares of Stock shall be delivered, and no payment shall be made under this Plan except in compliance with all federal and state laws and regulations (including, without limitation, withholding tax requirements), federal and state securities laws and regulations and the rules of all national securities exchanges or self-regulatory organizations on which the Company's shares may be listed. The Company shall have the right to rely on an opinion of its counsel as to such compliance. No Option shall be exercisable, no Stock shall be issued, no certificate for shares shall be delivered and no payment shall be made under this Plan until the Company has obtained such consent or approval as the Committee may deem advisable from any regulatory bodies having jurisdiction over such matters.

7.2 Stock Holding Periods. In order for tax treatment under section 421(a) of the Code to apply to Stock acquired hereunder, the Participant is generally required to hold such shares of Stock for two years after the Grant Date of an Option through which shares of Stock were acquired and for one year after the transfer of Stock to the Participant. A person holding Stock acquired hereunder who disposes of shares prior to the expiration of such holding periods shall notify the Company of such disposition in writing.

7.3 Stock Legends. Any certificate issued to evidence shares of Stock for which an Option is exercised may bear such legends and statements as the Company or Committee may deem advisable to assure compliance with federal and state laws and regulations.

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7.4 Representations by Participants. As a condition to the exercise of an Option, the Company may require a Participant to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares. At the option of the Company, a stop transfer order against any shares of stock may be placed on the official stock books and records of the Company, and a legend indicating that the stock may not be pledged, sold or otherwise transferred unless an opinion of counsel was provided (concurrent with counsel for the Company) and stating that such transfer is not in violation of any applicable law or regulation may be stamped on the stock certificate in order to assure exemption from registration. The Committee may also require such other action or agreement by the Participants as may from time to time be necessary to comply with the federal and state securities laws. This provision shall not obligate the Company or any Affiliate to undertake registration of options or stock hereunder.

ARTICLE VIII. GENERAL PROVISIONS

8.1 Effect on Employment. Neither the adoption of this Plan, its operation, nor any documents describing or referring to this Plan (or any part thereof) shall confer upon any employee any right to continue in the employ of the Company or an Affiliate or in any way affect any right and power of the Company or an Affiliate to terminate the employment of any employee at any time with or without assigning a reason therefor.

8.2 Unfunded Plan. The Plan, insofar as it provides for grants, shall be unfunded, and the Company shall not be required to segregate any assets that may at any time be represented by grants under this Plan. Any liability of the Company to any person with respect to any grant under this Plan shall be based solely upon contractual obligations that may be created hereunder. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

8.3 Rules of Construction. Headings are given to the articles and sections of this Plan solely as a convenience to facilitate reference. The masculine gender when used herein refers to both masculine and feminine. The reference to any statute, regulation or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

8.4 Governing Law. The internal laws of the state of incorporation of the Company shall apply to all matters arising under this Plan, to the extent that federal law does not apply.

8.5 Compliance With Section 16 of the Exchange Act. With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of this Plan or action by Committee fails to so comply, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Committee.

8.6 Amendment. The Board may amend or terminate this Plan at any time; provided, however, an amendment that would have a material adverse effect on the rights of a Participant

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under an outstanding Option is not valid with respect to such Option without the Participant's consent, except as necessary for Options to maintain qualification under the Code; and provided further that, to the extent that such approval is required for compliance with Rule 16b-3 of the Exchange Act, the provisions of the Plan relating to the number of shares granted to persons subject to section 16(b) of the Exchange Act, the timing of such grants and the determination of the exercise price shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, or the rules thereunder. Provided further that the shareholders of the Company must, within 12 months before or after the adoption thereof, approve any amendment that increases the number of shares of Stock in the aggregate which may be issued pursuant to Options granted under the Plan.

8.7 Effective Date of Plan. This Plan shall be effective and Options may be granted under this Plan on and after the date of its adoption by the Board, provided that no Option will be effective or exercisable unless and until this Plan is approved by shareholders of the Company in a manner that satisfies Treasury Regulation ss. 1.423-2 within 12 months of the date that the Board took action to adopt the Plan. All Options granted under the Plan will become void immediately following the 12-month anniversary of the date the Board adopted the Plan if such approval by shareholders has not yet been obtained.

IN WITNESS WHEREOF, the undersigned officer has executed this Plan on this the 7th day of February, 2000.

**HEALTHCARE REALTY TRUST
INCORPORATED**

/s/ Roger O. West

Roger O. West

Executive Vice President & General Counsel

**HEALTHCARE REALTY TRUST INCORPORATED
2000 EMPLOYEE STOCK PURCHASE PLAN**

EXHIBIT 10.9

**HEALTHCARE REALTY TRUST
INCORPORATED**

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of January 1, 2000 ("Effective Date") by and between HEALTHCARE REALTY TRUST INCORPORATED, a Maryland corporation ("Corporation"), and David R. Emery ("Officer").

RECITAL

Corporation desires to employ Officer as its President and Chief Executive Officer and Officer is willing to accept such employment by Corporation, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

THE PARTIES AGREE AS FOLLOWS:

1. **DUTIES.** During the term of this Agreement, Officer agrees to be employed by and to serve Corporation as its President and Chief Executive Officer, and Corporation agrees to employ and retain Officer in such capacities. Officer shall devote such of his business time, energy, and skill to the affairs of Corporation as shall be necessary to perform the duties of such positions. Officer shall report only to Corporation's Board of Directors and at all times during the term of this Agreement shall have powers and duties at least commensurate with his position as President and Chief Executive Officer. Officer's principal place of business with respect to his services to Corporation shall be within 35 miles of Nashville, Tennessee.

2. **TERM OF EMPLOYMENT.**

2.1 **DEFINITIONS.** For purposes of this Agreement the following terms shall have the following meanings:

(a) "TERMINATION FOR CAUSE" shall mean termination by Corporation of Officer's employment by Corporation by reason of Officer's material, substantial and willful dishonesty towards, fraud upon, or deliberate injury or attempted injury to, Corporation or by reason of Officer's material, substantial and willful breach of this Agreement which has resulted in material injury to Corporation. For purposes of this Agreement, a termination of Officer's employment with the Corporation shall be deemed a Termination Other Than For Cause rather than a Termination For Cause unless and until established by Corporation to the contrary by a final, nonappealable decision by a court of competent jurisdiction. The Corporation shall have the burden of establishing that any termination of Officer's employment by Corporation is a Termination For Cause.

(b) "TERMINATION OTHER THAN FOR CAUSE" shall mean any termination by Corporation of Officer's employment by Corporation (other than in a Termination for Cause) and shall include Constructive Termination of Officer's employment, effective upon notice from Officer to Corporation of such Constructive Termination. A failure or refusal of Corporation to extend the term of employment of Officer in accordance with Section 2.2 hereof, other than as a result of circumstances which would warrant a Termination of Cause hereunder, shall be deemed a Termination Other Than For Cause.

(c) "VOLUNTARY TERMINATION" shall mean termination by Officer of Officer's employment by Corporation other than (i) Constructive Termination as described in subsection 2.1(g), (ii) "Termination Upon a Change in Control," (iii) termination by reason of Officer's death or disability as described in

Sections 2.5 and 2.6 and (iv) termination by reason of retirement by Officer upon attainment of eligibility to retire in accordance with the Executive Retirement Plan as in effect upon the date of this Agreement.

(d) "TERMINATION UPON A CHANGE IN CONTROL" shall mean a termination by Officer of Officer's employment with Corporation within 24 months following a "Change in Control."

(e) "CHANGE IN CONTROL" shall mean (i) the time that Corporation first determines that any person and all other persons who constitute a group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 ("Exchange Act")) have acquired direct or indirect beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 20 percent or more of Corporation's outstanding securities, unless a majority of the "Continuing Directors" approves the acquisition not later than ten business days after Corporation makes that determination, or (ii) the first day on which a majority of the members of Corporation's Board of Directors are not "Continuing Directors."

(f) "CONTINUING DIRECTORS" shall mean, as of any date of determination, any member of the Board of Directors of Corporation who (i) was a member of that Board of Directors on January 1, 1993, (ii) has been a member of that Board of Directors for the two years immediately preceding such date of determination, or (iii) was nominated for election or elected to the Board of Directors with the affirmative vote of the greater of (x) a majority of Continuing Directors who were members of the Board at the time of such nomination or election or (y) at least four Continuing Directors.

(g) "CONSTRUCTIVE TERMINATION" shall mean (i) any material breach of this Agreement by Corporation; (ii) any actual or implied threat of discharge of Officer by Corporation under circumstances which would not constitute a Termination for Cause and which results in an involuntary resignation of employment by Officer; (iii) any substantial reduction in the authority or responsibility of Officer or other substantial reduction in the terms and conditions of Officer's employment under circumstances which would not justify a Termination for Cause and which are not the result of a material breach by Officer of this Agreement; (iv) any act(s) by Corporation which are designed or have the effect of rendering Officer's working conditions so intolerable or demeaning on a recurring basis that a reasonable person would resign such employment, (v) a material adverse alteration in Officer's reporting relationships, position, responsibilities, title or status; (vi) a reduction in Officer's compensation or a substantial reduction in benefits provided to Officer that are provided for or referenced hereunder; (vii) relocation of Officer to a location that is more than 35 miles from the location of the Corporation's headquarters on the date this Agreement is executed.

(h) "DEFERRED COMPENSATION" or "deferred compensation" shall mean any individual or group plan, program, agreement or other arrangement, whether or not a "plan" for purposes of the Employee Retirement Income Security Act of 1974 ("ERISA") and whether or not a retirement plan or supplemental executive retirement plan or additional retirement plan as contemplated by Section 3.11 of the Agreement, but which in any event involves an agreement by the Corporation to make payment(s) to Officer at a future date as compensation for current services to the Corporation. The term Deferred Compensation or deferred compensation shall include, but not be limited to, benefits described in the Healthcare Realty Trust Incorporated Executive Retirement Plan, the 1993 Employees Stock Incentive Plan and the First Performance Based Restricted Stock Implementation under the 1993 Employees Stock Incentive Plan, or any additional implementation thereof, each as it now exists or may hereafter be amended.

2.2 BASIC TERM. The term of employment of Officer by Corporation shall be from January 1, 1999 through December 31, 2004, unless terminated earlier pursuant to this Section 2. Commencing in 2000, on the first day of January of each year, the first sentence of this Section 2.2 shall be amended by deleting the year then appearing therein and inserting in its place the next subsequent year.

2.3 TERMINATION FOR CAUSE. Termination For Cause may be effected by Corporation at any time during the term of this Agreement and shall be effected by written notification to Officer. Upon Termination For Cause, Officer immediately shall be paid all accrued salary, bonus compensation to the extent earned, vested deferred compensation (other than pension plan or profit sharing plan benefits which will be paid in accordance

with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but Officer shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.4 TERMINATION OTHER THAN FOR CAUSE. Notwithstanding anything else in this Agreement, Corporation may effect a Termination Other Than For Cause at any time upon giving written notice to Officer of such termination. Upon any Termination Other Than For Cause, Officer shall immediately be paid all accrued salary, bonus compensation to the extent earned, whether or not vested without regard to such Termination (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, and all severance compensation provided in Section 4.2, but no other compensation or reimbursement of any kind.

2.5 TERMINATION BY REASON OF DISABILITY. If, during the term of this Agreement, Officer, in the reasonable judgment of the Board of Directors of Corporation, has failed to perform his duties under this Agreement on account of illness or physical or mental incapacity, and such illness or incapacity continues for a period of more than 12 consecutive months, Corporation shall have the right to terminate Officer's employment hereunder by written notification to Officer and payment to Officer of all accrued salary, bonus compensation to the extent earned, deferred compensation, whether or not vested without regard to such illness or incapacity (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, with the exception of medical and dental benefits which shall continue through the expiration of this Agreement, but Officer shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation. Notwithstanding the foregoing, any Officer who incurs a Disability within the contemplation of the Executive Retirement Plan shall accrue such additional post-disability, post-termination benefits as may be determined in accordance with such Plan.

2.6 DEATH. In the event of Officer's death during the term of this Agreement, Officer's employment shall be deemed to have terminated as of the last day of the month during which his death occurs and Corporation shall pay to his estate or such beneficiaries as Officer may from time to time designate all accrued salary, bonus compensation to the extent earned, whether or not vested without regard to such Termination (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but Officer's estate shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.7 VOLUNTARY TERMINATION. In the event of a Voluntary Termination, Corporation shall immediately pay all accrued salary, bonus compensation to the extent earned, vested deferred compensation (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but no other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.8 TERMINATION UPON A CHANGE IN CONTROL OR RETIREMENT. In the event of (i) a Termination Upon a Change in Control or (ii) retirement by Officer upon attainment of eligibility to retire in accordance with the Executive Retirement Plan as in effect upon the date of this Agreement, Officer shall immediately be paid all accrued salary, bonus compensation to the extent earned through the date of termination, including compensation that was earned and deferred, whether or not vested without regard to the Change in Control (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, and all severance compensation provided in Section 4.1, but no other compensation or reimbursement of any kind.

2.9 NOTICE OF TERMINATION. Corporation may effect a termination of this Agreement pursuant to the provisions of this Section 2 upon giving 30 days written notice to Officer of such termination. Officer may effect a termination of this Agreement pursuant to the provisions of this Section 2 upon giving 60 days written notice to Corporation of such termination.

2.10 DETERMINATION OF BENEFIT UPON EARLY PAYMENT. In the event a Participant's deferred compensation benefit becomes vested in accordance with Sections 2.4, 2.5, 2.6 or 2.8, Officer shall have the following rights and Corporation shall take appropriate action to amend or modify its compensation arrangements in order to cause:

(a) any deferred compensation under the Corporation's 1993 Employees Stock Incentive Plan shall be effected by an immediate full vesting of any awards granted to Officer under the Corporation's 1993 Employee Stock Incentive Plan, and any implementation thereof; and an immediate release and full vesting of awards that have been reserved by the Corporation for Officer under the Corporation's 1993 Employee Stock Incentive Plan, and any implementation thereof, or otherwise, such release and vesting to be made within a reasonable time after the relevant event;

(b) any deferred compensation payable under a nonqualified defined contribution plan shall be made available for payment within an administratively practicable time after the relevant event, in an amount equal to the then-current book account balance; and

(c) any deferred compensation payable under a nonqualified defined benefit plan shall be made available for payment within an administratively practicable time after the relevant event in an amount equal to the greater of (i) the benefit, if any, otherwise determined in accordance with the relevant plan, or (ii) the present value of the then-accrued benefit, determined by reducing the accrued benefit from age 65 to the date as of which payment is made, using the actuarial assumptions which have been used for financial accounting purposes under generally accepted accounting principles.

3. SALARY, BENEFITS AND BONUS COMPENSATION.

3.1 BASE SALARY. As payment for the services to be rendered by Officer as provided in Section 1 and subject to the terms and conditions of Section 2, Corporation agrees to pay to Officer a "Base Salary" for the 12 calendar months beginning January 1, 1999 at the rate of \$425,000 per annum payable in 24 equal semi-monthly installments. The Base Salary for each year (or portion thereof) beginning January 1, 2000 shall be determined by the Compensation Committee of the Board of Directors (the "Compensation Committee") which shall authorize an increase in Officer's Base Salary in an amount which, at a minimum, shall be equal to the cumulative cost-of-living increment on the Base Salary as reported in the "Consumer Price Index, Nashville, Tennessee, All Items," published by the U.S. Department of Labor. Officer's Base Salary shall be reviewed annually by the Compensation Committee.

3.2 BONUSES. Officer shall be eligible to receive a bonus for each year (or portion thereof) during the term of this Agreement and any extensions thereof, with the actual amount of any such bonus to be determined by the Compensation Committee in accordance with the Corporation's Executive Variable Incentive Plan. All such bonuses shall be payable within 45 days after the end of the year to which such bonus relates. All such bonuses shall be reviewed annually by the Compensation Committee.

3.3 ADDITIONAL BENEFITS. During the term of this Agreement, Officer shall be entitled to the following fringe benefits:

(a) OFFICER BENEFITS. Officer shall be eligible to participate in such of Corporation's benefits and deferred compensation plans as are now generally available or later made generally available to executive officers of the Corporation, including, without limitation, Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, profit sharing plans, annual physical examinations, dental and medical plans, personal catastrophe and disability insurance, financial planning, retirement plans and supplementary executive retirement plans, if any. For purposes of establishing the length of service under any benefit plans or programs of Corporation, Officer's employment with the Corporation will be deemed to have commenced on January 1, 1993.

(b) VACATION. Officer shall be entitled to six weeks of vacation during each year during the term of this Agreement and any extensions thereof, prorated for partial years.

(c) LIFE INSURANCE. For the term of this Agreement and any extensions thereof, Corporation shall at its expense procure and keep in effect term life insurance on the life of Officer, payable to such beneficiaries as Officer may from time to time designate, in the aggregate amount of \$2,000,000.00. Such policy shall be owned by Officer or by a member of his immediate family.

(d) REIMBURSEMENT FOR EXPENSES. During the term of this Agreement, Corporation shall reimburse Officer for reasonable and properly documented out-of-pocket business and/or entertainment expenses incurred by Officer in connection with his duties under this Agreement.

4. SEVERANCE COMPENSATION.

4.1 SEVERANCE COMPENSATION IN THE EVENT OF A TERMINATION UPON A CHANGE IN CONTROL. In the event Officer's employment is terminated in a Termination Upon a Change in Control, Officer shall be paid as severance compensation his Base Salary (at the rate payable at the time of such termination), through the remaining term of this Agreement and any extensions thereof, on the dates specified in Section 3.1; provided, however, that if Officer is employed by a new employer during such period, the severance compensation payable to Officer during such period will be reduced by the amount of compensation that Officer is receiving from the new employer. However, Officer is under no obligation to mitigate the amount owed Officer pursuant to this Section 4.1 by seeking other employment or otherwise. Notwithstanding anything in this Section 4.1 to the contrary, Officer may in Officer's sole discretion, by delivery of a notice to Corporation within 30 days following a Termination Upon a Change in Control, elect to receive from Corporation a lump sum severance payment by bank cashier's check equal to the present value of the flow of cash payments that would otherwise be paid to Officer pursuant to this Section 4.1. However, in no event shall payment pursuant to this Section 4.1 be less than three times Base Salary as defined herein for the applicable period. Such present value shall be determined as of the date of delivery of the notice of election by Officer and shall be based on a discount rate equal to the interest rate on 90-day U.S. Treasury bills, as reported in the Wall Street Journal (or similar publication), on the date of delivery of the election notice. If Officer elects to receive a lump sum severance payment, Corporation shall make such payment to Officer within 10 days following the date on which Officer notifies Corporation of Officer's election. In addition to the severance payment payable under this Section 4.1, Officer shall be paid an amount equal to: (i) three times the average annual bonus earned by Officer in the two years immediately preceding the date of termination, and (ii) the average annual incentive amount actually earned by Officer during the two years prior to the severance. Officer shall also receive (i) full vesting of any awards granted to Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof; and (ii) an immediate release of awards that have been reserved by

the Corporation for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, or otherwise, and full vesting of such awards. Officer shall continue to accrue retirement benefits and shall continue to enjoy any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, including any perquisites provided under this Agreement, through the remaining term of this Agreement; provided, however, that the benefits under any such plans of the Corporation in which Officer is a participant, including any such perquisites, shall cease upon re-employment by a new employer.

4.2 SEVERANCE COMPENSATION IN THE EVENT OF A TERMINATION OTHER THAN FOR CAUSE. In the event Officer's employment is terminated in a Termination Other Than for Cause, Officer shall be paid as severance compensation his Base Salary (at the rate payable at the time of such termination), for a period of three years from the date of such termination, on the dates specified in Section 3.1; provided, however, that if Officer is employed by a new employer during such period, the severance compensation payable to Officer during such period will be reduced by the amount of compensation that Officer is receiving from the new employer. Notwithstanding anything in this Section 4.2 to the contrary, Officer may in Officer's sole discretion, by delivery of a notice to Corporation within 30 days following a Termination Other Than for Cause, elect to receive from Corporation a lump sum severance payment by bank cashier's check equal to the present value of the flow of cash payments that would otherwise be paid to Officer pursuant to this Section 4.2. However, in no event shall payment pursuant to this Section 4.2 be less than three times Base Salary as defined herein for the applicable period. Such present value shall be determined as of the date of delivery of the notice of election by Officer and shall be based on a discount rate equal to the interest rate on 90-day U.S. Treasury bills, as reported in the Wall Street Journal (or similar publication), on the date of delivery of the election notice. If Officer elects to receive a lump sum severance payment, Corporation shall make such payment to Officer within ten days following the date on which Officer notifies Corporation of Officer's election. In addition to the severance payment payable under this Section 4.2, Officer shall be paid an amount equal to two times the average annual bonus earned by Officer in the two years immediately preceding the date of termination and Officer shall also receive (i) full vesting of any awards granted to Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof; and (ii) an immediate release of awards that have been reserved for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, or otherwise, and full vesting of such awards. Officer shall be entitled to accelerated vesting of any Accrued Benefit under each Deferred Compensation plan. Notwithstanding the foregoing, continued benefit accrual shall not apply in the case of any tax-qualified retirement plan if such accrual would adversely affect the tax-qualified status of such plan; provided, however, that the benefit which would otherwise have been contributed by the Corporation to the account of the Officer in any tax-qualified defined contribution and the single sum value of the benefit plan shall be paid by the Corporation to the Officer as each such contribution or benefit would have been made or accrued, as applicable, assuming that the Officer had remained employed on a full-time basis with a rate of pay equal to his Base Salary. In the case of a Termination Other Than for Cause by reason of the disability of the Participant, and if the Participant is retired for Disability under the Executive Retirement Plan, then the Officer will continue to accrue benefits as provided in the Executive Retirement Plan at the time he incurs his Disability, notwithstanding any subsequent nonsubstantial employment.

