

STAG Industrial, Inc.  
Form 10-K  
February 13, 2019  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number 1-34907

STAG INDUSTRIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland 27-3099608  
(State or other jurisdiction (IRS Employer  
of incorporation or organization) Identification No.)

One Federal Street, 23rd Floor 02110  
Boston, Massachusetts (Zip Code)

(Address of principal executive offices)  
(617) 574-4777  
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	New York Stock Exchange
6.875% Series C Cumulative Redeemable Preferred Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

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

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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 the 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. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$2,832 million based on the closing price on the New York Stock Exchange as of June 29, 2018.

Number of shares of the registrant's common stock outstanding as of February 11, 2019: 112,502,759

Number of shares of 6.875% Series C Cumulative Redeemable Preferred Stock as of February 11, 2019: 3,000,000

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement with respect to its 2019 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14 hereof as noted therein.

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PART I.

Introduction

As used herein, except where the context otherwise requires, “Company,” “we,” “our” and “us,” refer to STAG Industrial, Inc. and our consolidated subsidiaries and partnerships, including our operating partnership, STAG Industrial Operating Partnership, L.P. (“Operating Partnership”).

Forward-Looking Statements

This report, including the information incorporated by reference, contains “forward-looking statements” within the meaning of the safe harbor from civil liability provided for such statements by the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). You can identify forward-looking statements by the use of words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “seeks,” “should,” “will,” and variations of such words or similar expressions. Forward-looking statements in this report include, among others, statements about our future financial condition, results of operations, capitalization rates on future acquisitions, our business strategy and objectives, including our acquisition strategy, occupancy and leasing rates and trends, and expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital). Our forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by our forward-looking statements are reasonable, we can give no assurance that our plans, intentions, expectations, strategies or prospects will be attained or achieved and you should not place undue reliance on these forward looking statements. Furthermore, actual results may differ materially from those described in the forward looking statements and may be affected by a variety of risks and factors including, without limitation:

- the factors included in this report, including those set forth under the headings “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations;”
- our ability to raise equity capital on attractive terms;
- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;
- decreased rental rates or increased vacancy rates;
- potential defaults (including bankruptcies or insolvency) on or non-renewal of leases by tenants;
- acquisition risks, including our ability to identify and complete accretive acquisitions and/or failure of such acquisitions to perform in accordance with projections;
- the timing of acquisitions and dispositions;
- technological developments, particularly those affecting supply chains and logistics;
- potential natural disasters and other potentially catastrophic events such as acts of war and/or terrorism;

international, national, regional and local economic conditions;

the general level of interest rates and currencies;

potential changes in the law or governmental regulations and interpretations of those laws and regulations, including changes in real estate and zoning laws or real estate investment trust ("REIT") or corporate income tax laws, and potential increases in real property tax rates;

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financing risks, including the risks that our cash flows from operations may be insufficient to meet required payments of principal and interest and we may be unable to refinance our existing debt upon maturity or obtain new financing on attractive terms or at all;

credit risk in the event of non-performance by the counterparties to the interest rate swaps and revolving and unfunded debt;

- lack of or insufficient amounts of insurance;

our ability to maintain our qualification as a REIT;

our ability to retain key personnel;

litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; and

- possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us.

Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1. Business

Certain Definitions

In this report:

We define "GAAP" as generally accepted accounting principles in the United States.

We define "total annualized base rental revenue" as the contractual monthly base rent as of December 31, 2018 (which differs from rent calculated in accordance with GAAP) multiplied by 12. If a tenant is in a free rent period as of December 31, 2018, the total annualized base rental revenue is calculated based on the first contractual monthly base rent amount multiplied by 12.

We define "occupancy rate" as the percentage of total leasable square footage for which either revenue recognition has commenced in accordance with GAAP or the lease term has commenced as of the close of the reporting period, whichever occurs earlier.

We define the "Value Add Portfolio" as properties that meet any of the following criteria: (i) less than 75% occupied as of the acquisition date; (ii) will be less than 75% occupied due to known move-outs within two years of the acquisition date; or (iii) out of service with significant physical renovation of the asset.

We define "Stabilization" for properties being redeveloped as the earlier of achieving 90% occupancy or 12 months after completion. With respect to properties acquired and immediately added to the Value Add Portfolio, (i) if acquired with less than 75% occupancy as of the acquisition date, Stabilization will occur upon the earlier of achieving 90% occupancy or 12 months from the acquisition date; or (ii) if acquired and will be less than 75%

occupied due to known move-outs within two years of the acquisition date, Stabilization will occur upon the earlier of achieving 90% occupancy after the known move-outs have occurred or 12 months after the known move-outs have occurred.

We define the "Operating Portfolio" as all warehouse and light manufacturing assets that were acquired stabilized or have achieved Stabilization. The Operating Portfolio excludes non-core flex/office assets and assets contained in the Value Add Portfolio.

We define a "Comparable Lease" as a lease in the same space with a similar lease structure as compared to the previous in-place lease, excluding new leases for space that was not occupied under our ownership.

We define "SL Rent Change" as the percentage change in the average monthly base rent over the term of the lease, calculated on a straight-line basis, of the lease executed during the period compared to the Comparable Lease for assets included in the Operating Portfolio. Rent under gross or similar type leases are converted to a net rent based on an estimate of the applicable recoverable expenses, and this calculation excludes the impact of any holdover rent.