4.3 NO SEVERANCE COMPENSATION UPON OTHER TERMINATION. In the event of a Voluntary Termination, Termination For Cause, termination by reason of Officer's disability pursuant to Section 2.5, or termination by reason of Officer's death pursuant to Section 2.6, Officer or his estate shall not be paid any severance compensation and shall receive only the benefits as provided in the appropriate section of Article II applicable to the respective termination.

4.4 ADDITIONAL PAYMENTS DUE TO CHANGE IN CONTROL.

(a) Gross Up Payment. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by or on behalf of the Corporation to or for the benefit of Employee as a result of a "change in control," as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), involving the Corporation or its affiliates (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section

4.4 (a "Payment")) would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by Officer with respect to such excise tax (such excise tax, together

with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Officer shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Officer of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Officer retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Tax Opinion. Subject to the provisions of Section 4.4(c), all determinations required to be made under this Section 4.4, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm or law firm selected by the Corporation (the "Tax Firm"); provided, however, that the Tax Firm shall not determine that no Excise Tax is payable by Officer unless it delivers to Officer a written opinion (the "Tax Opinion") that failure to pay the Excise Tax and to report the Excise Tax and the payments potentially subject thereto on or with Officer's applicable federal income tax return will not result in the imposition of an accuracy-related or other penalty on Officer. All fees and expenses of the Tax Firm shall be borne solely by the Corporation. Within 15 business days of the receipt of notice from Officer that there has been a Payment, or such earlier time as is requested by the Corporation, the Tax Firm shall make all determinations required under this Section 4.4, shall provide to the Corporation and Officer a written report setting forth such determinations, together with detailed supporting calculations, and, if the Tax Firm determines that no Excise Tax is payable, shall deliver the Tax Opinion to Officer. Any Gross-Up Payment, as determined pursuant to this Section 4.4, shall be paid by the Corporation to Officer within fifteen days of the receipt of the Tax Firm's determination. Subject to the remainder of this Section 4.4, any determination by the Tax Firm shall be binding upon the Corporation and Officer; provided, however, that Officer shall only be bound to the extent that the determinations of the Tax Firm hereunder, including the determinations made in the Tax Opinion, are reasonable and reasonably supported by applicable law. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Tax Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Corporation should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that it is ultimately determined in accordance with the procedures set forth in Section 4.4(c) that Officer is required to make a payment of any Excise Tax, the Tax Firm shall reasonably determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Corporation to or for the benefit of Officer. In determining the reasonableness of Tax Firm's determinations hereunder, and the effect thereof, Officer shall be provided a reasonable opportunity to review such determinations with Tax Firm and Officer's tax counsel. Tax Firm's determinations hereunder, and the Tax Opinion, shall not be deemed reasonable until Officer's reasonable objections and comments thereto have been satisfactorily accommodated by Tax Firm.

(c) Notice of IRS Claim. Officer shall notify the Corporation in writing of any claims by the Internal Revenue Service that, if successful, would require the payment by the Corporation of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than 30 calendar days after Officer actually receives notice in writing of such claim and shall apprise the Corporation of the nature of such claim and the date on which such claim is requested to be paid; provided, however, that the failure of Officer to notify the Corporation of such claim (or to provide any required information with respect thereto) shall not affect any rights granted to Officer under this Section 4.4 except to the extent that the Corporation is materially prejudiced in the defense of such claim as a direct result of such failure. Officer shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Corporation (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Corporation notifies Officer in writing prior to the expiration of such period that it desires to contest such claim, Officer shall do all of the following:

I. give the Corporation any information reasonably requested by the Corporation relating to such claim;

II. take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation and reasonably acceptable to Officer;

III. cooperate with the Corporation in good faith in order effectively to contest such claim;

IV. if the Corporation elects not to assume and control the defense of such claim, permit the Corporation to participate in any proceedings relating to such claim;

provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Officer harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this

Section 4.4, the Corporation shall have the right, at its sole option, to assume the defense of and control all proceedings in connection with such contest, in which case it may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may either direct Officer to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Officer agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Officer to pay such claim and sue for a refund, the Corporation shall advance the amount of such payment to Officer, on an interest-free basis and shall indemnify and hold Officer harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Officer with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Corporation's right to assume the defense of and control the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Officer shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Right to Tax Refund. If, after the receipt by Officer of an amount advanced by the Corporation pursuant to Section 4.4, Officer becomes entitled to receive any refund with respect to such claim, Officer shall (subject to the Corporation's complying with the requirements of Section 4.4(c)) promptly pay to the Corporation the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Officer of an amount advanced by the Corporation pursuant to Section 4.4(c), a determination is made that Officer is not entitled to a refund with respect to such claim and the Corporation does not notify Officer in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall, to the extent of such denial, be forgiven and shall not be required to be repaid and the amount of forgiven advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

5. NON-COMPETITION; DISCLOSURE OF INVESTMENTS. During the term of this Agreement, including the period, if any, during which Officer shall be entitled to severance compensation pursuant to Section 4.2, Officer shall not engage in any activity competitive with the Corporation. Simultaneously with Officer's execution of this Agreement and upon each anniversary of the Effective Date, Officer shall notify the Chairman of the Compensation Committee of the nature and extent of Officer's investments, stock holdings, employment as an employee, director, or any similar interest in any business or enterprise other than Corporation; provided, however, that Officer shall have no obligation to disclose any investment under \$100,000 in value or any holdings of publicly traded securities which are not in excess of one percent of the outstanding class of such securities. Notwithstanding any provision herein to the contrary, the restrictions and covenants of this Section 5 shall not apply in the event of a Termination Upon a Change in Control.

6. MISCELLANEOUS.

6.1 Payment Obligations. Corporation's obligation to pay Officer the compensation and to make the arrangements provided herein shall be unconditional, and Officer shall have no obligation whatsoever to mitigate damages hereunder. If litigation after a Change in Control shall be brought to enforce or interpret any provision contained herein, Corporation, to the extent permitted by applicable law and the Corporation's Articles of Incorporation and Bylaws, hereby indemnifies Officer for Officer's reasonable attorneys' fees and disbursements incurred in such litigation.

6.2 CONFIDENTIALITY. Officer agrees that all confidential and proprietary information relating to the business of Corporation shall be kept and treated as confidential both during and after the term of this Agreement, except as may be permitted in writing by Corporation's Board of Directors or as such information is within the public domain or comes within the public domain without any breach of this Agreement.

6.3 WAIVER. The waiver of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of the same or other provision hereof.

6.4 ENTIRE AGREEMENT; MODIFICATIONS. Except as otherwise provided herein, this Agreement represents the entire understanding among the parties with respect to the subject matter hereof, and this Agreement supersedes any and all prior understandings, agreements, plans and negotiations, whether written or oral, with respect to the subject matter hereof, including without limitation, any understandings, agreements or obligations respecting any past or future compensation, bonuses, reimbursements or other payments to Officer from Corporation. All modifications to the Agreement must be in writing and signed by the party against whom enforcement of such modification is sought.

6.5 NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by telegraph or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three days after mailing or 12 hours after transmission of a telegram to the respective persons named below:

If to Corporation:

Healthcare Realty Trust Incorporated
3310 West End Avenue
Nashville, Tennessee 37203

Phone: (615) 269-8175
Fax: (615) 269-8122

If to Officer:

Mr. David R. Emery
108 Bonaventure Place
Nashville, Tennessee 37205

Any party may change such party's address for notices by notice duly give pursuant to this Section 6.5.

6.6 HEADINGS. The Section headings herein are intended for reference and shall not by themselves determine the construction or interpretation of this Agreement.

6.7 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

6.8 ARBITRATION. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Nashville, Tennessee in accordance with the Rules of the American Arbitration Association, and judgment upon any proper award rendered by the Arbitrators may be entered in any court having jurisdiction thereof. There shall be three arbitrators, one to be chosen directly by each party at will, and the third arbitrator to be selected by the two arbitrators so chosen. To the extent permitted by the Rules of the American Arbitration Association, the selected arbitrators may grant equitable relief. Each party shall pay the fees of the arbitrator selected by him and of his own attorneys, and the expenses of his witnesses and all other expenses connected with the presentation of his case. The cost of the arbitration including the cost of the record or transcripts thereof, if any, administrative fees, and all other fees and costs shall be borne equally by the parties. To the extent that Officer prevails with respect to any portion of an arbitration award, Officer shall be reimbursed by the

Corporation for the costs and expenses incurred by Officer in connection with the arbitration in an amount proportionate to the award to Officer as compared to the amount in dispute.

6.9 SEVERABILITY. Should a court or other body of competent jurisdiction determine that any provision of this Agreement is excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, and all other provisions of this Agreement shall be deemed valid and enforceable to the extent possible.

6.10 SURVIVAL OF CORPORATION'S OBLIGATIONS. Corporation's obligations hereunder shall not be terminated by reason of any liquidation, dissolution, bankruptcy, cessation of business, or similar event relating to the Corporation. This Agreement shall not be terminated by any merger or consolidation or other reorganization of the Corporation. In the event any such merger, consolidation or reorganization shall be accomplished by transfer of stock or by transfer of assets or otherwise, the provisions of this Agreement shall be binding upon and inure to the benefit of the surviving or resulting corporation or person. This Agreement shall be binding upon and inure to the benefit of the executors, administrators, heirs, successors and assigns of the parties; provided, however, that except as herein expressly provided, this Agreement shall not be assignable either by the Corporation (except to an affiliate of the Corporation in which event Corporation shall remain liable if the affiliate fails to meet any obligations to make payments or provide benefits or otherwise) or by Officer.

6.11 COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

6.12 WITHHOLDINGS. All compensation and benefits to Officer hereunder shall be reduced only by all federal, state, local and other withholdings and similar taxes and payments that are required by applicable law. Except as otherwise specifically agreed by Officer, no other offsets or withholdings shall apply to reduce the payment of compensation and benefits hereunder.

6.13 INDEMNIFICATION. In addition to any rights to indemnification to which Officer is entitled to under the Corporation's Articles of Incorporation and Bylaws, Corporation shall indemnify Officer at all times during and after the term of this Agreement to the maximum extent permitted under Section 2-418 of the General Corporation Law of the State of Maryland or any successor provision thereof and any other applicable state law, and shall pay Officer's expenses in defending any civil or criminal action, suit, or proceeding in advance of the final disposition of such action, suit, or proceeding, to the maximum extent permitted under such applicable state laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the day and year first above written.

CORPORATION:
HEALTHCARE REALTY TRUST INCORPORATED

By: _____ /S/

Name: Roger O. West
Title: Executive Vice President
Date: November 1, 1999

OFFICER:

/S/

David R. Emery
Date: November 1, 1999

EXHIBIT 10.10

**HEALTHCARE REALTY TRUST
INCORPORATED**

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of January 1, 2000 ("Effective Date") by and between HEALTHCARE REALTY TRUST INCORPORATED, a Maryland corporation ("Corporation"), and Roger O. West ("Officer").

RECITAL

Corporation desires to employ Officer as its Executive Vice President and General Counsel and Officer is willing to accept such employment by Corporation, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

THE PARTIES AGREE AS FOLLOWS:

1. **DUTIES.** During the term of this Agreement, Officer agrees to be employed by and to serve Corporation as its Executive Vice President and General Counsel, and Corporation agrees to employ and retain Officer in such capacities. Officer shall devote such of his business time, energy, and skill to the affairs of Corporation as shall be necessary to perform the duties of such positions. Officer shall report only to Corporation's Board of Directors and/or President and at all times during the term of this Agreement shall have powers and duties at least commensurate with his position as Executive Vice President and General Counsel. Officer's principal place of business with respect to his services to Corporation shall be within 35 miles of Nashville, Tennessee.

2. **TERM OF EMPLOYMENT.**

2.1 **DEFINITIONS.** For purposes of this Agreement the following terms shall have the following meanings:

(a) "TERMINATION FOR CAUSE" shall mean termination by Corporation of Officer's employment by Corporation by reason of Officer's material, substantial and willful dishonesty towards, fraud upon, or deliberate injury or attempted injury to, Corporation or by reason of Officer's material, substantial and willful breach of this Agreement which has resulted in material injury to Corporation. For purposes of this Agreement, a termination of Officer's employment with the Corporation shall be deemed a Termination Other Than For Cause rather than a Termination For Cause unless and until established by Corporation to the contrary by a final, nonappealable decision by a court of competent jurisdiction. The Corporation shall have the burden of establishing that any termination of Officer's employment by Corporation is a Termination For Cause.

(b) "TERMINATION OTHER THAN FOR CAUSE" shall mean any termination by Corporation of Officer's employment by Corporation (other than in a Termination for Cause) and shall include Constructive Termination of Officer's employment, effective upon notice from Officer to Corporation of such Constructive Termination. A failure or refusal of Corporation to extend the term of employment of Officer in accordance with Section 2.2 hereof, other than as a result of circumstances which would warrant a Termination of Cause hereunder, shall be deemed a Termination Other Than For Cause.

(c) "VOLUNTARY TERMINATION" shall mean termination by Officer of Officer's employment by Corporation other than (i) Constructive Termination as described in subsection 2.1(g), (ii)

"Termination Upon a Change in Control," (iii) termination by reason of Officer's death or disability as described in Sections 2.5 and 2.6 and (iv) termination by reason of retirement by Officer upon attainment of eligibility to retire in accordance with the Executive Retirement Plan as in effect upon the date of this Agreement.

(d) "TERMINATION UPON A CHANGE IN CONTROL" shall mean a termination by Officer of Officer's employment with Corporation within 24 months following a "Change in Control."

(e) "CHANGE IN CONTROL" shall mean (i) the time that Corporation first determines that any person and all other persons who constitute a group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 ("Exchange Act")) have acquired direct or indirect beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 20 percent or more of Corporation's outstanding securities, unless a majority of the "Continuing Directors" approves the acquisition not later than ten business days after Corporation makes that determination, or (ii) the first day on which a majority of the members of Corporation's Board of Directors are not "Continuing Directors."

(f) "CONTINUING DIRECTORS" shall mean, as of any date of determination, any member of the Board of Directors of Corporation who (i) was a member of that Board of Directors on January 1, 1993, (ii) has been a member of that Board of Directors for the two years immediately preceding such date of determination, or (iii) was nominated for election or elected to the Board of Directors with the affirmative vote of the greater of (x) a majority of Continuing Directors who were members of the Board at the time of such nomination or election or (y) at least four Continuing Directors.

(g) "CONSTRUCTIVE TERMINATION" shall mean (i) any material breach of this Agreement by Corporation; (ii) any actual or implied threat of discharge of Officer by Corporation under circumstances which would not constitute a Termination for Cause and which results in an involuntary resignation of employment by Officer; (iii) any substantial reduction in the authority or responsibility of Officer or other substantial reduction in the terms and conditions of Officer's employment under circumstances which would not justify a Termination for Cause and which are not the result of a material breach by Officer of this Agreement; (iv) any act(s) by Corporation which are designed or have the effect of rendering Officer's working conditions so intolerable or demeaning on a recurring basis that a reasonable person would resign such employment, (v) a material adverse alteration in Officer's reporting relationships, position, responsibilities, title or status; (vi) a reduction in Officer's compensation or a substantial reduction in benefits provided to Officer that are provided for or referenced hereunder; (vii) relocation of Officer to a location that is more than 35 miles from the location of the Corporation's headquarters on the date this Agreement is executed.

(h) "DEFERRED COMPENSATION" or "deferred compensation" shall mean any individual or group plan, program, agreement or other arrangement, whether or not a "plan" for purposes of the Employee Retirement Income Security Act of 1974 ("ERISA") and whether or not a retirement plan or supplemental executive retirement plan or additional retirement plan as contemplated by Section 3.11 of the Agreement, but which in any event involves an agreement by the Corporation to make payment(s) to Officer at a future date as compensation for current services to the Corporation. The term Deferred Compensation or deferred compensation shall include, but not be limited to, benefits described in the Healthcare Realty Trust Incorporated Executive Retirement Plan, the 1993 Employees Stock Incentive Plan and the First Performance Based Restricted Stock Implementation under the 1993 Employees Stock Incentive Plan, or any additional implementation thereof, each as it now exists or may hereafter be amended.

2.2 BASIC TERM. The term of employment of Officer by Corporation shall be from January 1, 1999 through December 31, 2004, unless terminated earlier pursuant to this Section 2. Commencing in 2000, on the first day of January of each year, the first sentence of this Section 2.2 shall be amended by deleting the year then appearing therein and inserting in its place the next subsequent year.

2.3 TERMINATION FOR CAUSE. Termination For Cause may be effected by Corporation at any time during the term of this Agreement and shall be effected by written notification to Officer. Upon Termination For Cause, Officer immediately shall be paid all accrued salary, bonus compensation to the extent earned, vested

deferred compensation (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but Officer shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.4 TERMINATION OTHER THAN FOR CAUSE. Notwithstanding anything else in this Agreement, Corporation may effect a Termination Other Than For Cause at any time upon giving written notice to Officer of such termination. Upon any Termination Other Than For Cause, Officer shall immediately be paid all accrued salary, bonus compensation to the extent earned, whether or not vested without regard to such Termination (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, and all severance compensation provided in Section 4.2, but no other compensation or reimbursement of any kind.

2.5 TERMINATION BY REASON OF DISABILITY. If, during the term of this Agreement, Officer, in the reasonable judgment of the Board of Directors of Corporation, has failed to perform his duties under this Agreement on account of illness or physical or mental incapacity, and such illness or incapacity continues for a period of more than 12 consecutive months, Corporation shall have the right to terminate Officer's employment hereunder by written notification to Officer and payment to Officer of all accrued salary, bonus compensation to the extent earned, deferred compensation, whether or not vested without regard to such illness or incapacity (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, with the exception of medical and dental benefits which shall continue through the expiration of this Agreement, but Officer shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation. Notwithstanding the foregoing, any Officer who incurs a Disability within the contemplation of the Executive Retirement Plan shall accrue such additional post-disability, post-termination benefits as may be determined in accordance with such Plan.

2.6 DEATH. In the event of Officer's death during the term of this Agreement, Officer's employment shall be deemed to have terminated as of the last day of the month during which his death occurs and Corporation shall pay to his estate or such beneficiaries as Officer may from time to time designate all accrued salary, bonus compensation to the extent earned, whether or not vested without regard to such Termination (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but Officer's estate shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.7 VOLUNTARY TERMINATION. In the event of a Voluntary Termination, Corporation shall immediately pay all accrued salary, bonus compensation to the extent earned, vested deferred compensation (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but no other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.8 TERMINATION UPON A CHANGE IN CONTROL OR RETIREMENT. In the event of (i) a Termination Upon a Change in Control or (ii) retirement by Officer upon attainment of eligibility to retire in accordance with the Executive Retirement Plan as in effect upon the date of this Agreement, Officer shall immediately be paid all accrued salary, bonus compensation to the extent earned through the date of termination, including compensation that was earned and deferred, whether or not vested without regard to the Change in Control (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, and all severance compensation provided in Section 4.1, but no other compensation or reimbursement of any kind.

2.9 NOTICE OF TERMINATION. Corporation may effect a termination of this Agreement pursuant to the provisions of this Section 2 upon giving 30 days written notice to Officer of such termination. Officer may effect a termination of this Agreement pursuant to the provisions of this Section 2 upon giving 60 days written notice to Corporation of such termination.

2.10 DETERMINATION OF BENEFIT UPON EARLY PAYMENT. In the event a Participant's deferred compensation benefit becomes vested in accordance with Sections 2.4, 2.5, 2.6 or 2.8, Officer shall have the following rights and Corporation shall take appropriate action to amend or modify its compensation arrangements in order to cause:

(a) any deferred compensation under the Corporation's 1993 Employees Stock Incentive Plan shall be effected by an immediate full vesting of any awards granted to Officer under the Corporation's 1993 Employee Stock Incentive Plan, and any implementation thereof; and an immediate release and full vesting of awards that have been reserved by the Corporation for Officer under the Corporation's 1993 Employee Stock Incentive Plan, and any implementation thereof, or otherwise, such release and vesting to be made within a reasonable time after the relevant event;

(b) any deferred compensation payable under a nonqualified defined contribution plan shall be made available for payment within an administratively practicable time after the relevant event, in an amount equal to the then-current book account balance; and

(c) any deferred compensation payable under a nonqualified defined benefit plan shall be made available for payment within an administratively practicable time after the relevant event in an amount equal to the greater of (i) the benefit, if any, otherwise determined in accordance with the relevant plan, or (ii) the present value of the then-accrued benefit, determined by reducing the accrued benefit from age 65 to the date as of which payment is made, using the actuarial assumptions which have been used for financial accounting purposes under generally accepted accounting principles.

3. SALARY, BENEFITS AND BONUS COMPENSATION.

3.1 BASE SALARY. As payment for the services to be rendered by Officer as provided in Section 1 and subject to the terms and conditions of Section 2, Corporation agrees to pay to Officer a "Base Salary" for the 12 calendar months beginning January 1, 1999 at the rate of \$275,000 per annum payable in 24 equal semi-monthly installments. The Base Salary for each year (or portion thereof) beginning January 1, 2000 shall be determined by the Compensation Committee of the Board of Directors (the "Compensation Committee") which shall authorize an increase in Officer's Base Salary in an amount which, at a minimum, shall be equal to the cumulative cost-of-living increment on the Base Salary as reported in the "Consumer Price Index, Nashville, Tennessee, All Items," published by the U.S. Department of Labor. Officer's Base Salary shall be reviewed annually by the Compensation Committee.

3.2 BONUSES. Officer shall be eligible to receive a bonus for each year (or portion thereof) during the term of this Agreement and any extensions thereof, with the actual amount of any such bonus to be determined by the Compensation Committee in accordance with the Corporation's Executive Variable Incentive Plan. All such bonuses shall be payable within 45 days after the end of the year to which such bonus relates. All such bonuses shall be reviewed annually by the Compensation Committee.

3.3 ADDITIONAL BENEFITS. During the term of this Agreement, Officer shall be entitled to the following fringe benefits:

(a) OFFICER BENEFITS. Officer shall be eligible to participate in such of Corporation's benefits and deferred compensation plans as are now generally available or later made generally available to executive officers of the Corporation, including, without limitation, Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, profit sharing plans, annual physical examinations, dental and medical plans, personal catastrophe and disability insurance, financial planning, retirement plans and supplementary executive retirement plans, if any. For purposes of establishing the length of service under any benefit plans or programs of Corporation, Officer's employment with the Corporation will be deemed to have commenced on May 1, 1994.

(b) VACATION. Officer shall be entitled to six weeks of vacation during each year during the term of this Agreement and any extensions thereof, prorated for partial years.

(c) LIFE INSURANCE. For the term of this Agreement and any extensions thereof, Corporation shall at its expense procure and keep in effect term life insurance on the life of Officer, payable to such beneficiaries as Officer may from time to time designate, in the aggregate amount of \$1,500,000. Such policy shall be owned by Officer or by a member of his immediate family.

(d) REIMBURSEMENT FOR EXPENSES. During the term of this Agreement, Corporation shall reimburse Officer for reasonable and properly documented out-of-pocket business and/or entertainment expenses incurred by Officer in connection with his duties under this Agreement.

4. SEVERANCE COMPENSATION.

4.1 SEVERANCE COMPENSATION IN THE EVENT OF A TERMINATION UPON A CHANGE IN CONTROL. In the event Officer's employment is terminated in a Termination Upon a Change in Control, Officer shall be paid as severance compensation his Base Salary (at the rate payable at the time of such termination), through the remaining term of this Agreement and any extensions thereof, on the dates specified in Section 3.1; provided, however, that if Officer is employed by a new employer during such period, the severance compensation payable to Officer during such period will be reduced by the amount of compensation that Officer is receiving from the new employer. However, Officer is under no obligation to mitigate the amount owed Officer pursuant to this Section 4.1 by seeking other employment or otherwise. Notwithstanding anything in this Section 4.1 to the contrary, Officer may in Officer's sole discretion, by delivery of a notice to Corporation within 30 days following a Termination Upon a Change in Control, elect to receive from Corporation a lump sum severance payment by bank cashier's check equal to the present value of the flow of cash payments that would otherwise be paid to Officer pursuant to this Section 4.1. However, in no event shall payment pursuant to this Section 4.1 be less than three times Base Salary as defined herein for the applicable period. Such present value shall be determined as of the date of delivery of the notice of election by Officer and shall be based on a discount rate equal to the interest rate on 90-day U.S. Treasury bills, as reported in the Wall Street Journal (or similar publication), on the date of delivery of the election notice. If Officer elects to receive a lump sum severance payment, Corporation shall make such payment to Officer within 10 days following the date on which Officer notifies Corporation of Officer's election. In addition to the severance payment payable under this Section 4.1, Officer shall be paid an amount equal to: (i) three times the average annual bonus earned by Officer in the two years immediately preceding the date of termination, and (ii) the average annual incentive amount actually earned by Officer during the two years prior to the severance. Officer shall also receive (i) full vesting of any awards granted to Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof; and (ii) an immediate release of awards that have been reserved by

the Corporation for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, or otherwise, and full vesting of such awards. Officer shall continue to accrue retirement benefits and shall continue to enjoy any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, including any perquisites provided under this Agreement, through the remaining term of this Agreement; provided, however, that the benefits under any such plans of the Corporation in which Officer is a participant, including any such perquisites, shall cease upon re-employment by a new employer.

4.2 SEVERANCE COMPENSATION IN THE EVENT OF A TERMINATION OTHER THAN FOR CAUSE. In the event Officer's employment is terminated in a Termination Other Than for Cause, Officer shall be paid as severance compensation his Base Salary (at the rate payable at the time of such termination), for a period of three years from the date of such termination, on the dates specified in Section 3.1; provided, however, that if Officer is employed by a new employer during such period, the severance compensation payable to Officer during such period will be reduced by the amount of compensation that Officer is receiving from the new employer. Notwithstanding anything in this Section 4.2 to the contrary, Officer may in Officer's sole discretion, by delivery of a notice to Corporation within 30 days following a Termination Other Than for Cause, elect to receive from Corporation a lump sum severance payment by bank cashier's check equal to the present value of the flow of cash payments that would otherwise be paid to Officer pursuant to this Section 4.2. However, in no event shall payment pursuant to this Section 4.2 be less than three times Base Salary as defined herein for the applicable period. Such present value shall be determined as of the date of delivery of the notice of election by Officer and shall be based on a discount rate equal to the interest rate on 90-day U.S. Treasury bills, as reported in the Wall Street Journal (or similar publication), on the date of delivery of the election notice. If Officer elects to receive a lump sum severance payment, Corporation shall make such payment to Officer within ten days following the date on which Officer notifies Corporation of Officer's election. In addition to the severance payment payable under this Section 4.2, Officer shall be paid an amount equal to two times the average annual bonus earned by Officer in the two years immediately preceding the date of termination and Officer shall also receive (i) full vesting of any awards granted to Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof; and (ii) an immediate release of awards that have been reserved for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, or otherwise, and full vesting of such awards. Officer shall be entitled to accelerated vesting of any Accrued Benefit under each Deferred Compensation plan. Notwithstanding the foregoing, continued benefit accrual shall not apply in the case of any tax-qualified retirement plan if such accrual would adversely affect the tax-qualified status of such plan; provided, however, that the benefit which would otherwise have been contributed by the Corporation to the account of the Officer in any tax-qualified defined contribution and the single sum value of the benefit plan shall be paid by the Corporation to the Officer as each such contribution or benefit would have been made or accrued, as applicable, assuming that the Officer had remained employed on a full-time basis with a rate of pay equal to his Base Salary. In the case of a Termination Other Than for Cause by reason of the disability of the Participant, and if the Participant is retired for Disability under the Executive Retirement Plan, then the Officer will continue to accrue benefits as provided in the Executive Retirement Plan at the time he incurs his Disability, notwithstanding any subsequent nonsubstantial employment.

4.3 NO SEVERANCE COMPENSATION UPON OTHER TERMINATION. In the event of a Voluntary Termination, Termination For Cause, termination by reason of Officer's disability pursuant to Section 2.5, or termination by reason of Officer's death pursuant to Section 2.6, Officer or his estate shall not be paid any severance compensation and shall receive only the benefits as provided in the appropriate section of Article II applicable to the respective termination.

4.4 ADDITIONAL PAYMENTS DUE TO CHANGE IN CONTROL.

(a) Gross Up Payment. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by or on behalf of the Corporation to or for the benefit of Employee as a result of a "change in control," as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), involving the Corporation or its affiliates (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section

4.4 (a "Payment")) would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by Officer with respect to such excise tax (such excise tax, together

with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Officer shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Officer of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Officer retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Tax Opinion. Subject to the provisions of Section 4.4(c), all determinations required to be made under this Section 4.4, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm or law firm selected by the Corporation (the "Tax Firm"); provided, however, that the Tax Firm shall not determine that no Excise Tax is payable by Officer unless it delivers to Officer a written opinion (the "Tax Opinion") that failure to pay the Excise Tax and to report the Excise Tax and the payments potentially subject thereto on or with Officer's applicable federal income tax return will not result in the imposition of an accuracy-related or other penalty on Officer. All fees and expenses of the Tax Firm shall be borne solely by the Corporation. Within 15 business days of the receipt of notice from Officer that there has been a Payment, or such earlier time as is requested by the Corporation, the Tax Firm shall make all determinations required under this Section 4.4, shall provide to the Corporation and Officer a written report setting forth such determinations, together with detailed supporting calculations, and, if the Tax Firm determines that no Excise Tax is payable, shall deliver the Tax Opinion to Officer. Any Gross-Up Payment, as determined pursuant to this Section 4.4, shall be paid by the Corporation to Officer within fifteen days of the receipt of the Tax Firm's determination. Subject to the remainder of this Section 4.4, any determination by the Tax Firm shall be binding upon the Corporation and Officer; provided, however, that Officer shall only be bound to the extent that the determinations of the Tax Firm hereunder, including the determinations made in the Tax Opinion, are reasonable and reasonably supported by applicable law. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Tax Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Corporation should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that it is ultimately determined in accordance with the procedures set forth in Section 4.4(c) that Officer is required to make a payment of any Excise Tax, the Tax Firm shall reasonably determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Corporation to or for the benefit of Officer. In determining the reasonableness of Tax Firm's determinations hereunder, and the effect thereof, Officer shall be provided a reasonable opportunity to review such determinations with Tax Firm and Officer's tax counsel. Tax Firm's determinations hereunder, and the Tax Opinion, shall not be deemed reasonable until Officer's reasonable objections and comments thereto have been satisfactorily accommodated by Tax Firm.

(c) Notice of IRS Claim. Officer shall notify the Corporation in writing of any claims by the Internal Revenue Service that, if successful, would require the payment by the Corporation of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than 30 calendar days after Officer actually receives notice in writing of such claim and shall apprise the Corporation of the nature of such claim and the date on which such claim is requested to be paid; provided, however, that the failure of Officer to notify the Corporation of such claim (or to provide any required information with respect thereto) shall not affect any rights granted to Officer under this Section 4.4 except to the extent that the Corporation is materially prejudiced in the defense of such claim as a direct result of such failure. Officer shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Corporation (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Corporation notifies Officer in writing prior to the expiration of such period that it desires to contest such claim, Officer shall do all of the following:

I. give the Corporation any information reasonably requested by the Corporation relating to such claim;

II. take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation and reasonably acceptable to Officer;

III. cooperate with the Corporation in good faith in order effectively to contest such claim;

IV. if the Corporation elects not to assume and control the defense of such claim, permit the Corporation to participate in any proceedings relating to such claim;

provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Officer harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this

Section 4.4, the Corporation shall have the right, at its sole option, to assume the defense of and control all proceedings in connection with such contest, in which case it may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may either direct Officer to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Officer agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Officer to pay such claim and sue for a refund, the Corporation shall advance the amount of such payment to Officer, on an interest-free basis and shall indemnify and hold Officer harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Officer with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Corporation's right to assume the defense of and control the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Officer shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Right to Tax Refund. If, after the receipt by Officer of an amount advanced by the Corporation pursuant to Section 4.4, Officer becomes entitled to receive any refund with respect to such claim, Officer shall (subject to the Corporation's complying with the requirements of Section 4.4(c)) promptly pay to the Corporation the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Officer of an amount advanced by the Corporation pursuant to Section 4.4(c), a determination is made that Officer is not entitled to a refund with respect to such claim and the Corporation does not notify Officer in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall, to the extent of such denial, be forgiven and shall not be required to be repaid and the amount of forgiven advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

5. NON-COMPETITION; DISCLOSURE OF INVESTMENTS. During the term of this Agreement, including the period, if any, during which Officer shall be entitled to severance compensation pursuant to Section 4.2, Officer shall not engage in any activity competitive with the Corporation. Simultaneously with Officer's execution of this Agreement and upon each anniversary of the Effective Date, Officer shall notify the Chairman of the Compensation Committee of the nature and extent of Officer's investments, stock holdings, employment as an employee, director, or any similar interest in any business or enterprise other than Corporation; provided, however, that Officer shall have no obligation to disclose any investment under \$100,000 in value or any holdings of publicly traded securities which are not in excess of one percent of the outstanding class of such securities. Notwithstanding any provision herein to the contrary, the restrictions and covenants of this Section 5 shall not apply in the event of a Termination Upon a Change in Control.

6. MISCELLANEOUS.

6.1 Payment Obligations. Corporation's obligation to pay Officer the compensation and to make the arrangements provided herein shall be unconditional, and Officer shall have no obligation whatsoever to mitigate damages hereunder. If litigation after a Change in Control shall be brought to enforce or interpret any provision contained herein, Corporation, to the extent permitted by applicable law and the Corporation's Articles of Incorporation and Bylaws, hereby indemnifies Officer for Officer's reasonable attorneys' fees and disbursements incurred in such litigation.

6.2 CONFIDENTIALITY. Officer agrees that all confidential and proprietary information relating to the business of Corporation shall be kept and treated as confidential both during and after the term of this Agreement, except as may be permitted in writing by Corporation's Board of Directors or as such information is within the public domain or comes within the public domain without any breach of this Agreement.

6.3 WAIVER. The waiver of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of the same or other provision hereof.

6.4 ENTIRE AGREEMENT; MODIFICATIONS. Except as otherwise provided herein, this Agreement represents the entire understanding among the parties with respect to the subject matter hereof, and this Agreement supersedes any and all prior understandings, agreements, plans and negotiations, whether written or oral, with respect to the subject matter hereof, including without limitation, any understandings, agreements or obligations respecting any past or future compensation, bonuses, reimbursements or other payments to Officer from Corporation. All modifications to the Agreement must be in writing and signed by the party against whom enforcement of such modification is sought.

6.5 NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by telegraph or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three days after mailing or 12 hours after transmission of a telegram to the respective persons named below:

If to Corporation:

Healthcare Realty Trust Incorporated
3310 West End Avenue
Nashville, Tennessee 37203

Phone: (615) 269-8175
Fax: (615) 269-8122

If to Officer:

Mr. Roger O. West
9014 Split Log Road
Brentwood, Tennessee 37027

Any party may change such party's address for notices by notice duly give pursuant to this Section 6.5.

6.6 HEADINGS. The Section headings herein are intended for reference and shall not by themselves determine the construction or interpretation of this Agreement.

6.7 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

6.8 ARBITRATION. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Nashville, Tennessee in accordance with the Rules of the American Arbitration Association, and judgment upon any proper award rendered by the Arbitrators may be entered in any court having jurisdiction thereof. There shall be three arbitrators, one to be chosen directly by each party at will, and the third arbitrator to be selected by the two arbitrators so chosen. To the extent permitted by the Rules of the American Arbitration Association, the selected arbitrators may grant equitable relief. Each party shall pay the fees of the arbitrator selected by him and of his own attorneys, and the expenses of his witnesses and all other expenses connected with the presentation of his case. The cost of the arbitration including the cost of the record or transcripts thereof, if any, administrative fees, and all other fees and costs shall be borne equally by the parties. To the extent that Officer prevails with respect to any portion of an arbitration award, Officer shall be reimbursed by the

Corporation for the costs and expenses incurred by Officer in connection with the arbitration in an amount proportionate to the award to Officer as compared to the amount in dispute.

6.9 SEVERABILITY. Should a court or other body of competent jurisdiction determine that any provision of this Agreement is excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, and all other provisions of this Agreement shall be deemed valid and enforceable to the extent possible.

6.10 SURVIVAL OF CORPORATION'S OBLIGATIONS. Corporation's obligations hereunder shall not be terminated by reason of any liquidation, dissolution, bankruptcy, cessation of business, or similar event relating to the Corporation. This Agreement shall not be terminated by any merger or consolidation or other reorganization of the Corporation. In the event any such merger, consolidation or reorganization shall be accomplished by transfer of stock or by transfer of assets or otherwise, the provisions of this Agreement shall be binding upon and inure to the benefit of the surviving or resulting corporation or person. This Agreement shall be binding upon and inure to the benefit of the executors, administrators, heirs, successors and assigns of the parties; provided, however, that except as herein expressly provided, this Agreement shall not be assignable either by the Corporation (except to an affiliate of the Corporation in which event Corporation shall remain liable if the affiliate fails to meet any obligations to make payments or provide benefits or otherwise) or by Officer.

6.11 COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

6.12 WITHHOLDINGS. All compensation and benefits to Officer hereunder shall be reduced only by all federal, state, local and other withholdings and similar taxes and payments that are required by applicable law. Except as otherwise specifically agreed by Officer, no other offsets or withholdings shall apply to reduce the payment of compensation and benefits hereunder.

6.13 INDEMNIFICATION. In addition to any rights to indemnification to which Officer is entitled to under the Corporation's Articles of Incorporation and Bylaws, Corporation shall indemnify Officer at all times during and after the term of this Agreement to the maximum extent permitted under Section 2-418 of the General Corporation Law of the State of Maryland or any successor provision thereof and any other applicable state law, and shall pay Officer's expenses in defending any civil or criminal action, suit, or proceeding in advance of the final disposition of such action, suit, or proceeding, to the maximum extent permitted under such applicable state laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the day and year first above written.

CORPORATION:

HEALTHCARE REALTY TRUST INCORPORATED

By: _____ /S/

Name David R. Emery
Title: President and Chairman
Date: November 1, 1999

OFFICER:

/S/

Roger O. West
Date: November 1, 1999

EXHIBIT 10.11

**HEALTHCARE REALTY TRUST
INCORPORATED**

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of January 1, 2000 ("Effective Date") by and between HEALTHCARE REALTY TRUST INCORPORATED, a Maryland corporation ("Corporation"), and Timothy G. Wallace ("Officer").

RECITAL

Corporation desires to employ Officer as its Executive Vice President - Chief Financial Officer and Officer is willing to accept such employment by Corporation, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

THE PARTIES AGREE AS FOLLOWS:

1. **DUTIES.** During the term of this Agreement, Officer agrees to be employed by and to serve Corporation as its Executive Vice President - Chief Financial Officer, and Corporation agrees to employ and retain Officer in such capacities. Officer shall devote such of his business time, energy, and skill to the affairs of Corporation as shall be necessary to perform the duties of such positions. Officer shall report only to Corporation's Board of Directors and/or President and at all times during the term of this Agreement shall have powers and duties at least commensurate with his position as Executive Vice President - Chief Financial Officer. Officer's principal place of business with respect to his services to Corporation shall be within 35 miles of Nashville, Tennessee.

2. TERM OF EMPLOYMENT.

2.1 **DEFINITIONS.** For purposes of this Agreement the following terms shall have the following meanings:

(a) "**TERMINATION FOR CAUSE**" shall mean termination by Corporation of Officer's employment by Corporation by reason of Officer's material, substantial and willful dishonesty towards, fraud upon, or deliberate injury or attempted injury to, Corporation or by reason of Officer's material, substantial and willful breach of this Agreement which has resulted in material injury to Corporation. For purposes of this Agreement, a termination of Officer's employment with the Corporation shall be deemed a Termination Other Than For Cause rather than a Termination For Cause unless and until established by Corporation to the contrary by a final, nonappealable decision by a court of competent jurisdiction. The Corporation shall have the burden of establishing that any termination of Officer's employment by Corporation is a Termination For Cause.

(b) "**TERMINATION OTHER THAN FOR CAUSE**" shall mean any termination by Corporation of Officer's employment by Corporation (other than in a Termination for Cause) and shall include Constructive Termination of Officer's employment, effective upon notice from Officer to Corporation of such Constructive Termination. A failure or refusal of Corporation to extend the term of employment of Officer in accordance with Section 2.2 hereof, other than as a result of circumstances which would warrant a Termination of Cause hereunder, shall be deemed a Termination Other Than For Cause.

(c) "**VOLUNTARY TERMINATION**" shall mean termination by Officer of Officer's employment by Corporation other than (i) Constructive Termination as described in subsection 2.1(g), (ii)

"Termination Upon a Change in Control," (iii) termination by reason of Officer's death or disability as described in Sections 2.5 and 2.6 and (iv) termination by reason of retirement by Officer upon attainment of eligibility to retire in accordance with the Executive Retirement Plan as in effect upon the date of this Agreement.

(d) "TERMINATION UPON A CHANGE IN CONTROL" shall mean a termination by Officer of Officer's employment with Corporation within 24 months following a "Change in Control."

(e) "CHANGE IN CONTROL" shall mean (i) the time that Corporation first determines that any person and all other persons who constitute a group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 ("Exchange Act")) have acquired direct or indirect beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 20 percent or more of Corporation's outstanding securities, unless a majority of the "Continuing Directors" approves the acquisition not later than ten business days after Corporation makes that determination, or (ii) the first day on which a majority of the members of Corporation's Board of Directors are not "Continuing Directors."

(f) "CONTINUING DIRECTORS" shall mean, as of any date of determination, any member of the Board of Directors of Corporation who (i) was a member of that Board of Directors on January 1, 1993, (ii) has been a member of that Board of Directors for the two years immediately preceding such date of determination, or (iii) was nominated for election or elected to the Board of Directors with the affirmative vote of the greater of (x) a majority of Continuing Directors who were members of the Board at the time of such nomination or election or (y) at least four Continuing Directors.

(g) "CONSTRUCTIVE TERMINATION" shall mean (i) any material breach of this Agreement by Corporation; (ii) any actual or implied threat of discharge of Officer by Corporation under circumstances which would not constitute a Termination for Cause and which results in an involuntary resignation of employment by Officer; (iii) any substantial reduction in the authority or responsibility of Officer or other substantial reduction in the terms and conditions of Officer's employment under circumstances which would not justify a Termination for Cause and which are not the result of a material breach by Officer of this Agreement; (iv) any act(s) by Corporation which are designed or have the effect of rendering Officer's working conditions so intolerable or demeaning on a recurring basis that a reasonable person would resign such employment, (v) a material adverse alteration in Officer's reporting relationships, position, responsibilities, title or status; (vi) a reduction in Officer's compensation or a substantial reduction in benefits provided to Officer that are provided for or referenced hereunder; (vii) relocation of Officer to a location that is more than 35 miles from the location of the Corporation's headquarters on the date this Agreement is executed.

(h) "DEFERRED COMPENSATION" or "deferred compensation" shall mean any individual or group plan, program, agreement or other arrangement, whether or not a "plan" for purposes of the Employee Retirement Income Security Act of 1974 ("ERISA") and whether or not a retirement plan or supplemental executive retirement plan or additional retirement plan as contemplated by Section 3.11 of the Agreement, but which in any event involves an agreement by the Corporation to make payment(s) to Officer at a future date as compensation for current services to the Corporation. The term Deferred Compensation or deferred compensation shall include, but not be limited to, benefits described in the Healthcare Realty Trust Incorporated Executive Retirement Plan, the 1993 Employees Stock Incentive Plan and the First Performance Based Restricted Stock Implementation under the 1993 Employees Stock Incentive Plan, or any additional implementation thereof, each as it now exists or may hereafter be amended.

2.2 BASIC TERM. The term of employment of Officer by Corporation shall be from January 1, 1999 through December 31, 2004, unless terminated earlier pursuant to this Section 2. Commencing in 2000, on the first day of January of each year, the first sentence of this Section 2.2 shall be amended by deleting the year then appearing therein and inserting in its place the next subsequent year.

2.3 TERMINATION FOR CAUSE. Termination For Cause may be effected by Corporation at any time during the term of this Agreement and shall be effected by written notification to Officer. Upon Termination For Cause, Officer immediately shall be paid all accrued salary, bonus compensation to the extent earned, vested

deferred compensation (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but Officer shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.4 TERMINATION OTHER THAN FOR CAUSE. Notwithstanding anything else in this Agreement, Corporation may effect a Termination Other Than For Cause at any time upon giving written notice to Officer of such termination. Upon any Termination Other Than For Cause, Officer shall immediately be paid all accrued salary, bonus compensation to the extent earned, whether or not vested without regard to such Termination (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, and all severance compensation provided in Section 4.2, but no other compensation or reimbursement of any kind.

2.5 TERMINATION BY REASON OF DISABILITY. If, during the term of this Agreement, Officer, in the reasonable judgment of the Board of Directors of Corporation, has failed to perform his duties under this Agreement on account of illness or physical or mental incapacity, and such illness or incapacity continues for a period of more than 12 consecutive months, Corporation shall have the right to terminate Officer's employment hereunder by written notification to Officer and payment to Officer of all accrued salary, bonus compensation to the extent earned, deferred compensation, whether or not vested without regard to such illness or incapacity (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, with the exception of medical and dental benefits which shall continue through the expiration of this Agreement, but Officer shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation. Notwithstanding the foregoing, any Officer who incurs a Disability within the contemplation of the Executive Retirement Plan shall accrue such additional post-disability, post-termination benefits as may be determined in accordance with such Plan.

2.6 DEATH. In the event of Officer's death during the term of this Agreement, Officer's employment shall be deemed to have terminated as of the last day of the month during which his death occurs and Corporation shall pay to his estate or such beneficiaries as Officer may from time to time designate all accrued salary, bonus compensation to the extent earned, whether or not vested without regard to such Termination (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but Officer's estate shall not be paid any other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.7 VOLUNTARY TERMINATION. In the event of a Voluntary Termination, Corporation shall immediately pay all accrued salary, bonus compensation to the extent earned, vested deferred compensation (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, but no other compensation or reimbursement of any kind, including without limitation, severance compensation.

2.8 TERMINATION UPON A CHANGE IN CONTROL OR RETIREMENT. In the event of (i) a Termination Upon a Change in Control or (ii) retirement by Officer upon attainment of eligibility to retire in accordance with the Executive Retirement Plan as in effect upon the date of this Agreement, Officer shall immediately be paid all accrued salary, bonus compensation to the extent earned through the date of termination, including compensation that was earned and deferred, whether or not vested without regard to the Change in Control (other than pension plan or profit sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans (including accelerated release and full vesting of shares reserved for Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof), accrued vacation pay and any appropriate business expenses incurred by Officer in connection with his duties hereunder, all to the date of termination, and all severance compensation provided in Section 4.1, but no other compensation or reimbursement of any kind.

2.9 NOTICE OF TERMINATION. Corporation may effect a termination of this Agreement pursuant to the provisions of this Section 2 upon giving 30 days written notice to Officer of such termination. Officer may effect a termination of this Agreement pursuant to the provisions of this Section 2 upon giving 60 days written notice to Corporation of such termination.

2.10 DETERMINATION OF BENEFIT UPON EARLY PAYMENT. In the event a Participant's deferred compensation benefit becomes vested in accordance with Sections 2.4, 2.5, 2.6 or 2.8, Officer shall have the following rights and Corporation shall take appropriate action to amend or modify its compensation arrangements in order to cause :

(a) any deferred compensation under the Corporation's 1993 Employees Stock Incentive Plan shall be effected by an immediate full vesting of any awards granted to Officer under the Corporation's 1993 Employee Stock Incentive Plan, and any implementation thereof; and an immediate release and full vesting of awards that have been reserved by the Corporation for Officer under the Corporation's 1993 Employee Stock Incentive Plan, and any implementation thereof, or otherwise, such release and vesting to be made within a reasonable time after the relevant event;

(b) any deferred compensation payable under a nonqualified defined contribution plan shall be made available for payment within an administratively practicable time after the relevant event, in an amount equal to the then-current book account balance; and

(c) any deferred compensation payable under a nonqualified defined benefit plan shall be made available for payment within an administratively practicable time after the relevant event in an amount equal to the greater of (i) the benefit, if any, otherwise determined in accordance with the relevant plan, or (ii) the present value of the then-accrued benefit, determined by reducing the accrued benefit from age 65 to the date as of which payment is made, using the actuarial assumptions which have been used for financial accounting purposes under generally accepted accounting principles.

3. SALARY, BENEFITS AND BONUS COMPENSATION.

3.1 BASE SALARY. As payment for the services to be rendered by Officer as provided in Section 1 and subject to the terms and conditions of Section 2, Corporation agrees to pay to Officer a "Base Salary" for the 12 calendar months beginning January 1, 1999 at the rate of \$275,000 per annum payable in 24 equal semi-monthly installments. The Base Salary for each year (or portion thereof) beginning January 1, 2000 shall be determined by the Compensation Committee of the Board of Directors (the "Compensation Committee") which shall authorize an increase in Officer's Base Salary in an amount which, at a minimum, shall be equal to the cumulative cost-of-living increment on the Base Salary as reported in the "Consumer Price Index, Nashville, Tennessee, All Items," published by the U.S. Department of Labor. Officer's Base Salary shall be reviewed annually by the Compensation Committee.

3.2 BONUSES. Officer shall be eligible to receive a bonus for each year (or portion thereof) during the term of this Agreement and any extensions thereof, with the actual amount of any such bonus to be determined by the Compensation Committee in accordance with the Corporation's Executive Variable Incentive Plan. All such bonuses shall be payable within 45 days after the end of the year to which such bonus relates. All such bonuses shall be reviewed annually by the Compensation Committee.

3.3 ADDITIONAL BENEFITS. During the term of this Agreement, Officer shall be entitled to the following fringe benefits:

(a) OFFICER BENEFITS. Officer shall be eligible to participate in such of Corporation's benefits and deferred compensation plans as are now generally available or later made generally available to executive officers of the Corporation, including, without limitation, Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, profit sharing plans, annual physical examinations, dental and medical plans, personal catastrophe and disability insurance, financial planning, retirement plans and supplementary executive retirement plans, if any. For purposes of establishing the length of service under any benefit plans or programs of Corporation, Officer's employment with the Corporation will be deemed to have commenced on January 1, 1993.

(b) VACATION. Officer shall be entitled to six weeks of vacation during each year during the term of this Agreement and any extensions thereof, prorated for partial years.

(c) LIFE INSURANCE. For the term of this Agreement and any extensions thereof, Corporation shall at its expense procure and keep in effect term life insurance on the life of Officer, payable to such beneficiaries as Officer may from time to time designate, in the aggregate amount of \$1,500,000.00. Such policy shall be owned by Officer or by a member of his immediate family.

(d) REIMBURSEMENT FOR EXPENSES. During the term of this Agreement, Corporation shall reimburse Officer for reasonable and properly documented out-of-pocket business and/or entertainment expenses incurred by Officer in connection with his duties under this Agreement.

4. SEVERANCE COMPENSATION.

4.1 SEVERANCE COMPENSATION IN THE EVENT OF A TERMINATION UPON A CHANGE IN CONTROL. In the event Officer's employment is terminated in a Termination Upon a Change in Control, Officer shall be paid as severance compensation his Base Salary (at the rate payable at the time of such termination), through the remaining term of this Agreement and any extensions thereof, on the dates specified in Section 3.1; provided, however, that if Officer is employed by a new employer during such period, the severance compensation payable to Officer during such period will be reduced by the amount of compensation that Officer is receiving from the new employer. However, Officer is under no obligation to mitigate the amount owed Officer pursuant to this Section 4.1 by seeking other employment or otherwise. Notwithstanding anything in this Section 4.1 to the contrary, Officer may in Officer's sole discretion, by delivery of a notice to Corporation within 30 days following a Termination Upon a Change in Control, elect to receive from Corporation a lump sum severance payment by bank cashier's check equal to the present value of the flow of cash payments that would otherwise be paid to Officer pursuant to this Section 4.1. However, in no event shall payment pursuant to this Section 4.1 be less than three times Base Salary as defined herein for the applicable period. Such present value shall be determined as of the date of delivery of the notice of election by Officer and shall be based on a discount rate equal to the interest rate on 90-day U.S. Treasury bills, as reported in the Wall Street Journal (or similar publication), on the date of delivery of the election notice. If Officer elects to receive a lump sum severance payment, Corporation shall make such payment to Officer within 10 days following the date on which Officer notifies Corporation of Officer's election. In addition to the severance payment payable under this Section 4.1, Officer shall be paid an amount equal to: (i) three times the average annual bonus earned by Officer in the two years immediately preceding the date of termination, and (ii) the average annual incentive amount actually earned by Officer during the two years prior to the severance. Officer

shall also receive (i) full vesting of any awards granted to Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof; and (ii) an immediate release of awards that have been reserved by the Corporation for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, or otherwise, and full vesting of such awards. Officer shall continue to accrue retirement benefits and shall continue to enjoy any benefits under any plans of the Corporation in which Officer is a participant to the full extent of Officer's rights under such plans, including any perquisites provided under this Agreement, through the remaining term of this Agreement; provided, however, that the benefits under any such plans of the Corporation in which Officer is a participant, including any such perquisites, shall cease upon re-employment by a new employer.

4.2 SEVERANCE COMPENSATION IN THE EVENT OF A TERMINATION OTHER THAN FOR CAUSE. In the event Officer's employment is terminated in a Termination Other Than for Cause, Officer shall be paid as severance compensation his Base Salary (at the rate payable at the time of such termination), for a period of three years from the date of such termination, on the dates specified in Section 3.1; provided, however, that if Officer is employed by a new employer during such period, the severance compensation payable to Officer during such period will be reduced by the amount of compensation that Officer is receiving from the new employer. Notwithstanding anything in this Section 4.2 to the contrary, Officer may in Officer's sole discretion, by delivery of a notice to Corporation within 30 days following a Termination Other Than for Cause, elect to receive from Corporation a lump sum severance payment by bank cashier's check equal to the present value of the flow of cash payments that would otherwise be paid to Officer pursuant to this Section 4.2. However, in no event shall payment pursuant to this Section 4.2 be less than three times Base Salary as defined herein for the applicable period. Such present value shall be determined as of the date of delivery of the notice of election by Officer and shall be based on a discount rate equal to the interest rate on 90-day U.S. Treasury bills, as reported in the Wall Street Journal (or similar publication), on the date of delivery of the election notice. If Officer elects to receive a lump sum severance payment, Corporation shall make such payment to Officer within ten days following the date on which Officer notifies Corporation of Officer's election. In addition to the severance payment payable under this Section 4.2, Officer shall be paid an amount equal to two times the average annual bonus earned by Officer in the two years immediately preceding the date of termination and Officer shall also receive (i) full vesting of any awards granted to Officer under Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof; and (ii) an immediate release of awards that have been reserved for Officer under the Corporation's 1993 Employees Stock Incentive Plan, and any implementation thereof, or otherwise, and full vesting of such awards. Officer shall be entitled to accelerated vesting of any Accrued Benefit under each Deferred Compensation plan. Notwithstanding the foregoing, continued benefit accrual shall not apply in the case of any tax-qualified retirement plan if such accrual would adversely affect the tax-qualified status of such plan; provided, however, that the benefit which would otherwise have been contributed by the Corporation to the account of the Officer in any tax-qualified defined contribution and the single sum value of the benefit plan shall be paid by the Corporation to the Officer as each such contribution or benefit would have been made or accrued, as applicable, assuming that the Officer had remained employed on a full-time basis with a rate of pay equal to his Base Salary. In the case of a Termination Other Than for Cause by reason of the disability of the Participant, and if the Participant is retired for Disability under the Executive Retirement Plan, then the Officer will continue to accrue benefits as provided in the Executive Retirement Plan at the time he incurs his Disability, notwithstanding any subsequent nonsubstantial employment.

4.3 NO SEVERANCE COMPENSATION UPON OTHER TERMINATION. In the event of a Voluntary Termination, Termination For Cause, termination by reason of Officer's disability pursuant to Section 2.5, or termination by reason of Officer's death pursuant to Section 2.6, Officer or his estate shall not be paid any severance compensation and shall receive only the benefits as provided in the appropriate section of Article II applicable to the respective termination.

4.4 ADDITIONAL PAYMENTS DUE TO CHANGE IN CONTROL.

(a) Gross Up Payment. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by or on behalf of the Corporation to or for the benefit of Employee as a result of a "change in control," as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), involving the Corporation or its affiliates (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional

payments required under this Section 4.4 (a "Payment")) would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by Officer with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Officer shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Officer of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Officer retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Tax Opinion. Subject to the provisions of Section 4.4(c), all determinations required to be made under this Section 4.4, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm or law firm selected by the Corporation (the "Tax Firm"); provided, however, that the Tax Firm shall not determine that no Excise Tax is payable by Officer unless it delivers to Officer a written opinion (the "Tax Opinion") that failure to pay the Excise Tax and to report the Excise Tax and the payments potentially subject thereto on or with Officer's applicable federal income tax return will not result in the imposition of an accuracy-related or other penalty on Officer. All fees and expenses of the Tax Firm shall be borne solely by the Corporation. Within 15 business days of the receipt of notice from Officer that there has been a Payment, or such earlier time as is requested by the Corporation, the Tax Firm shall make all determinations required under this Section 4.4, shall provide to the Corporation and Officer a written report setting forth such determinations, together with detailed supporting calculations, and, if the Tax Firm determines that no Excise Tax is payable, shall deliver the Tax Opinion to Officer. Any Gross-Up Payment, as determined pursuant to this Section 4.4, shall be paid by the Corporation to Officer within fifteen days of the receipt of the Tax Firm's determination. Subject to the remainder of this Section 4.4, any determination by the Tax Firm shall be binding upon the Corporation and Officer; provided, however, that Officer shall only be bound to the extent that the determinations of the Tax Firm hereunder, including the determinations made in the Tax Opinion, are reasonable and reasonably supported by applicable law. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Tax Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Corporation should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that it is ultimately determined in accordance with the procedures set forth in Section 4.4(c) that Officer is required to make a payment of any Excise Tax, the Tax Firm shall reasonably determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Corporation to or for the benefit of Officer. In determining the reasonableness of Tax Firm's determinations hereunder, and the effect thereof, Officer shall be provided a reasonable opportunity to review such determinations with Tax Firm and Officer's tax counsel. Tax Firm's determinations hereunder, and the Tax Opinion, shall not be deemed reasonable until Officer's reasonable objections and comments thereto have been satisfactorily accommodated by Tax Firm.

(c) Notice of IRS Claim. Officer shall notify the Corporation in writing of any claims by the Internal Revenue Service that, if successful, would require the payment by the Corporation of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than 30 calendar days after Officer actually receives notice in writing of such claim and shall apprise the Corporation of the nature of such claim and the date on which such claim is requested to be paid; provided, however, that the failure of Officer to notify the Corporation of such claim (or to provide any required information with respect thereto) shall not affect any rights granted to Officer under this Section 4.4 except to the extent that the Corporation is materially prejudiced in the defense of such claim as a direct result of such failure. Officer shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Corporation (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Corporation notifies Officer in writing prior to the expiration of such period that it desires to contest such claim, Officer shall do all of the following:

I. give the Corporation any information reasonably requested by the Corporation relating to such claim;

II. take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation and reasonably acceptable to Officer;

III. cooperate with the Corporation in good faith in order effectively to contest such claim;

IV. if the Corporation elects not to assume and control the defense of such claim, permit the Corporation to participate in any proceedings relating to such claim;

provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Officer harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this

Section 4.4, the Corporation shall have the right, at its sole option, to assume the defense of and control all proceedings in connection with such contest, in which case it may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may either direct Officer to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Officer agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Officer to pay such claim and sue for a refund, the Corporation shall advance the amount of such payment to Officer, on an interest-free basis and shall indemnify and hold Officer harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Officer with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Corporation's right to assume the defense of and control the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Officer shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Right to Tax Refund. If, after the receipt by Officer of an amount advanced by the Corporation pursuant to Section 4.4, Officer becomes entitled to receive any refund with respect to such claim, Officer shall (subject to the Corporation's complying with the requirements of Section 4.4(c)) promptly pay to the Corporation the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Officer of an amount advanced by the Corporation pursuant to Section 4.4(c), a determination is made that Officer is not entitled to a refund with respect to such claim and the Corporation does not notify Officer in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall, to the extent of such denial, be forgiven and shall not be required to be repaid and the amount of forgiven advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

5. NON-COMPETITION; DISCLOSURE OF INVESTMENTS. During the term of this Agreement, including the period, if any, during which Officer shall be entitled to severance compensation pursuant to Section 4.2, Officer shall not engage in any activity competitive with the Corporation. Simultaneously with Officer's execution of this Agreement and upon each anniversary of the Effective Date, Officer shall notify the Chairman of the Compensation Committee of the nature and extent of Officer's investments, stock holdings, employment as an employee, director, or any similar interest in any business or enterprise other than Corporation; provided, however, that Officer shall have no obligation to disclose any investment under \$100,000 in value or any holdings of publicly traded securities which are not in excess of one percent of the outstanding class of such securities. Notwithstanding any provision herein to the contrary, the restrictions and covenants of this Section 5 shall not apply in the event of a Termination Upon a Change in Control.

6. MISCELLANEOUS.

6.1 Payment Obligations. Corporation's obligation to pay Officer the compensation and to make the arrangements provided herein shall be unconditional, and Officer shall have no obligation whatsoever to mitigate damages hereunder. If litigation after a Change in Control shall be brought to enforce or interpret any provision contained herein, Corporation, to the extent permitted by applicable law and the Corporation's Articles of Incorporation and Bylaws, hereby indemnifies Officer for Officer's reasonable attorneys' fees and disbursements incurred in such litigation.

6.2 CONFIDENTIALITY. Officer agrees that all confidential and proprietary information relating to the business of Corporation shall be kept and treated as confidential both during and after the term of this Agreement, except as may be permitted in writing by Corporation's Board of Directors or as such information is within the public domain or comes within the public domain without any breach of this Agreement.

6.3 WAIVER. The waiver of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of the same or other provision hereof.

6.4 ENTIRE AGREEMENT; MODIFICATIONS. Except as otherwise provided herein, this Agreement represents the entire understanding among the parties with respect to the subject matter hereof, and this Agreement supersedes any and all prior understandings, agreements, plans and negotiations, whether written or oral, with respect to the subject matter hereof, including without limitation, any understandings, agreements or obligations respecting any past or future compensation, bonuses, reimbursements or other payments to Officer from Corporation. All modifications to the Agreement must be in writing and signed by the party against whom enforcement of such modification is sought.

6.5 NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by telegraph or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three days after mailing or 12 hours after transmission of a telegram to the respective persons named below:

If to Corporation:

Healthcare Realty Trust Incorporated
3310 West End Avenue
Nashville, Tennessee 37203

Phone: (615) 269-8175
Fax: (615) 269-8122

If to Officer:

Mr. Timothy G. Wallace
424 Maplewood Drive
Franklin, Tennessee 37064

Any party may change such party's address for notices by notice duly give pursuant to this Section 6.5.

6.6 HEADINGS. The Section headings herein are intended for reference and shall not by themselves determine the construction or interpretation of this Agreement.

6.7 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

6.8 ARBITRATION. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Nashville, Tennessee in accordance with the Rules of the American Arbitration Association, and judgment upon any proper award rendered by the Arbitrators may be entered in any court having jurisdiction thereof. There shall be three arbitrators, one to be chosen directly by each party at will, and the third arbitrator to be selected by the two arbitrators so chosen. To the extent permitted by the Rules of the American Arbitration Association, the selected arbitrators may grant equitable relief. Each party shall pay the fees of the arbitrator selected by him and of his own attorneys, and the expenses of his witnesses and all other expenses connected with the presentation of his case. The cost of the arbitration including the cost of the record or transcripts thereof, if any, administrative fees, and all other fees and costs shall be borne equally by the parties. To the extent that Officer prevails with respect to any portion of an arbitration award, Officer shall be reimbursed by the

Corporation for the costs and expenses incurred by Officer in connection with the arbitration in an amount proportionate to the award to Officer as compared to the amount in dispute.

6.9 SEVERABILITY. Should a court or other body of competent jurisdiction determine that any provision of this Agreement is excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, and all other provisions of this Agreement shall be deemed valid and enforceable to the extent possible.

6.10 SURVIVAL OF CORPORATION'S OBLIGATIONS. Corporation's obligations hereunder shall not be terminated by reason of any liquidation, dissolution, bankruptcy, cessation of business, or similar event relating to the Corporation. This Agreement shall not be terminated by any merger or consolidation or other reorganization of the Corporation. In the event any such merger, consolidation or reorganization shall be accomplished by transfer of stock or by transfer of assets or otherwise, the provisions of this Agreement shall be binding upon and inure to the benefit of the surviving or resulting corporation or person. This Agreement shall be binding upon and inure to the benefit of the executors, administrators, heirs, successors and assigns of the parties; provided, however, that except as herein expressly provided, this Agreement shall not be assignable either by the Corporation (except to an affiliate of the Corporation in which event Corporation shall remain liable if the affiliate fails to meet any obligations to make payments or provide benefits or otherwise) or by Officer.

6.11 COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

6.12 WITHHOLDINGS. All compensation and benefits to Officer hereunder shall be reduced only by all federal, state, local and other withholdings and similar taxes and payments that are required by applicable law. Except as otherwise specifically agreed by Officer, no other offsets or withholdings shall apply to reduce the payment of compensation and benefits hereunder.

6.13 INDEMNIFICATION. In addition to any rights to indemnification to which Officer is entitled to under the Corporation's Articles of Incorporation and Bylaws, Corporation shall indemnify Officer at all times during and after the term of this Agreement to the maximum extent permitted under Section 2-418 of the General Corporation Law of the State of Maryland or any successor provision thereof and any other applicable state law, and shall pay Officer's expenses in defending any civil or criminal action, suit, or proceeding in advance of the final disposition of such action, suit, or proceeding, to the maximum extent permitted under such applicable state laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the day and year first above written.

CORPORATION:

HEALTHCARE REALTY TRUST INCORPORATED

By: _____ /S/
Name: David R. Emery
Title: President and Chairman
Date: November 1, 1999

OFFICER:

By: _____ /S/
Timothy G. Wallace
Date: November 1, 1999

EXHIBIT 10.15

**AMENDMENT NO. 2
TERM LOAN CREDIT AGREEMENT**

THIS AMENDMENT NO. 2 dated as of January 14, 2000 (the "Amendment") to the Term Loan Credit Agreement referenced below, is by and among HEALTHCARE REALTY TRUST INCORPORATED, a Maryland corporation, and CAPSTONE CAPITAL CORPORATION, a Maryland corporation, as Borrowers, the banks identified therein and BANK OF AMERICA, N.A. (formerly known as NationsBank, N.A.), as Administrative Agent. Terms used but not otherwise defined shall have the meaning provided in the Term Loan Credit Agreement.

WITNESSETH

WHEREAS, a \$200 million term loan facility, consisting of a \$187.4 million Tranche A Term Loan to Healthcare Realty Trust Incorporated ("HRT") and a \$12.6 million Tranche B Term Loan to Capstone Capital Corporation ("CCT", and together with HRT, the "Borrowers"), was established pursuant to the terms of that Credit Agreement dated as of October 15, 1998 (as amended and modified, the "Term Loan Credit Agreement") among HRT and CCT, as Borrowers, the banks identified therein, and NationsBank, N.A., (now known as Bank of America, N.A.), as Administrative Agent;

WHEREAS, approximately \$113,700,000 remains outstanding on the Tranche A Term Loan and the Tranche B Term Loan has been paid;

WHEREAS, HRT has requested extension of the Tranche A Term Loan and certain other modifications to the Term Loan Credit Agreement;

WHEREAS, the Banks have agreed to the requested extension and modifications on the terms and conditions set forth herein;

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The Term Loan Credit Agreement is amended and modified in the following respects:

1.1 The Tranche A Maturity Date is extended to April 14, 2000.

1.2 The definition of "Applicable Percentage" in Section 1.1 of the Term Loan Credit Agreement is amended to read as follows:

"Applicable Percentage" means, for any day, a per annum rate equal to (a) in the case of Eurodollar Loans, 2.00% and (b) in the case of Base Rate Loans, 1.00%.

2. The parties hereto agree that if on March 14, 2000 Bank of America, N.A. holds more than \$25 million of the aggregate principal amount of the Tranche A Term Loan, then (a) the Applicable Percentage for Eurodollar Loans shall be increased to 2.50% and (b) the Applicable Percentage for Base Rate Loans shall be increased to 1.50%, in each case, on and from such date.

3. This Amendment shall be effective upon execution hereof by the Banks and the Borrowers.

4. HRT covenants and agrees that, within five (5) days following the date of this Amendment, it will pay to the Agent, for the ratable benefit of the Banks holding the Tranche A Term Loan, an extension fee of 25 basis points (0.25%) on the outstanding principal balance of the Tranche A Term Loan as of the date of this Amendment.

5. HRT will deliver to the Agent on or before January 31, 2000 certified copies of resolutions and other documentation evidencing approval of the transactions contemplated in this Amendment and a legal opinion of counsel for the Borrowers, in form reasonably satisfactory to the Agent and the Banks, and including, among other things, enforceability of this Amendment.

6. Except as modified hereby, all of the terms and provisions of the Term Loan Credit Agreement (including schedules and exhibits) shall remain in full force and effect.

7. The Borrowers agree to pay all reasonable costs and expenses of the Agent in connection with the preparation, execution and delivery of this Amendment, including the reasonable fees and expenses of Moore & Van Allen, PLLC.

8. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

9. This Amendment shall be governed by and construed in accordance with the laws of the State of North Carolina.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, each of the undersigned parties has caused this Amendment to be executed as of the day and year first above written.

BORROWERS: HEALTHCARE REALTY TRUST INCORPORATED,

a Maryland corporation

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

AGENT: BANK OF AMERICA, N.A. (formerly known as NationsBank, N.A.), as Agent under the Term Loan Credit Agreement

By: _____ /S/
Name: Ashley M. Crabtree
Title: Managing Director

BANKS: BANK OF AMERICA, N.A. (formerly known as NationsBank, N.A.)

By: _____ /S/
Name: Ashley M. Crabtree
Title: Managing Director
Title:

ACKNOWLEDGED & AGREED:

GUARANTORS: DURHAM MEDICAL OFFICE BUILDING, INC.,
a Texas corporation
HEALTHCARE REALTY SERVICES INCORPORATED,
an Alabama corporation
HR ASSETS, INC., a Texas corporation
FIR CAPITAL, INC., a Texas corporation
HR FUNDING, INC., a Texas corporation
HR INTERESTS, INC., a Texas corporation
HR OF TEXAS, INC., a Maryland corporation
HRT OF ALABAMA, INC., an Alabama corporation
HRT OF DELAWARE, INC., a Delaware corporation
HRT OF FLORIDA, INC., a Florida corporation
HRT OF ROANOKE, INC. a Virginia corporation
HRT OF TENNESSEE, INC., a Tennessee corporation
HRT OF VIRGINIA, INC., a Virginia corporation
PENNSYLVANIA HRT, INC., a Pennsylvania corporation
HR of SAN ANTONIO, INC., a Texas corporation

By: /S/

Name: Roger O. West
Title: Executive Vice President
for each of the foregoing subsidiaries

PASADENA MEDICAL PLAZA SSJ, LTD.,

a Florida limited partnership By: Healthcare Realty Trust Incorporated, a Maryland corporation

By: /S/

Name: Roger O. West
Title: Executive Vice President

SAN ANTONIO SSP, LTD., a Texas limited partnership By: HR of San Antonio, Inc., a Texas corporation, as General Partner

By: /S/

Name: Roger O. West
Title: Executive Vice President

HR ACQUISITION I CORPORATION,

f/k/a Capstone Capital Corporation, a Maryland corporation
CAPSTONE CAPITAL OF ALABAMA, INC.,

an Alabama corporation

CAPSTONE-CAPITAL OF BAYTOWN, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF BONITA BAY, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF CALIFORNIA, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF CAPE CORAL, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF KENTUCKY, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF LAS VEGAS, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF LOS ANGELES, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF MASSACHUSETTS, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF OCOEE, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF PENNSYLVANIA, INC.,
a Pennsylvania corporation
CAPSTONE CAPITAL OF PORT ORANGE, INC.,
an Alabama corporation
CAPSTONE CAPITAL PROPERTIES, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF SARASOTA, INC.,
an Alabama corporation
CAPSTONE CAPITAL SENIOR HOUSING, INC.,
an Alabama corporation
CAPSTONE CAPITAL OF TEXAS, INC
an Alabama corporation
CAPSTONE CAPITAL OF VIRGINIA, INC.,
an Alabama corporation

By: _____ /S/

Name: Roger O. West

Title: Executive Vice President

for each of the foregoing subsidiaries of HR Acquisition I
Corporation;

CAPSTONE OF BONITA BAY, LTD., an Alabama
limited partnership
By: CAPSTONE CAPITAL OF BONITA BAY, INC., an Alabama
corporation, as General Partner

By: _____ /S/

Name: Roger O. West

Title: Executive Vice President

CAPSTONE OF CAPE CORAL, LTD., an Alabama limited partnership
By: CAPSTONE CAPITAL OF CAPE CORAL, INC..
an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAPSTONE OF LAS VEGAS, LTD., an Alabama limited partnership
BY: CAPSTONE CAPITAL OF LAS VEGAS, INC.,
an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAPSTONE OF LOS ANGELES, LTD., an Alabama
limited partnership
By: CAPSTONE CAPITAL OF LOS ANGELES, INC., an Alabama
Corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAPSTONE OF OCOEE, LTD., an Alabama limited partnership By: CAPSTONE CAPITAL OF OCOEE, INC., an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAPSTONE OF PORT ORANGE, LTD., an Alabama
limited partnership
By: CAPSTONE CAPITAL OF PORT ORANGE, INC.,
an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAPSTONE CAPITAL OF SAN ANTONIO, LTD.,
an Alabama limited partnership

By: CAPSTONE CAPITAL OF TEXAS, INC., an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAPSTONE OF SARASOTA, LTD., an Alabama limited partnership
By: CAPSTONE CAPITAL OF SARASOTA, INC.,
an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAPSTONE OF VIRGINIA LIMITED PARTNERSHIP, an
Alabama limited partnership
BY CAPSTONE CAPITAL OF VIRGINIA, INC., an Alabama
corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAP-BAY IV, LTD., an Alabama limited partnership **BY: CAPSTONE CAPITAL SENIOR HOUSING, INC.,** an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAP-BAY V, LTD., an Alabama limited partnership **By: CAPSTONE CAPITAL SENIOR HOUSING, INC.,** an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAP-BAY VII, LTD., an Alabama limited partnership
By: CAPSTONE CAPITAL SENIOR HOUSING, INC.,
an Alabama corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

CAP-BAY VIII, LTD., an Alabama limited partnership
By: CAPSTONE CAPITAL SENIOR HOUSING, INC.,
an Alabama Corporation, as General Partner

By: _____ /S/
Name: Roger O. West
Title: Executive Vice President

EXHIBIT 13

Annual Report to Shareholders

EXHIBIT 13

Selected Financial INFORMATION

The following table sets forth financial information for the Company which is derived from the Consolidated Financial Statements of the Company (Dollars in thousands, except per share data):

	Years Ended December 31,				
	1999	1998 (2)	1997	1996	1995
STATEMENT OF INCOME DATA:					
Total revenues	\$ 187,257	\$ 92,429	\$ 59,796	\$ 38,574	\$ 33,361
Interest expense	\$ 38,603	\$ 13,057	\$ 7,969	\$ 7,344	\$ 5,083
Net income	\$ 86,027	\$ 40,479	\$ 31,212	\$ 19,732	\$ 18,258
Net income per share - Basic	\$ 2.02	\$ 1.66	\$ 1.71	\$ 1.52	\$ 1.41
Net income per share - Diluted	\$ 1.99	\$ 1.63	\$ 1.68	\$ 1.49	\$ 1.41
Weighted average shares outstanding - Basic	39,326,594	24,043,942	18,222,243	13,014,286	12,931,082
Weighted average shares outstanding - Diluted	39,810,306	24,524,600	18,572,492	13,261,291	12,970,326
BALANCE SHEET DATA (AS OF THE END OF THE PERIOD):					
Real estate properties, net	\$ 1,315,150	\$ 1,337,439	\$ 466,273	\$ 416,034	\$ 318,480
Total assets	\$ 1,607,964	\$ 1,612,423	\$ 488,514	\$ 427,505	\$ 336,778
Notes and bonds payable	\$ 563,884	\$ 559,924	\$ 101,300	\$ 168,618	\$ 92,970
Total stockholders' equity	\$ 1,017,903	\$ 1,017,704	\$ 376,472	\$ 245,964	\$ 234,448
OTHER DATA:					
Funds from operations - Basic (1)	\$ 105,727	\$ 59,667	\$ 42,337	\$ 28,036	\$ 25,490
Funds from operations - Diluted (1)	\$ 105,727	\$ 59,731	\$ 42,337	\$ 28,036	\$ 25,490
Funds from operations per share - Basic (1)	\$ 2.69	\$ 2.48	\$ 2.32	\$ 2.15	\$ 1.97
Funds from operations per share - Diluted (1)	\$ 2.66	\$ 2.44	\$ 2.28	\$ 2.11	\$ 1.97
Dividends declared and paid per share	\$ 2.15	\$ 2.07	\$ 1.99	\$ 1.91	\$ 1.83

(1) See Note 11 to Consolidated Financial Statements.

(2) See Note 2 to Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition AND RESULTS OF OPERATIONS

OVERVIEW

The Company operates under the Internal Revenue Code of 1986, as amended (the "Code"), as an indefinite life real estate investment trust ("REIT"). The Company, a self-managed and self-administered REIT, follows a general growth strategy that integrates owning, managing, and developing income-producing real estate properties and mortgages associated with the delivery of healthcare services throughout the United States. Management believes that by providing related real estate services, it can differentiate the Company's competitive market position, expand its asset base and increase revenue.

Substantially all of the Company's revenues are derived from rentals on its healthcare real estate property facilities, interest earned on mortgage loans and from the temporary investment of funds in short-term instruments and from management and development services. Leases and other financial support arrangements with respect to the Company's healthcare real estate facilities generally ensure that increased costs and expenses incurred with respect to the operation of the facilities will be borne by tenants and healthcare providers related to the facilities. The Company incurs operating and administrative expenses, principally compensation expense for its officers and other employees, office rental and related occupancy costs and various expenses incurred in the process of acquiring additional properties.

RESULTS OF OPERATIONS

1999 Compared to 1998

On October 15, 1998, the Company acquired by merger Capstone Capital Corporation ("Capstone"). The purchase price is summarized as follows (in thousands):

Common stock	\$ 532,554
Preferred stock	72,052
Cash and cash equivalents	8,330
Liabilities assumed	424,897

Total Purchase Price	\$ 1,037,833
	=====

The assets acquired in the Capstone merger are summarized as follows (in thousands):

Real estate properties	\$ 804,178
Mortgage notes receivable	211,590
Cash and cash equivalents	13,767
Other assets	8,298

Total Assets Acquired	\$ 1,037,833
	=====

The results of operations of the Company have been significantly affected by the Capstone merger. As a result of this transaction in 1998, the Company acquired 111 properties and 75 mortgages with a fair value of \$804.2 million and \$211.6 million, respectively. The merger was effective October 15, 1998; therefore, 1998 consolidated revenues and expenses of the Company reflect the effect of the Capstone assets acquired and liabilities assumed for only 2.5 months in 1998 versus the entire year for 1999. The Capstone investments, along with commitments acquired in the merger, resulted in additional master lease rent, straight line rent and property operating income, net of operating expenses, for the year ended December 31, 1999, of \$73.5 million, a \$59.0 million or 407.1% increase from 1998. Mortgage interest income in 1999 resulting from these Capstone investments was \$24.2 million, a \$20.4 million or 543.3% increase from 1998. Interest and other income attributed to the Capstone acquisition for the years ended 1999 and 1998 was \$1.4 million and \$0.4 million, respectively, a 286.2% increase. Depreciation and amortization expense for the year ended December 31, 1999 attributed to the Capstone acquisition was \$24.8 million compared to \$2.9 million in 1998, a \$21.9 million or 739.0% increase.

For the year ended December 31, 1999, net income was \$86.0 million, or \$2.02 per basic share of common stock (\$1.99 per diluted share), on total revenues of \$187.3 million compared to net income of \$40.5 million, or \$1.66 per basic share of common stock (\$1.63 per diluted share), on total revenues of \$92.4 million, for the year ended December 31, 1998. Funds from operations ("FFO") was \$105.7 million, or \$2.69 per basic share (\$2.66 per diluted share), for the year ended December 31, 1999 compared to \$59.7 million, or \$2.48 per basic share (\$2.44 per diluted share), in 1998.

(Dollars in thousands)	1999	1998
REVENUES		
Master lease rental income	\$ 92,070	\$ 47,512
Property operating income	57,778	35,269
Straight line rent	6,885	1,265
Total rental income	156,733	84,046
Mortgage interest income	26,254	5,120
Management fees	2,727	2,056
Interest and other income	1,543	1,207
	187,257	92,429
EXPENSES		
General and administrative	7,287	11,126
Property operating expenses	21,077	11,978
Interest	38,603	13,057
Depreciation	38,566	15,965
Amortization	473	499
	106,006	52,625
Net income before net gain on real estate disposals	81,251	39,804
Net gain on real estate disposals	4,776	675
Net income	\$ 86,027	\$ 40,479

Total revenues for the year ended December 31, 1999 compared to the year ended December 31, 1998, increased \$94.8 million or 102.6%.

Master lease rent, straight line rent and property operating income increased \$72.7 million or 86.5%. Excluding the effect of the Capstone merger, master lease rent, straight line rent and property operating income increased \$4.8 million or 7.0%. During 1999, the Company acquired two revenue-producing properties, and 11 properties under construction were completed and began operations.

Mortgage interest income increased \$21.1 million or 412.8% for the year ended December 31, 1999 compared to 1998 substantially due to the Capstone merger.

Interest and other income for the year ended December 31, 1999 was \$1.5 million compared to \$1.2 million for the year ended December 31, 1998. Excluding the effect of the Capstone merger, interest and other income decreased \$0.7 million from 1998 to 1999. In 1998, the Company recognized development fee income from a third party project of \$0.5 million, and the Company's average cash balance was higher in 1998 resulting in more interest income for the year.

Third party management fees for the year ended December 31, 1999 compared to 1998 increased \$0.7 million or 32.6% due primarily to the addition of over 50 buildings with approximately 0.9 million square feet under property management.

Total expenses for the year ended December 31, 1999 were \$106.0 million compared to \$52.6 million for 1998, an increase of \$53.4 million or 101.4%.

Interest expense for the year ended December 31, 1999, compared to 1998, increased \$25.5 million or 195.6%. In conjunction with the Capstone merger in 1998, the Company repaid the outstanding balances under both Capstone's and its own unsecured credit facilities and entered into a \$265.0 million unsecured credit facility and a \$200.0 million unsecured term loan. The average outstanding balances under its credit facilities and term loan for the year ended 1999 compared to 1998 was \$368.1 million and \$82.3 million, respectively, increasing interest expense in 1999 by approximately \$18.6 million. The subordinated convertible debentures and mortgage notes payable assumed by the Company in the Capstone merger resulted in an increase of \$8.6 million in interest expense for the year ended December 31, 1999, compared to 1998. These increases to interest expense discussed above were offset by decreases to interest expense due to an increase in capitalized interest of \$0.5 million from 1998 to 1999 and a decrease of \$1.3 million to interest expense on the Company's unsecured notes due to scheduled repayments.

Depreciation expense increased \$22.6 million due substantially to the properties acquired in the Capstone merger. Excluding the effect of the Capstone merger, depreciation expense increased \$0.8 million, resulting primarily from the acquisition of 11 properties during 1998 and 1999.

Property operating expenses for the year ended December 31, 1999, compared to 1998, increased \$9.1 million or 76.0% due mainly to the properties acquired in the Capstone merger.

General and administrative expenses decreased \$3.8 million or 34.5% for the year ended December 31, 1999, compared to 1998. During 1998, the Company recognized a \$6.3 million write-off for certain capitalized software costs, leasehold improvements, organization and other deferred costs which were deemed to have no continuing value.

and for incremental internal costs incurred in conjunction with the Capstone merger. After consideration of the write-off, the net \$2.5 million increase was primarily due to the increased number of employees for property management, development, and other service-based activities, an increase and expansion of the corporate office lease, and the write-off of certain project costs during 1999.

During 1999, the Company sold five facilities and one partnership interest in a facility resulting in net gains of \$4.8 million, while the Company's 1998 dispositions resulted in net gains of \$0.7 million.

1998 Compared to 1997

The results of operations of the Company were significantly affected by the Capstone merger. For the year ended December 31, 1998, net income increased approximately \$12.3 million due to the Capstone merger. As a result of this transaction, the Company acquired 111 properties and 75 mortgages with a fair value of \$804.2 million and \$211.6 million, respectively. These investments resulted in additional master lease rent, straight line rent, mortgage interest income and property operating income, net of operating expenses, for the year of \$18.2 million, as well as, additional interest and other income of \$0.4 million. The Company also assumed Capstone's 6.55% and 10.5% convertible subordinated debentures and notes payable, with interest rates ranging from 7.625% to 9.0%, with a collective fair value of \$138.0 million, which resulted in interest expense of \$1.4 million for the period October 15, 1998 through December 31, 1998.

For the year ended December 31, 1998, net income was \$40.5 million, or \$1.66 per basic share of common stock (\$1.63 per diluted share), on total revenues of \$92.4 million compared to net income of \$31.2 million, or \$1.71 per basic share of common stock (\$1.68 per diluted share), on total revenues of \$59.8 million, for the year ended December 31, 1997. Funds from operation was \$59.7 million, or \$2.48 per basic share (\$2.44 per diluted share), for the year ended December 31, 1998 compared to \$42.3 million, or \$2.32 per basic share (\$2.28 per diluted share), in 1997.

(Dollars in thousands)	1998	1997

REVENUES		
Master lease rental income	\$ 47,512	\$ 40,298
Property operating income	35,269	14,631
Straight line rent	1,265	0
	-----	-----
Total rental income	84,046	54,929
Mortgage interest income	5,120	84
Management fees	2,056	1,499
Interest and other income	1,207	3,284
	-----	-----
	92,429	59,796
	-----	-----
EXPENSES		
General and administrative	11,126	3,807
Property operating expenses	11,978	5,008
Interest	13,057	7,969
Depreciation	15,965	11,468
Amortization	499	332
	-----	-----
	52,625	28,584
	-----	-----
Net income before net gain on real estate disposals	39,804	31,212
Net gain on real estate disposals	675	0
	-----	-----
Net income	\$ 40,479	\$ 31,212
	=====	=====

Total revenues for the year ended December 31, 1998, compared to the year ended December 31, 1997, increased \$32.6 million or 54.6%. Excluding the effect of the Capstone merger, total revenues for the year ended December 31, 1998 compared to the year ended December 31, 1997 increased \$12.9 million. This increase is primarily due to increases in master lease rental income and property operating income. During 1998, the Company acquired nine properties, and two properties under construction were completed and began operations. Certain leases acquired from Capstone contain escalating rental rates over the life of the leases; however, rental income is recognized as earned on a straight line basis over the life of the lease.

Third party property management fees for the year ended December 31, 1998, compared to the year ended December 31, 1997, increased \$0.6 million or 37.2% due primarily to the addition of over 60 buildings with approximately 2.6 million square feet under property management.

Interest and other income for the year ended December 31, 1998 was \$1.2 million compared to \$3.3 million for the year ended December 31, 1997. Excluding the effect of the Capstone merger, interest and other income

decreased \$2.4 million from the year ending December 31, 1997 to the year ending December 31, 1998. During the first quarter of 1997, the Company completed a secondary offering and maintained a higher than normal average cash and short-term investment balance.

Total expenses for the year ended December 31, 1998 were \$52.6 million, compared to \$28.6 million for the year ended December 31, 1997, an increase of \$24.0 million or 84.1%. General and administrative expenses increased \$7.3 million. \$6.3 million of this increase represents the write-off of certain capitalized software costs, leasehold improvements, organization and other deferred costs which were deemed to have no continuing value and incremental internal costs incurred in conjunction with the Capstone merger. The remaining \$1.0 million increase is primarily due to the increased number of employees for property management, development, and other service-based activities.

Property operating expenses for the year ended December 31, 1998, compared to the year ended December 31, 1997, increased \$7.0 million. Property operating expenses rose during 1998 for the same reasons property operating income increased.

Interest expense for the year ended December 31, 1998, compared to the year ended December 31, 1997, increased \$5.1 million. At the time of the Capstone merger, the Company repaid the outstanding balances under both Capstone's and its own unsecured credit facilities and entered into a \$265.0 million unsecured credit facility and a \$200.0 million unsecured term loan. During the year ended December 31, 1997, the Company had an average outstanding balance under its unsecured credit facility of \$18.1 million, compared to an average outstanding balance under its unsecured credit facility and term loan during the year ended December 31, 1998 of \$82.3 million. In addition, Capstone's subordinated convertible debentures and notes payable were assumed by the Company in the merger, and capitalized interest increased \$0.7 million from 1997 to 1998.

Depreciation expense increased \$4.5 million due to the significant increase during 1998 in depreciable properties. Excluding the effect of the Capstone merger, depreciation expense increased \$1.6 million. This increase primarily resulted from the acquisition of nine properties during 1998 and the completion in 1998 of two properties under construction at December 31, 1997.

During 1998, the Company sold one facility and a tract of land resulting in net gains of \$0.7 million.

Liquidity and Capital Resources

On October 15, 1998, at the time of the Capstone merger, the Company repaid the outstanding balances under both Capstone's and its own unsecured credit facilities and entered into a \$265.0 million unsecured credit facility (the "Unsecured Credit Facility") with ten commercial banks. The Unsecured Credit Facility bears interest at LIBOR plus 1.05%, payable quarterly, and matures on October 15, 2001. In addition, the Company will pay, quarterly, a commitment fee of 0.225 of 1% on the unused portion of funds available for borrowings. At December 31, 1999, the Company had available borrowing capacity of \$13.0 million under the Unsecured Credit Facility.

At the time of the Capstone merger, the Company entered into a \$200.0 million unsecured term loan (the "Term Loan Facility") with NationsBank (now Bank of America). The Term Loan Facility, as amended, bears interest at LIBOR plus 2.00%, payable quarterly, and matures on April 14, 2000. Effective January 14, 2000, the Company amended its Term Loan Facility agreement with Bank of America. If the balance on the Term Loan Facility exceeds \$25.0 million on March 14, 2000, the interest rate will increase to LIBOR plus 2.50%. Since the Capstone merger, the Company has received proceeds from the sale of assets and from mortgage prepayments and reduced the unpaid balance of the Term Loan Facility from \$200.0 million to \$113.7 million.

In 1995, the Company privately placed \$90.0 million of unsecured notes (the "Unsecured Notes") bearing interest at 7.41%, payable semi-annually (\$3.6 million for 2000), that mature on September 1, 2002. The Company must repay \$18.0 million of principal annually. At December 31, 1999, \$54.0 million was outstanding under the Unsecured Notes.

The Company assumed in the Capstone merger 10.5% Convertible Subordinated Debentures and 6.55% Convertible Subordinated Debentures having an aggregate principal balance of \$78.2 million at December 31, 1999. In 2000, the Company will pay \$5.3 million of interest on these subordinated debentures.

In 1998, the Company sold an aggregate of 1.4 million shares of its common stock. The Company received an aggregate of \$37.1 million in net proceeds from these transactions. The proceeds were used to repay debt and were also used for acquisitions, developments and general corporate purposes.

As of March 1, 2000, the Company can issue an aggregate of approximately \$123.8 million of securities remaining under the currently effective registration statement. Due to the current market price of the Company's stock, the Company does not presently plan to offer stock under its registration statement. The Company may, under certain circumstances, borrow additional amounts in connection with the renovation or expansion of its properties, the acquisition or development of additional properties or, as necessary, to meet distribution requirements for REITs under the Code. The Company may raise additional capital or make investments by issuing, in public or private transactions, debt securities, but the availability and terms of any such issuance will depend upon market and other conditions.

The Company generated net cash from operations in 1999 of \$91.8 million, an increase of \$70.0 million from 1998 and \$51.4 million from 1997. The increase from 1998 results primarily from the increase in net income. The decrease in 1998 from 1997 resulted primarily from the payment of accounts payable and accrued liabilities assumed in the Capstone merger. Other significant sources and uses of cash for investing and financing activities are set forth in the Statement of Cash Flows in the Consolidated Financial Statements.

As of December 31, 1999, the Company had an investment of approximately \$20.0 million in six build-to-suit developments in progress, which have a total remaining funding commitment of approximately \$37.6 million. Further, the Company had commitments to purchase or provide funding for the construction of other properties totaling \$12.4 million at December 31, 1999. The Company also had six mortgages under development at December 31, 1999, which have a total remaining funding commitment of approximately \$1.9 million. The Company intends to fund these commitments with internally generated cash flow, proceeds from the sale of additional assets, proceeds from additional prepayments of mortgage notes receivable, and additional capital market financing.

At December 31, 1999, the Company had stockholders' equity of \$1.0 billion. The debt to total capitalization ratio was approximately .352 to 1 at January 31, 2000.

On January 25, 2000, the Company declared an increase in its quarterly common stock dividend from \$.545 per share (\$2.18 annualized) to \$.55 per share (\$2.20 annualized) payable to stockholders of record on February 4, 2000. This dividend was paid on February 16, 2000. The Company presently plans to continue to pay its quarterly common stock dividends, with increases consistent with its current practice. In the event that the Company cannot make additional investments in 2000 because of an inability to obtain new capital by issuing equity and debt securities, the Company will continue to be able to pay its common stock dividends in a manner consistent with its current practice. Should access to new capital not be available, the Company is uncertain of its ability to increase its quarterly common stock dividends beyond 2000.

During 2000, the Company will pay quarterly dividends on its 8 7/8% Series A Cumulative Preferred Stock in the annualized amount of \$2.22 per share.

Under the terms of the leases and other financial support agreements relating to most of the properties, tenants or healthcare providers are generally responsible for operating expenses and taxes relating to the properties. As a result of these arrangements, with limited exceptions not material to the performance of the Company, the Company does not believe that any increases in the property operating expenses or taxes would significantly impact the operating results of the Company during the respective terms of the agreements. The Company anticipates entering into similar arrangements with respect to additional properties it acquires or develops. After the term of the lease or financial support agreement, or in the event the financial obligations required by the agreement are not met, the Company anticipates that any expenditures it might become responsible for in maintaining the properties will be funded by cash from operations and, in the case of major expenditures, possibly by borrowings. To the extent that unanticipated expenditures or significant borrowings are required, the Company's cash available for distribution and liquidity may be adversely affected.

The Company plans to continue to meet its liquidity needs, including funding additional investments in 2000, paying its quarterly dividends (with increases consistent with its current practices) and funding the debt service on the 10.50% Convertible Subordinated Debentures, the 6.55% Convertible Subordinated Debentures, the Unsecured Credit Facility, the Term Loan Facility, and the Unsecured Notes from its cash flows, the proceeds of mortgage loan repayments, sales of real estate investments and mortgage notes receivable, and capital market financings. The Company is presently negotiating additional capital market financing, the proceeds of which are expected to repay the Term Loan Facility, the Unsecured Credit Facility and to fund other general corporate purposes. The Company believes that its liquidity and sources of capital are adequate to satisfy its cash requirements. The Company, however, cannot 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.

Impact of Inflation

Inflation has not significantly affected the earnings of the Company because of the moderate inflation rate and the fact that most of the Company's leases and financial support arrangements require tenants and sponsors to pay all or some portion of the increases in operating expenses, thereby reducing the risk of any adverse effects of inflation to the Company. In addition, inflation will have the effect of increasing gross revenue the Company is to receive under the terms of the leases and financial support arrangements. Leases and financial support arrangements vary in the remaining terms of obligations from one to 23 years, further reducing the risk of any adverse effects of inflation to the Company. The Unsecured Credit Facility bears interest at a variable rate; therefore, the amount of interest payable under the Unsecured Credit Facility will be influenced by changes in short-term rates, which tend to be sensitive to inflation.

Year 2000 Issue

During 1999, the Company completed its remediation and testing of systems in connection with the Year 2000 issue. As a result of these efforts, the Company experienced no disruptions or malfunctions at any of its properties. The Company incurred costs of less than \$50,000 in connection with testing and remediation for the Year 2000 issue.

Market Risk

The Company is exposed to market risk, in the form of changing interest rates, on its debt and mortgage notes receivable. The Company has no market risk with respect to derivatives and foreign currency fluctuations. Management uses daily monitoring of market conditions and analytical techniques to manage this risk.

At December 31, 1999 and 1998, the fair value of the Company's variable rate debt approximates its carrying value of \$365.7 million and \$350.2 million, respectively. By definition, because the interest rate is variable, the carrying amount of variable rate debt will always approximate its fair value. Assuming the December 31, 1999 and 1998 carrying value of \$365.7 million and \$350.2 million, respectively, is held constant, the hypothetical increase in interest expense resulting from a one percentage point increase in interest rates, would be \$3.7 million and \$3.5 million, respectively. The interest rate on variable rate debt is based on and variable with European interbank interest rates (LIBOR).

At December 31, 1999 and 1998, the carrying value of the Company's fixed rate debt is \$198.2 million and \$209.7 million, respectively, and the fair value of the Company's fixed rate debt is approximately \$190.9 million and \$209.7 million, respectively. The fair value is based on the present value of future cash flows discounted at the market rate of interest. Market risk, expressed as the hypothetical increase in fair value resulting from a one percentage point increase in interest rates, is \$4.1 million and \$7.2 million, respectively, for aggregate fixed rate debt.

At December 31, 1999 and 1998, the carrying value of the Company's fixed rate mortgage notes receivable is \$253.5 million and \$237.6 million, respectively, and the fair value is approximately \$232.1 million and \$237.6 million, respectively. The fair value is based on the present value of future cash flows discounted at an assumed market rate of interest. Because no market rates of interest are published for these assets, the market rate of interest is assumed to be the same spread to U.S. Treasury yields for comparable maturities that existed when the mortgage notes receivable were acquired in the Capstone merger on October 15, 1998, adjusted to published U.S. Treasury yields. Market risk, at December 31, 1999 and 1998, expressed as the hypothetical decrease in fair value resulting from a one percentage point increase in interest rates, is \$10.6 million and \$10.7 million, respectively, on the aggregate portfolio of fixed rate mortgage notes receivable.

Cautionary Language Regarding Forward Looking Statements

Statements in this Annual Report on Form 10-K that are not historical, factual statements are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The statements include, among other things, statements regarding the intent, belief or expectations of the Company and its officers and can be identified by the use of terminology such as "may", "will", "expect", "believe", "intend", "plan", "estimate", "should" and other comparable terms. In addition, the Company, through its senior management, from time to time makes forward looking oral and written public statements concerning the Company's expected future operations and other developments. Shareholders and investors are cautioned that, while forward looking statements reflect the Company's good faith beliefs and best judgment based upon current information, they are not guarantees of future performance and are subject to known and unknown risks and uncertainties. Actual results may differ materially from the expectations contained in the forward looking statements as a result of various factors. For a more detailed discussion of these, and other factors, see Item 1 of the Company's Form 10-K for the fiscal year ended December 31, 1999.

**Report of
INDEPENDENT AUDITORS**

**THE BOARD OF DIRECTORS AND STOCKHOLDERS
HEALTHCARE REALTY TRUST INCORPORATED**

We have audited the accompanying consolidated balance sheets of Healthcare Realty Trust Incorporated as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Healthcare Realty Trust Incorporated at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young, LLP

*Nashville, Tennessee
January 25, 2000*

**Consolidated
BALANCE SHEETS**

	December 31,	
(Dollars in thousands)	1999	1998
<hr/>		
ASSETS		
Real estate properties:		
Land	\$ 150,591	\$ 140,617
Buildings and improvements	1,223,387	1,169,941
Personal property	5,165	4,825
Construction in progress	20,003	72,172
	<hr/>	
	1,399,146	1,387,555
Less accumulated depreciation	(83,996)	(50,116)
	<hr/>	
Total real estate properties, net	1,315,150	1,337,439
Cash and cash equivalents	3,396	12,710
Restricted cash	990	1,701
Mortgage notes receivable	253,459	237,617
Other assets, net	34,969	22,956
	<hr/>	
Total assets	\$ 1,607,964	\$ 1,612,423
	<hr/>	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes and bonds payable	\$ 563,884	\$ 559,924
Accounts payable and accrued liabilities	17,658	22,824
Other liabilities	8,519	11,971
	<hr/>	
Total liabilities	590,061	594,719
	<hr/>	
Commitments	--	--
Stockholders' equity:		
Preferred stock, \$.01 par value; 50,000,000 shares authorized; issued and outstanding 1999 and 1998 - 3,000,000	30	30
Common stock, \$.01 par value; 150,000,000 shares authorized; issued and outstanding 1999 - 40,004,579; 1998 - 39,792,775	400	398
Additional paid-in capital	1,054,405	1,049,039
Deferred compensation	(9,509)	(10,662)
Cumulative net income	215,373	129,346
Cumulative dividends	(242,796)	(150,447)
	<hr/>	
Total stockholders' equity	1,017,903	1,017,704
	<hr/>	
Total liabilities and stockholders' equity	\$ 1,607,964	\$ 1,612,423
	<hr/>	

See accompanying notes.

**Consolidated
STATEMENTS OF INCOME**

	Year Ended December 31,		
(Dollars in thousands, except per share data)	1999	1998	1997
REVENUES			
Master lease rental income	\$ 92,070	\$ 47,512	\$ 40,298
Property operating income	57,778	35,269	14,631
Straight line rent	6,885	1,265	0
Mortgage interest income	26,254	5,120	84
Management fees	2,727	2,056	1,499
Interest and other income	1,543	1,207	3,284
	187,257	92,429	59,796
EXPENSES			
General and administrative	7,287	11,126	3,807
Property operating expenses	21,077	11,978	5,008
Interest	38,603	13,057	7,969
Depreciation	38,566	15,965	11,468
Amortization	473	499	332
	106,006	52,625	28,584
Net income before net gain on real estate disposals	81,251	39,804	31,212
Net gain on real estate disposals	4,776	675	0
Net income	\$ 86,027	\$ 40,479	\$ 31,212
Net income per share - Basic	\$ 2.02	\$ 1.66	\$ 1.71
Net income per share - Diluted	\$ 1.99	\$ 1.63	\$ 1.68
Shares outstanding - Basic	39,326,594	24,043,942	18,222,243
Shares outstanding - Diluted	39,810,306	24,524,600	18,572,492

See accompanying notes.

Consolidated
STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data)	Preferred Stock	Common Stock	Additional Paid-In Capital	Deferred Compensation	Cumulative Net Income	Cumulative Dividends	Total Stockholders' Equity
Balance at December 31, 1996	\$--	\$139	\$ 264,614	\$ (4,702)	\$ 57,655	\$ (71,742)	\$ 245,964
Issuance of stock	--	52	134,113	--	--	--	134,165
Shares awarded as deferred stock compensation	--	2	3,880	(3,882)	--	--	--
Deferred stock compensation amortization	--	--	--	895	--	--	895
Net income	--	--	--	--	31,212	--	31,212
Dividends (\$1.99 per share)	--	--	--	--	--	(35,764)	(35,764)
Balance at December 31, 1997	--	193	402,607	(7,689)	88,867	(107,506)	376,472
Issuance of common stock	--	202	567,734	--	--	--	567,936
Issuance of preferred stock	30	--	71,956	--	--	--	71,986
Shares awarded as deferred stock compensation	--	2	4,331	(4,274)	--	--	59
Shares issued from warrants	--	1	2,411	--	--	--	2,412
Deferred stock compensation amortization	--	--	--	1,301	--	--	1,301
Net income	--	--	--	--	40,479	--	40,479
Dividends - common (\$2.07 per share)	--	--	--	--	--	(42,386)	(42,386)
Dividends - preferred (\$0.46224 per share)	--	--	--	--	--	(555)	(555)
Balance at December 31, 1998	30	398	1,049,039	(10,662)	129,346	(150,447)	1,017,704
Issuance of common stock	--	2	5,345	--	--	--	5,347
Shares awarded as deferred stock compensation	--	--	21	(21)	--	--	--
Deferred stock compensation amortization	--	--	--	1,174	--	--	1,174
Net income	--	--	--	--	86,027	--	86,027
Dividends - common (\$2.15 per share)	--	--	--	--	--	(85,693)	(85,693)
Dividends - preferred (\$2.22 per share)	--	--	--	--	--	(6,656)	(6,656)
Balance at December 31, 1999	\$30	\$400	\$1,054,405	\$ (9,509)	\$215,373	\$ (242,796)	\$1,017,903

See accompanying notes.

**Consolidated Statements of
CASH FLOWS**

(In thousands)	December 31,		
	1999	1998	1997
OPERATING ACTIVITIES			
Net income	\$ 86,027	\$ 40,479	\$ 31,212
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	41,225	17,122	12,073
Deferred compensation	1,153	1,247	672
Increase (decrease) in deferred income	(743)	(907)	114
Decrease in other liabilities	(749)	(2,474)	--
Increase in other assets	(17,638)	(7,957)	(2,346)
Decrease in accounts payable and accrued liabilities	(5,781)	(27,133)	(1,340)
Increase in straight line rent	(6,885)	(1,265)	--
Charge to operations	--	3,373	--
Gain on sales of real estate	(4,776)	(675)	--
Net cash provided by operating activities	91,833	21,810	40,385
INVESTING ACTIVITIES			
Acquisition and development of real estate properties	(55,664)	(94,066)	(61,813)
Acquisition and development of mortgages	(27,475)	(27,851)	(4,708)
Proceeds from mortgage repayments	18,749	8,522	--
Proceeds from sale of real estate	46,929	11,895	--
Receipt (disbursement) of security deposits	(481)	134	(976)
Purchase of Capstone, net of cash acquired	--	5,437	--
Net cash used in investing activities	(17,942)	(95,929)	(67,497)
FINANCING ACTIVITIES			
Borrowings on notes and bonds payable	125,200	425,000	35,300
Repayments on notes and bonds payable	(121,608)	(338,689)	(102,618)
Decrease in notes receivable	350	451	--
Dividends paid	(92,349)	(42,941)	(35,764)
Proceeds from issuance of common stock	5,202	37,683	134,165
Net cash provided by (used in) financing activities	(83,205)	81,504	31,083
Increase (decrease) in cash and cash equivalents	(9,314)	7,385	3,971
Cash and cash equivalents, beginning of period	12,710	5,325	1,354
Cash and cash equivalents, end of period	\$ 3,396	\$ 12,710	\$ 5,325

See accompanying notes.

**Notes to
CONSOLIDATED FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Company invests in healthcare-related properties and mortgages located throughout the United States, including ancillary hospital facilities, physician clinics, ambulatory surgery centers, inpatient rehab facilities, assisted living facilities, skilled nursing facilities, comprehensive ambulatory care centers, and other facilities. The Company provides management, leasing and build-to-suit development, and capital for the construction of new facilities as well as for the acquisition of existing properties. As of December 31, 1999, the Company had invested or committed to invest in 285 properties and mortgages located in 34 states, affiliated with 74 healthcare-related entities.

Basis of Presentation

The financial statements include the accounts of the Company, its wholly owned subsidiaries and certain other affiliated corporations with respect to which the Company controls the operating activities and receives substantially all economic benefits. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Real Estate Properties

Real estate properties are recorded at cost. Transaction fees and acquisition costs are included with the purchase price as appropriate. The cost of real properties acquired is allocated between land, buildings, and personal property based upon estimated market values at the time of acquisition. Depreciation is provided for on a straight-line basis over the following estimated useful lives:

Buildings and improvements	31.5 or 39.0 years
Personal property	3.0 to 7.0 years

Restricted Cash

Restricted cash includes security deposits and other funds set aside for capital expenditures on certain investments of the Company.

Mortgage Notes Receivable

Mortgage notes receivable, substantially all of which were acquired in the Capstone merger (see Note 2), were recorded at their fair value at the date of acquisition. The mortgage portfolio has a weighted average maturity of approximately 5.9 years. Interest rates, which range from 8% to 13%, are generally adjustable each year to reflect actual increases in the Consumer Price Index subject to a minimum increase of 4% of the current interest rate. Substantially all of the mortgages are subject to a prepayment penalty.

Cash and Cash Equivalents

Short-term investments with maturities of three months or less at date of purchase are classified as cash equivalents.

Federal Income Taxes

No provision has been made for federal income taxes. The Company intends at all times to qualify as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. The Company must distribute at least 95% of its real estate investment trust taxable income to its stockholders and meet other requirements to continue to qualify as a real estate investment trust.

Other Assets

Other assets consist primarily of receivables, deferred costs and intangible assets. Deferred financing costs are amortized over the term of the related credit facility using the interest method. Intangible assets are amortized straight-line over the applicable lives of the assets, which range from four to forty years. Accumulated amortization was \$2.0 million and \$1.1 million at December 31, 1999 and 1998, respectively.

Revenue Recognition

Rental income related to noncancelable operating leases is recognized as earned over the life of the lease agreements on a straight-line basis. Any additional rent, as defined in each lease agreement, is recognized as earned.

Stock Issued to Employees

The Company has elected to follow Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock issued to employees.

Net Income Per Share

Basic earnings per share is calculated using weighted average shares outstanding less issued and outstanding but unvested restricted shares of Common Stock.

Diluted earnings per share is calculated using weighted average shares outstanding plus the dilutive effect of convertible debt and restricted shares of Common Stock and outstanding stock options, using the treasury stock method and the average stock price during the period.

Significant Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Board Statement No. 130, "Reporting Comprehensive Income" ("FAS 130"), which establishes standards for reporting and displaying comprehensive income and its components in a full set of general purpose financial statements. The Company adopted FAS 130 effective for its fiscal year ended December 31, 1998. Comprehensive income is the same as net income for the Company.

In June 1997, the FASB issued Financial Accounting Standards Board Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"). The Company adopted FAS 131 effective for its fiscal year ended December 31, 1998. The adoption of FAS 131 had no impact on the Company, as the Company operates in only one business segment, consisting of investments in healthcare-related properties and mortgages throughout the United States.

Reclassification

Certain reclassifications have been made in the financial statements for the years ended 1998 and 1997 to conform to the 1999 presentation. These reclassifications had no effect on the results of operations as previously reported.

2. CAPSTONE MERGER

On October 15, 1998, the Company acquired Capstone Capital Corporation ("Capstone") in a stock-for-stock merger in which the stockholders of Capstone received a fixed ratio of .8518 shares of the Company's common stock and the holders of Capstone preferred stock received one share of the Company's voting preferred stock in exchange for each share of Capstone preferred stock. The Company issued 18,906,909 shares of common stock and 3,000,000 shares of preferred stock. The transaction was accounted for as a purchase and resulted in no goodwill.

The purchase price is summarized as follows (in thousands):

Common stock	\$	532,554
Preferred stock		72,052
Cash and cash equivalents		8,330
Liabilities assumed		424,897

Total Purchase Price	\$	1,037,833
		=====

The assets acquired in the Capstone merger are summarized as follows
(in thousands):

Real estate properties	\$	804,178
Mortgage notes receivable		211,590
Cash and cash equivalents		13,767
Other assets		8,298

Total Assets Acquired	\$	1,037,833
		=====

The unaudited proforma results of operations for the two years ended December 31, 1998 and 1997, assuming that the Capstone merger had occurred as of the beginning of each of those periods, are (dollars in thousands, except for per share data):

	1998	1997
Revenues	\$ 168,721	\$ 116,974
Net income	\$ 73,186	\$ 54,234
Net income per share - Basic	\$ 1.74	\$ 1.39
Net income per share - Diluted	\$ 1.72	\$ 1.38

3. REAL ESTATE PROPERTY LEASES

The Company's properties are generally leased or supported pursuant to noncancelable, fixed-term operating leases and other financial support arrangements with expiration dates from 2000 to 2023. Some leases and financial arrangements provide for fixed rent renewal terms of five years, or multiples thereof, in addition to market rent renewal terms. The leases generally provide the lessee, during the term of the lease and for a short period thereafter, with an option and a right of first refusal to purchase the leased property. Each lease generally requires the lessee to pay minimum rent, additional rent based upon increases in the Consumer Price Index or increases in net patient revenues (as defined in the lease agreements), and all taxes (including property tax), insurance, maintenance and other operating costs associated with the leased property.

Amounts of rental income received from lessees who accounted for more than 10% of the Company's rental income for the three years in the period ended December 31, 1999 were (in thousands):

	1999	1998	1997
Healthsouth	\$ 24,060	\$ 4,727	\$ 0
Columbia/HCA Healthcare Corporation	23,211	17,125	13,899
Tenet Healthcare	17,942	13,713	13,297
Phycor	9,228	8,899	8,218

Future minimum lease and guaranty payments under the noncancelable operating leases and financial support arrangements as of December 31, 1999 are as follows (in thousands):

2000	\$ 143,330
2001	141,504
2002	139,479
2003	138,986
2004	143,082
2005 and thereafter	735,816

	\$ 1,442,197

4. REAL ESTATE PROPERTIES

The following table summarizes the Company's real estate properties by type of facility and by state as of December 31, 1999 (dollars in thousands).

	NUMBER OF FACILITIES (1)	LAND	BUILDINGS AND IMPROVEMENTS AND CIP	PERSONAL PROPERTY	TOTAL	ACCUMULATED DEPRECIATION

ANCILLARY HOSPITAL FACILITIES:						
Alabama	6	\$ 5,792	\$ 37,173	\$ 0	\$ 42,965	\$ 1,405
California	9	18,375	60,556	44	78,975	6,374
Florida	12	6,042	90,627	122	96,791	7,540
Texas	11	8,989	62,760	276	72,025	8,674
Virginia	9	13,832	65,429	94	79,355	5,533
Other states	13	10,545	102,710	67	113,322	6,794
	60	63,575	419,255	603	483,433	36,320

SKILLED NURSING FACILITIES:						
Michigan	5	193	12,338	183	12,714	2,507
Virginia	5	1,060	22,589	0	23,649	836
Colorado	3	2,886	23,522	0	26,408	1,662
Pennsylvania	3	479	20,138	0	20,617	748
Tennessee	2	228	8,107	0	8,335	537
Texas	2	1,795	17,671	0	19,466	1,340
Other states	7	4,625	39,124	32	43,781	4,001
	27	11,266	143,489	215	154,970	11,631

PHYSICIAN CLINICS:						
Florida	10	12,260	43,905	51	56,216	3,816
Virginia	6	621	3,188	0	3,809	244
Maine	5	4,284	26,502	0	30,786	979
Tennessee	5	2,943	7,728	0	10,671	347
Texas	2	5,796	15,581	20	21,397	1,238
Other states	8	4,674	40,733	1	45,408	1,767
	36	30,578	137,637	72	168,287	8,391

COMPREHENSIVE AMBULATORY CARE CENTERS:						
Florida	6	2,593	36,637	0	39,230	1,437
Texas	2	1,643	20,008	69	21,720	3,351
Other states	5	9,196	54,595	7	63,798	1,746
	13	13,432	111,240	76	124,748	6,534

AMBULATORY SURGERY CENTERS:						
Florida	1	2,200	3,944	0	6,144	8
Missouri	1	1,686	3,621	0	5,307	132
Nevada	1	940	2,861	0	3,801	400
Texas	1	510	1,514	15	2,039	330
Other states	3	558	3,494	9	4,061	286
	7	5,894	15,434	24	21,352	1,156

INPATIENT REHABILITATION FACILITIES						
Alabama	1	0	17,722	0	17,722	562
Florida	1	0	11,703	0	11,703	372
Pennsylvania	6	4,718	107,529	0	112,247	3,780
Texas	1	1,117	11,800	0	12,917	436
	9	5,835	148,754	0	154,589	5,150

ASSISTED LIVING FACILITIES:						
Florida	3	1,171	18,957	0	20,128	78
Missouri	4	206	5,909	0	6,115	219
Pennsylvania	7	1,490	28,908	0	30,398	991
Texas	8	0	70,824	0	70,824	2,603
Virginia	3	889	15,846	0	16,735	586
Other states	7	2,899	43,635	0	46,534	1,437
	32	6,655	184,079	0	190,734	5,914

OTHER:						
Arizona	1	582	2,952	0	3,534	96
Florida	2	911	3,843	0	4,754	147
Missouri	1	2,040	8,857	0	10,897	343
Texas	3	1,667	14,361	441	16,469	1,913
Virginia	6	2,385	26,314	129	28,828	1,831
Other states	5	5,771	27,173	38	32,982	2,851
	18	13,356	83,500	608	97,464	7,181
Corporate property	0	0	2	3,567	3,569	1,719
	18	13,356	83,500	608	97,464	7,181

Total property	202	\$ 150,591	\$ 1,243,390	\$ 5,165	\$ 1,399,146	\$ 83,996
=====						

(1) Includes 6 lessee developments.

5. NOTES AND BONDS PAYABLE

Notes and bonds payable at December 31, 1999 and 1998 consisted of the following (in thousands):

	December 31,	
	1999	1998
Unsecured credit facility	\$ 252,000	\$ 171,000
Term loan facility	113,700	179,200
Unsecured notes	54,000	72,000
6.55% convertible subordinated debentures, net	73,836	73,219
10.50% convertible subordinated debentures, net	3,573	3,823
Mortgage notes payable	59,775	60,682
Other note payable	7,000	--
	\$ 563,884	\$ 559,924

Unsecured Credit Facility

On October 15, 1998, concurrent with the Capstone merger, the Company repaid the outstanding balances under both Capstone and its own unsecured credit facilities and entered into a \$265.0 million unsecured credit facility (the "Unsecured Credit Facility") with ten commercial banks. The Unsecured Credit Facility bears interest at LIBOR plus 1.05%, payable quarterly, and matures on October 15, 2001. In addition, the Company will pay, quarterly, a commitment fee of 0.225 of 1% on the unused portion of funds available for borrowings. The Unsecured Credit Facility contains certain representations, warranties, and financial and other covenants customary in such loan agreements. At December 31, 1999, the Company had available borrowing capacity of \$13.0 million under the Unsecured Credit Facility.

Term Loan Facility

On October 15, 1998, concurrent with the Capstone merger, the Company entered into a \$200.0 million unsecured term loan (the "Term Loan Facility") with Bank of America (formerly NationsBank). Effective January 14, 2000, the Company amended its Term Loan Facility agreement with Bank of America. The Term Loan Facility, as amended, bears interest at LIBOR plus 2.00%, payable quarterly, and matures on April 14, 2000. If the balance on the Term Loan Facility exceeds \$25.0 million on March 14, 2000, the interest rate will increase to LIBOR plus 2.50%. The Term Loan Facility contains certain representations, warranties and financial and other covenants customary in such loan agreements, as well as restrictions on dividend payments if minimum tangible capital requirements are not met. At December 31, 1999, the Company had no additional available borrowing capacity under the Term Loan Facility.

Unsecured Notes

On September 18, 1995, the Company privately placed \$90.0 million of unsecured notes (the "Unsecured Notes") with 16 institutions. The Unsecured Notes bear interest at 7.41%, payable semi-annually, and mature on September 1, 2002. Beginning on September 1, 1998 and on each September 1 through 2002, the Company must repay \$18.0 million of principal. The note agreements pursuant to which the Unsecured Notes were purchased contain certain representations, warranties and financial and other covenants customary in such loan agreements.

Convertible Subordinated Debentures

As part of the Capstone merger, the Company assumed and recorded at fair value \$74.7 million aggregate face amount of 6.55% Convertible Subordinated Debentures (the "6.55% Debentures") of Capstone. At December 31, 1999, the Company had approximately \$73.8 million aggregate principal amount of 6.55% Debentures outstanding with a face amount of \$74.7 million and unaccreted discount of \$0.9 million. Such rate of interest and accretion of discount represents a yield to maturity of 7.5% per annum (computed on a semiannual bond equivalent basis). The 6.55% Debentures are due on March 14, 2002, unless redeemed earlier by the Company or converted by the holder, and are callable on March 16, 2000. Interest on the 6.55% Debentures is payable on March 14 and September 14 in each year. The 6.55% Debentures are convertible into shares of common stock of the Company at the option of the holder at any time prior to redemption or stated maturity, at a conversion price rate of 33.6251 shares per \$1 thousand bond.

Also, as part of the Capstone merger, the Company assumed and recorded at fair value \$3.8 million aggregate face amount of 10.5% Convertible Subordinated Debentures (the "10.5% Debentures") of Capstone. At December 31, 1999, the Company had approximately \$3.6 million aggregate principal amount of 10.5% Debentures outstanding with a face amount of \$3.4 million and unamortized premium of \$0.2 million. Such rate of interest and amortization of premium represents a yield to maturity of 7.5% per annum (computed on a semiannual bond equivalent basis). The

10.5% Debentures are due on April 1, 2002, unless redeemed earlier by the Company or converted by the holder, and are callable on April 5, 2000. Interest on the 10.5% Debentures is payable on April 1 and October 1 in each year. The 10.5% Debentures are convertible into shares of common stock of the Company at the option of the holder at any time prior to redemption or stated maturity at a conversion price rate of 52.8248 shares per \$1 thousand bond.

Mortgage Notes

As part of the Capstone merger, the Company assumed six nonrecourse mortgage notes payable, and the related collateral, as follows (dollars in millions):

Mortgagor	Original Balance	Interest Rate	Collateral	Book Value Of Collateral at December 31, 1999	Balance at December 31, 1999
Life Insurance Co.	\$ 23.3	8.500%	Ancillary hospital facility	\$ 41.2	\$ 22.6
Life Insurance Co.	4.7	7.625%	Ancillary hospital facility	10.4	4.4
Life Insurance Co.	17.1	8.125%	Two Ambulatory surgery centers & one ancillary hospital facility	35.7	16.6
Bank	17.0	8.500%	Six skilled nursing facilities	28.8	16.2
	\$ 62.1			\$116.1	\$ 59.8
=====					

The \$23.3 million note is payable in monthly installments of principal and interest based on a 30 year amortization with the final payment due in July 2026. The \$4.7 million note is payable in monthly installments of principal and interest based on a 20 year amortization with the final payment due in January 2017. The three notes totaling \$17.1 million are payable in monthly installments of principal and interest based on a 25 year amortization with a balloon payment of the unpaid balance in September 2004. The \$17.0 million note bears interest at 50 basis points in excess of the prime rate, and is payable in monthly installments of principal and interest based on a 25 year amortization with a balloon payment of the unpaid balance in June 2000.

Other Notes

On July 31, 1999, the Company entered into a \$7.0 million note with a commercial institution. The note bears interest at 7.53%, is payable in equal semi-annual installments of principal and interest and fully amortizes in July 2005.

Other Long-Term Debt Information

Future maturities of long-term debt are as follows (in thousands):

2000	\$ 149,092
2001	271,653
2002	98,075
2003	1,971
2004	17,061
2005 and thereafter	26,032

	\$ 563,884
	=====

During the years ended December 31, 1999, 1998 and the 1997, interest paid totaled \$41.5 million, \$11.1 million and \$9.0 million, and capitalized interest totaled \$1.9 million, \$1.4 million and \$0.7 million, respectively.

6. STOCKHOLDERS' EQUITY

The Company had common and preferred shares outstanding as of the three years ended December 31, 1999 as follows:

	Year Ended December 31,		
	1999	1998	1997
	----	----	----
Common Shares			
Balance, beginning of period	39,792,775	19,285,927	13,898,777
Issuance of stock	210,754	20,226,981	5,235,761
Shares awarded as deferred stock compensation	1,050	148,357	143,716
Shares issued from warrants	--	131,510	7,673
	-----	-----	-----
Balance, end of period	40,004,579	39,792,775	19,285,927
	=====	=====	=====

Preferred Shares			
Balance, beginning of period	3,000,000	--	--
Issuance of stock	--	3,000,000	--

Balance, end of period	3,000,000	3,000,000	--
	=====		

On October 15, 1998, the Company issued 18,906,909 shares of common stock and 3,000,000 shares of 8 7/8% Series A Voting Cumulative preferred stock, par value \$.01 per share, in a stock-for-stock merger with Capstone Capital Corporation (see Note 2). Upon dissolution of the Company, the preferred stock is senior to common stock with respect to dividend rights and rights upon dissolution. Holders of preferred stock are entitled to receive cumulative preferential cash dividends of 8 7/8 % per annum of the liquidation preference of \$25.00 per share payable quarterly, in arrears. Preferred stock is not redeemable prior to September 30, 2002. On or after September 2002, the Company, at its option, may redeem preferred stock, in whole or in part, at any time or from time to time, at the redemption price. The holder of each share of preferred stock has one vote, together with the holders of common stock, on all matters on which stockholders may vote.

In July 1998, warrants for 128,149 shares of common stock were exercised. At December 31, 1999 and 1998, the Company has no warrants outstanding. During April and May 1998, the Company sold an aggregate of 49,953 shares of common stock to a single institutional investor. In February 1998, the Company participated in two unit investment trust offerings and sold an aggregate of 1,224,026 shares of its common stock. The Company received an aggregate of \$37.1 million in proceeds for these transactions. The proceeds were used to repay outstanding borrowings under the Company's previous unsecured credit facility, acquisitions, developments and for general corporate purposes.

Effective February 14, 1997, the Company sold 5,175,000 shares of its common stock in a secondary offering (the "Secondary Offering") under its currently effective registration statement pertaining to \$250.0 million of equity securities, debt securities and warrants. The Company received \$133.4 million in net proceeds. Promptly thereafter, the net proceeds were used, in part, to extinguish \$71.9 million of indebtedness outstanding under the Company's previous unsecured credit facility, and to repay or defease secured indebtedness in the total amount of \$6.7 million. Remaining proceeds of the Secondary Offering of approximately \$57.2 million were invested in additional property acquisitions, build-to-suit property development and for general corporate purposes.

7. BENEFIT PLANS

Executive Retirement Plan

The Company has an Executive Retirement Plan, under which an executive designated by the Compensation Committee of the Board of Directors may receive upon normal retirement (defined to be when the executive reaches age 65 and has completed five years of service with the Company) 60% of the executives' final average earnings (defined as the average of the executive's highest three years' earnings) plus 6% of final average earnings times years of service after age 60 (but not more than five years), less 100% of certain other retirement benefits received by the executive.

Retirement Plan for Outside Directors

The Company has a retirement plan for outside directors which, upon retirement, will pay annually, for a period not to exceed 15 years, an amount equal to the director's pay immediately preceding retirement from the Board.

Retirement Plan Information

Net expense for both the Executive Retirement Plan and the Retirement Plan for Outside Directors (the "Plans") for the two years ended December 31, 1999 is comprised of the following (in thousands):

	1999	1998
Service cost	\$ 233	\$ 775
Interest cost	141	103
Other	(27)	10
	<u>\$ 347</u>	<u>\$ 888</u>
	=====	=====

The Plans are unfunded and benefits will be paid from earnings of the Company. The following table sets forth the benefit obligations at December 31, 1999 and 1998 (in thousands).

	1999	1998
Benefit obligation at beginning of year	\$ 2,553	\$ 1,213
Service cost	233	775
Interest cost	141	103
Other	(27)	10
Actuarial gain (loss)	(576)	452
Benefit obligation at end of year	2,324	2,553
Unrecognized net actuarial (gain) loss	214	(362)
Net pension liability in accrued liabilities	\$ 2,538	\$ 2,191

Accounting for the Executive Retirement Plan for the years ended December 31, 1999 and 1998 assumes discount rates of 8.03% and 7.04%, respectively, and a compensation increase rate of 2.7%. Accounting for the Retirement Plan for Outside Directors assumes discount rates of 8.03% and 7.04%, respectively.

8. STOCK PLANS AND WARRANTS

1993 Employees Stock Incentive Plan

The Company is authorized to issue stock representing up to 7.5% of its outstanding shares of common stock, (the "Employee Plan Shares") under the 1993 Employees Stock Incentive Plan (the "Employee Plan"). As of December 31, 1999 and 1998, the Company had a total of 2,480,326 and 2,464,441 Employee Plan Shares authorized, respectively, that had not been issued. Unless terminated earlier, the Employee Plan will terminate on January 1, 2003. As of December 31, 1999 and 1998, the Company had issued a total of 520,017 and 520,017, and had specifically reserved, but not issued, a total of 445,000 and 445,000 Employee Plan Shares (the "Reserved Stock"), respectively, for performance-based awards to employees under the Employee Plan. The issuance of Reserved Stock to eligible employees is contingent upon the achievement of specific performance criteria. The Reserved Stock awards are subject to fixed vesting periods varying from four to twelve years beginning on the date of issue. If an employee voluntarily terminates employment with the Company before the end of the vesting period, the shares are forfeited, at no cost to the Company. Once the Reserved Stock has been issued, the employee has the right to receive dividends and the right to vote the shares. For 1999 and 1998, compensation expense resulting from the amortization of the value of these shares was \$1.1 million and \$1.2 million, respectively.

Non-Employee Directors' Stock Plan

Pursuant to the 1995 Restricted Stock Plan for Non-Employee Directors (the "1995 Directors' Plan"), the Directors' stock vests in each Director upon the date three years from the date of issue and is subject to forfeiture prior to such date upon termination of the Director's service, at no cost to the Company. As of December 31, 1999 and 1998, the Company had a total of 94,750 and 95,800 authorized shares under the 1995 Directors' Plan, respectively, that had not been issued. As of December 31, 1999 and 1998, the Company had issued a total of 14,523 and 13,473 shares, respectively, pursuant to the 1995 Directors' Plan. For 1999 and 1998, compensation expense resulting from the amortization of the value of these shares was \$30,943 and \$89,792 respectively.

1995 Employee Stock Purchase Plan

As of December 31, 1999 and 1998, the Company had a total of 772,819 and 851,232 shares authorized under the 1995 Employee Stock Purchase Plan (the "Employee Purchase Plan"), respectively, that had not been issued or optioned. Under the Employee Purchase Plan, each eligible employee as of May 1995 and each subsequent January 1 has been or shall be granted an option to purchase up to \$25,000 of common stock at the lesser of 85% of the market price on the date of grant or 85% of the market price on the date of exercise of such option (the "Exercise Date"), but at not less than book value per share as of the December 31 immediately preceding the date of grant. The number of shares subject to each year's option becomes fixed on the date of grant. Eligible employees include those employees who were employed by the Company or a subsidiary on a full-time basis as of May 1995 and those employees with six months of service who are so employed by the Company or subsidiary as of each subsequent January

1. Options granted under the Employee Purchase Plan expire if not exercised 27 months after each such option's date of grant. The Employee Purchase Plan results in no compensation expense to the Company.

A summary of Employee Purchase Plan activity and related information for the years ended December 31 is as follows:

	All Options		
	1999	1998	1997
Outstanding, beginning of year	85,716	65,573	71,073
Granted	144,886	74,472	69,930
Exercised	(5,524)	(12,289)	(40,631)
Forfeited	(37,775)	(31,799)	(23,723)
Expired	(28,698)	(10,241)	(11,076)
Outstanding and exercisable at end of year	158,605	85,716	65,573
Weighted-average fair value of options granted during the year (calculated as of the grant date)	\$ 0.76	\$ 5.94	\$ 3.12
Weighted-average exercise price of options exercised during the year	\$ 18.00	\$ 20.69	\$ 19.48
Weighted-average exercise price of options outstanding (calculated as of December 31)	\$ 22.57	\$ 19.10	\$ 21.58
Range of exercise prices of options outstanding (calculated as of December 31)	\$ 19.52-\$23.76	\$ 18.43-\$19.52	\$ 19.71-\$22.47
Weighted-average contractual life of outstanding options (calculated as of December 31, in years)	1.0	0.9	0.9

The fair value for these options was estimated at the date of grant using a Black-Scholes options pricing model with the following assumptions for 1999, 1998 and 1997; risk-free interest rates of 6.24%, 5.00% and 6.00%; a dividend yield of 9.87%, 7.13% and 8.02%; a volatility factor of the expected market price of the Company's Common Stock of .178, .139 and .096; and an expected life of the option of 1.13 years, respectively.

The pro forma effect on net income and earnings per share for the three years in the period ended December 31, 1999, calculated in accordance with Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" is as follows (dollars in thousands, except for per share data):

	1999	1998	1997
Proforma net income	\$ 85,917	\$ 40,037	\$ 30,994
Proforma earnings per share			
Basic	\$ 2.02	\$ 1.64	\$ 1.70
Assuming dilution	\$ 1.99	\$ 1.61	\$ 1.67

The Company is proposing a 2000 Employee Stock Purchase Plan which will be voted on at the Company's annual shareholders' meeting in May 2000.

Other

In 1993, the Company issued warrants to purchase up to 188,712 shares of common stock (the "Warrants"). The Warrants were exercisable for a period of four years commencing July 1, 1994 at a price of \$19.50 per share, the then current fair market value, subject to adjustment under applicable antidilution provisions. The holders of the Warrants had the right to require the Company to include the common stock underlying such Warrants in any registration statement filed by the Company at the Company's expense. As of December 31, 1998, all Warrants had either been exercised or cancelled.

At December 31, 1999 and 1998, the Company had authorized 3,347,895 and 3,430,112 shares, respectively, for future issuance under stock plans.

The Company has revised its discretionary bonus incentive plan to include restricted stock as part of bonuses for employees in management positions. These restricted stock shares will vest over periods ranging from three to five years. If an employee terminates employment with the Company before the end of the vesting period, the shares are forfeited at no cost to the Company. The Company's first bonus under this plan was issued March 1, 2000.

9. NET INCOME PER SHARE

The table below sets forth the computation of basic and diluted earnings per share as required by FASB Statement No. 128 for the three years in the period ended December 31, 1999.

	Year Ended Dec. 31, 1999	Year Ended Dec. 31, 1998	Year Ended Dec. 31, 1997

BASIC EPS			
Average Shares Outstanding	39,857,587	24,573,885	18,605,876
Actual Restricted Stock Shares	(530,993)	(529,943)	(383,633)

Denominator - Basic	39,326,594	24,043,942	18,222,243
	=====		
Net Income	\$ 86,026,559	\$ 40,478,407	\$ 31,312,289
Preferred Stock Dividend	(6,655,726)	(554,688)	0

Numerator - Basic	\$ 79,370,833	\$ 39,923,719	\$ 31,212,289
	=====		
Per share amount	\$ 2.02	\$ 1.66	\$ 1.71
	=====		
DILUTED EPS			
Average Shares Outstanding	39,857,587	24,573,885	18,605,876
Actual Restricted Stock Shares	(530,993)	(529,943)	(383,633)
Dilution for Convertible Debentures	0	40,017	0
Restricted Shares - Treasury	482,496	405,235	276,890
Dilution For Employee Stock Purchase Plan	1,216	15,597	25,032
Dilution for Warrants	0	19,809	48,327

Denominator - Diluted	39,810,306	24,524,600	18,572,492
	=====		
Numerator - Basic	\$ 79,370,833	\$ 39,923,719	\$ 31,212,289
Convertible Subordinated Debenture Interest	0	63,638	0

Numerator - Diluted	\$ 79,370,833	\$ 39,987,357	\$ 31,212,289
	=====		
Per share amount	\$ 1.99	\$ 1.63	\$ 1.68
	=====		

10. COMMITMENTS AND CONTINGENCIES

As of December 31, 1999, the Company had a net investment of approximately \$20.0 million in six build-to-suit developments in progress, which have a total remaining funding commitment of approximately \$37.6 million. Further, the Company has commitments to purchase or provide funding for the construction of other properties totaling \$12.4 million at December 31, 1999. The Company also has six mortgages under development at December 31, 1999, which have a total remaining funding commitment of approximately \$1.9 million.

As part of the Capstone merger, agreements were entered into with three individuals affiliated with Capstone that restrict competitive practices and which the Company believes will protect and enhance the value of the real estate properties acquired from Capstone. These agreements provide for the issuance of 150,000 shares per year of common stock of the Company to the individuals on October 15 of the years 1999, 2000, 2001, and 2002, provided all terms of the agreements are met. Upon issuance, these shares are valued at \$28.0714 per share, the valuation as of the date of the Capstone merger. The Company issued 150,000 shares during 1999 pursuant to these agreements.

On March 22, 1999, HR Acquisition I Corporation, formerly known as Capstone Capital Corporation ("HRT"), a wholly-owned subsidiary of the Company, filed suit against Medistar Corporation and its affiliate, Medix Construction Company in United States District Court for the Northern District of Alabama, Southern Division. HRT is seeking damages in excess of two million dollars arising out of the development and construction of four real estate projects located in different parts of the United States. Medistar and Medix served as the developer and contractor, respectively, for the projects. HRT has asserted claims for damages relating to, among others, alleged breaches of the development and contracting obligations, failure to perform in accordance with contract terms and specifications, and other deficiencies in performance by Medistar and Medix. On June 10, 1999, Medistar and Medix filed its answer and counterclaim asserting a variety of alleged legal theories, claims for damages for alleged deficiencies by HRT and the Company in the performance of alleged obligations, and for damage to their business reputation. Attempts at mediation have not resulted in a settlement of the disputes. The Company's prosecution of its claims and defense of the counterclaims will be vigorous. While the Company cannot predict the range of possible loss or outcome, the Company believes that, even though the asserted cross claims seek substantial monetary damages, the allegations made by Medistar and Medix are not factually or legally meritorious, are subject to sustainable defenses and are, to a significant extent, covered by liability insurance.

11. OTHER DATA

Funds From Operations (Unaudited)

Funds from operations, as defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT") 1995 White Paper, means net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from debt restructuring and sales of property, plus depreciation from real estate assets. Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles, is not necessarily indicative of cash available to fund cash needs, and should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

	Year Ended Dec. 31,	
	(unaudited)	
(Dollars in thousands except per share data)	1999	1998
NET INCOME (1)	\$ 86,027	\$ 40,479
NON-RECURRING ITEMS (2)	0	6,308
GAIN OR LOSS ON DISPOSITIONS (3)	(4,776)	(675)
STRAIGHT LINE RENTS	(6,885)	(1,264)
PREFERRED STOCK DIVIDEND	(6,656)	(555)
DEPRECIATION		
Real estate	38,017	15,374
Office F, F & E	0	0
Leasehold improvements	0	0
Other non-revenue producing assets	0	0
	38,017	15,374
AMORTIZATION		
Acquired property contracts	0	0
Other non-revenue producing assets	0	0
Organization costs	0	0
	0	0
DEFERRED FINANCING COSTS	0	0
TOTAL ADJUSTMENTS	19,700	19,188
Funds From Operations - Basic	\$ 105,727	\$ 59,667
Convertible Subordinated Debenture Interest	0	64
Funds From Operations - Diluted	\$ 105,727	\$ 59,731
Shares Outstanding - Basic	39,326,594	24,043,942
Shares Outstanding - Diluted	39,810,306	24,524,600
Funds From Operations Per Share - Basic	\$ 2.69	\$ 2.48
Funds From Operations Per Share - Diluted	\$ 2.66	\$ 2.44

(1) 1999 and 1998 amounts include \$1.2 million and \$1.3 million, respectively, of stock-based, long-term, incentive compensation expense, a non-cash expense.

(2) Represents charges primarily to write off certain capitalized costs, leasehold improvements, organization and other deferred costs in 1998.

(3) Represents net gains from sales of real estate properties.

Return of Capital

Distributions in excess of earnings and profits generally constitute a return of capital. For the years ended December 31, 1999, 1998 and 1997, dividends paid per share of common stock were \$2.15, \$2.07 and \$1.99, respectively, which consisted of ordinary income per share of \$2.00, \$2.07 and \$1.72 and return of capital per share of \$0.15, \$0.00 and \$0.27 respectively. For the years ended December 31, 1999 and 1998, dividends paid per share of preferred stock were \$2.22 and \$0.46, respectively, all of which was ordinary income.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash, receivables and payables are a reasonable estimate of their fair value at December 31, 1999 and 1998 due to their short term nature. The fair value of notes and bonds payable is estimated using cash flow analyses at December 31, 1999 and 1998, based on the Company's current interest rates for similar types of borrowing arrangements. The carrying amount of the Company's notes and bonds payable at December 31, 1999 is approximately \$7.3 million greater than the fair value. The carrying amount of the Company's mortgage notes receivable at December 31, 1999 is approximately \$21.4 million greater than the fair value. The fair value is based on the present value of future cash flows discounted at an assumed market rate of interest. Because no market rates of interest are published for these assets, the market rate of interest is assumed to be the same spread to U.S. Treasury yields for comparable maturities that existed when the mortgage notes receivable were acquired in the Capstone merger on October 15, 1998, adjusted to published U.S. Treasury yields. At December 31, 1998, the carrying value of notes and bonds payable and mortgage notes receivable approximated fair value.

13. SUBSEQUENT EVENTS

On January 25, 2000, the Company declared an increase in its quarterly common stock dividend from \$.545 per share (\$2.18 annualized) to \$.55 per share (\$2.20 annualized) payable on February 16, 2000 to shareholders of record on February 4, 2000. The Company also announced its quarterly preferred stock dividend of \$.55469 per share (\$2.22 annualized) payable on February 29, 2000 to shareholders of record on February 4, 2000.

14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial information includes certain reclassifications to conform to the December 31, 1999 presentation. This information for the years ended December 31, 1999 and 1998 is summarized below:

(In thousands, except per share data)	Quarter Ended			
	March 31	June 30	September 30	December 31
1999				
Total revenue	\$ 45,148	\$ 46,160	\$ 46,518	\$ 49,431
Net income	\$ 20,742	\$ 20,592	\$ 20,230	\$ 24,463
Funds from operations - Basic	\$ 25,730	\$ 26,362	\$ 26,530	\$ 27,105
Funds from operations - Diluted	\$ 25,730	\$ 26,420	\$ 26,610	\$ 27,105
Net income per share - Basic	\$ 0.49	\$ 0.48	\$ 0.47	\$ 0.58
Net income per share - Diluted	\$ 0.48	\$ 0.48	\$ 0.47	\$ 0.57
Funds from operations per share - Basic	\$ 0.66	\$ 0.67	\$ 0.68	\$ 0.69
Funds from operations per share - Diluted	\$ 0.65	\$ 0.66	\$ 0.67	\$ 0.68
1998				
Total revenue	\$ 17,333	\$ 17,730	\$ 18,325	\$ 39,041
Net income	\$ 8,606	\$ 9,381	\$ 3,050	\$ 19,442
Funds from operations - Basic	\$ 11,604	\$ 12,316	\$ 12,368	\$ 23,379
Funds from operations - Diluted	\$ 11,604	\$ 12,316	\$ 12,368	\$ 23,443
Net income per share - Basic	\$ 0.44	\$ 0.46	\$ 0.15	\$ 0.52
Net income per share - Diluted	\$ 0.43	\$ 0.45	\$ 0.15	\$ 0.51
Funds from operations per share - Basic	\$ 0.60	\$ 0.61	\$ 0.61	\$ 0.65
Funds from operations per share - Diluted	\$ 0.59	\$ 0.60	\$ 0.60	\$ 0.64

EXHIBIT 21

Subsidiaries of the Registrant

SUBSIDIARY*	STATE OF INCORPORATION
-----	-----
HR of Texas, Inc.	Maryland
HRT of Alabama, Inc.	Alabama
HRT of Tennessee, Inc.	Tennessee
HRT of Virginia, Inc.	Virginia
Healthcare Realty Services Incorporated	Alabama
HRT of Florida, Inc.	Florida
HRT of Roanoke, Inc.	Virginia
HRT of Delaware, Inc.	Delaware
HR Interests, Inc.	Texas
Pennsylvania HRT, Inc.	Pennsylvania
HR Acquisition I Corporation 1	Maryland
Property Technology Services, Inc.	Tennessee

* All of the above listed subsidiaries are wholly owned by the Company.

AFFILIATES OF HR ACQUISITION I CORPORATION:*	STATE OF ORGANIZATION
-----	-----
Capstone Capital of Alabama, Inc.	Alabama
Capstone Capital of Baytown, Inc.	Alabama
Capstone Capital of Bonita Bay, Inc.	Alabama
Capstone Capital of California, Inc.	Alabama
Capstone Capital of Cape Coral, Inc.	Alabama
Capstone Capital of Kentucky, Inc.	Alabama
Capstone of Las Vegas, Inc.	Alabama
Capstone Capital of Los Angeles, Inc.	Alabama
Capstone Capital of Massachusetts, Inc.	Alabama
Capstone Capital of Ocoee, Inc.	Alabama
Capstone Capital of Pennsylvania, Inc.	Pennsylvania
Capstone Capital of Port Orange, Inc.	Alabama
Capstone Capital of Sarasota, Inc.	Alabama
Capstone Capital of Texas, Inc.	Alabama
Capstone Capital of Virginia, Inc.	Alabama
Capstone Capital Properties, Inc.	Alabama
Capstone Capital Senior Housing, Inc.	Alabama

* All of the above listed subsidiaries are wholly owned by HR Acquisition I Corporation.

1 Formerly known as Capstone Capital Corporation

OTHER AFFILIATES*

STATE OF ORGANIZATION

Durham Medical Office Building, Inc.
 HR Assets, Inc. (Inactive)
 HR Capital, Inc. (Inactive)
 HR Funding, Inc. (Inactive)
 HR of San Antonio, Inc.2**

Texas
 Texas
 Texas
 Texas
 Texas

* The Company owns approximately 99% by value of the stock of each of the above listed other affiliates. The remainder of the affiliates' stock is owned by, and voting control rests with, executive officers of the Company.

**** Durham Medical Office Building, Inc. is 100% Shareholder.**

LIMITED PARTNERSHIPS:

PERCENT OF OWNERSHIP*

STATE OF ORGANIZATION

San Antonio SSP, Ltd.	25.3%	Texas
Pasadena Medical Plaza, SSJ, Ltd.	51.0%	Florida
Capstone of Bonita Bay, Ltd.	100%	Alabama
Capstone of Cape Coral, Ltd.	100%	Alabama
Capstone of Las Vegas, Ltd.	100%	Alabama
Capstone of Los Angeles, Ltd.	25%	Alabama
Capstone of Ocoee, Ltd.	75%	Alabama
Capstone of Port Orange, Ltd.	75%	Alabama
Capstone Capital of San Antonio, Ltd.	100%	Alabama
Capstone of Sarasota, Ltd.	100%	Alabama
Capstone of Virginia Limited Partnership	90%	Alabama
Cap Bay IV, Ltd.	75%	Alabama
Cap Bay V, Ltd.	75%	Alabama
Cap Bay VII, Ltd.	70%	Alabama
Cap Bay VIII, Ltd.	70%	Alabama

* The Company and/or certain affiliates have varying amounts of ownership as either the general or limited partner in these limited partnerships.

2 Formerly known as SSP San Antonio, Inc.

EXHIBIT 23

Consent of Ernst & Young LLP, Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Healthcare Realty Trust Incorporated of our report dated January 25, 2000 included in the 1999 Annual Report to Shareholders of Healthcare Realty Trust Incorporated.

Our audits also included the financial statement schedules of Healthcare Realty Trust Incorporated listed in Item 14(a). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-97240) pertaining to the Healthcare Realty Trust Incorporated 1993 Employees Stock Incentive Plan, 1995 Restricted Stock Plan for Non-Employee Directors, and 1995 Employee Stock Purchase Plan; in the Registration Statement (Form S-3 No. 33-97888) pertaining to the registration of \$250,000,000 of debt securities, preferred stock, common stock warrants, and common stock; and in the Registration Statement (Form S-3 No. 33-79452) pertaining to the Healthcare Realty Trust Incorporated Dividend Reinvestment Plan of our report dated January 25, 2000 with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedules included in this Annual Report (Form 10-K) of Healthcare Realty Trust Incorporated.

/s/ ERNST & YOUNG LLP

*Nashville, Tennessee
March 14, 2000*

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF HEALTHCARE REALTY TRUST INC FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
EXCHANGE RATE	1
CASH	3,396
SECURITIES	0
RECEIVABLES	19,666
ALLOWANCES	995
INVENTORY	0
CURRENT ASSETS	22,067
PP&E	1,399,146
DEPRECIATION	83,996
TOTAL ASSETS	1,607,964
CURRENT LIABILITIES	26,177
BONDS	563,884
PREFERRED MANDATORY	0
PREFERRED	30
COMMON	400
OTHER SE	1,017,473
TOTAL LIABILITY AND EQUITY	1,607,964
SALES	178,829
TOTAL REVENUES	187,257
CGS	67,403
TOTAL COSTS	106,006
OTHER EXPENSES	0
LOSS PROVISION	576
INTEREST EXPENSE	38,603
INCOME PRETAX	86,027
INCOME TAX	0
INCOME CONTINUING	86,027
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	86,027
EPS BASIC	2.02
EPS DILUTED	1.99

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