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We define "Cash Rent Change" as the percentage change in the base rent of the lease executed during the period compared to the base rent of the Comparable Lease for assets included in the Operating Portfolio. The calculation compares the first base rent payment due after the lease commencement date compared to the base rent of the last monthly payment due prior to the termination of the lease, excluding holdover rent. Rent under gross or similar type leases are converted to a net rent based on an estimate of the applicable recoverable expenses.

### Overview

We are a REIT focused on the acquisition, ownership and operation of single-tenant, industrial properties throughout the United States. We seek to (i) identify properties for acquisition that offer relative value across all locations, industrial property types, and tenants through the principled application of our proprietary risk assessment model, (ii) operate our properties in an efficient, cost-effective manner, and (iii) capitalize our business appropriately given the characteristics of our assets. We are a Maryland corporation and our common stock is publicly traded on the New York Stock Exchange ("NYSE") under the symbol "STAG."

We are organized and conduct our operations to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and generally are not subject to federal income tax to the extent we currently distribute our income to our stockholders and maintain our qualification as a REIT. We remain subject to state and local taxes on our income and property and to U.S. federal income and excise taxes on our undistributed income.

As of December 31, 2018, we owned 390 buildings in 37 states with approximately 76.8 million rentable square feet, consisting of 320 warehouse/distribution buildings, 58 light manufacturing buildings, nine flex/office buildings, and three Value Add Portfolio buildings. We own both single- and multi-tenant properties, although we focus on the former. As of December 31, 2018, our buildings were approximately 95.5% leased to 349 tenants, with no single tenant accounting for more than approximately 2.3% of our total annualized base rental revenue and no single industry accounting for more than approximately 15.0% of our total annualized base rental revenue. We intend to maintain a diversified mix of tenants to limit our exposure to any single tenant.

As of December 31, 2018, our Operating Portfolio was approximately 95.8% leased and our SL Rent Change (as defined below) on new and renewal leases together grew approximately 15.2% and 10.8% during the years ended December 31, 2018 and 2017, respectively and our Cash Rent Change on new and renewal leases together grew approximately 7.9% and 2.9% during the years ended December 31, 2018 and 2017, respectively.

We have a fully-integrated acquisition, leasing and asset management platform, and our senior management team has a significant amount of single-tenant, industrial real estate experience. Our mission is to continue to be a disciplined, relative value investor and a leading owner and operator of single-tenant, industrial properties in the United States. We seek to deliver attractive stockholder returns in all market environments by providing a covered dividend combined with accretive growth.

We are structured as an umbrella partnership REIT, also known as an UPREIT, and own all of our properties and conduct substantially all of our business through our Operating Partnership, which we control and manage. As of December 31, 2018, we owned approximately 96.5% of the common equity of our Operating Partnership, and our current and former executive officers, directors, senior employees and their affiliates, and third parties who contributed properties to us in exchange for common equity in our Operating Partnership, owned the remaining 3.5%. We completed our initial public offering of common stock and related formation transactions, pursuant to which we succeeded our predecessor, on April 20, 2011.

### Our Strategy

Our primary business objectives are to own and operate a balanced and diversified portfolio of binary risk investments (individual single-tenant industrial properties) that maximize cash flows available for distribution to our stockholders, and to enhance stockholder value over time by achieving sustainable long-term growth in distributable cash flow from



operations per share.

We believe that our focus on owning and operating a portfolio of individually-acquired, single-tenant industrial properties throughout the United States will, when compared to other real estate portfolios, generate returns for our stockholders that are attractive in light of the associated risks for the following reasons.

Buyers tend to price an individual, single-tenant, industrial property according to the binary nature of its cash flows; with only one potential tenant, any one property is either generating revenue or not. Furthermore, tenants typically cover operating expenses at a property and when a property is not generating revenue, we, as owners, are responsible for paying these expenses. We believe the market prices these properties are based upon a higher risk profile due to the single-tenant nature of these properties and therefore applies a lower value relative to a diversified cash flowing investment.

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- The acquisition and contribution of these single-tenant properties to an aggregated portfolio of these individual binary risk cash flows creates diversification, thereby lowering risk and creating value. Industrial properties generally require less capital expenditure than other commercial property types and single-tenant properties generally require less expenditure for leasing, operating and capital costs per property than multi-tenant properties.

Other institutional, industrial real estate buyers tend to focus on larger properties and portfolios in a select few primary markets. In contrast, we focus on smaller, individual properties across many markets. As a result, our typical competitors are local investors who often do not have the same access to debt or equity capital as us. In our fragmented, predominantly non-institutional environment, a sophisticated, institutional platform with access to capital has execution and operational advantages.

Our focus on single-tenant properties is not exclusive; we also own multi-tenant properties, as a result of acquiring properties with more than one tenant or of originally single-tenant properties re-leasing to multiple tenants.

### Regulation

#### General

Our properties are subject to various laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that we and/or our tenants, as applicable, have the necessary permits and approvals to operate each of our properties.

#### Americans with Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990, as amended (the “ADA”) to the extent that such properties are “public accommodations” as defined under the ADA. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. Although we believe that the properties in our portfolio in the aggregate substantially comply with current requirements of the ADA, and we have not received any notice for correction from any regulatory agency, we have not conducted a comprehensive audit or investigation of all of our properties to determine whether we are in compliance and therefore we may own properties that are not in compliance with the ADA.

ADA compliance is dependent upon the tenant’s specific use of the property, and as the use of a property changes or improvements to existing spaces are made, we will take steps to ensure compliance. Noncompliance with the ADA could result in additional costs to attain compliance, imposition of fines by the U.S. government or an award of damages or attorney’s fees to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations to achieve compliance as necessary.

#### Environmental Matters

Our properties are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require us, as owner of a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated, and therefore it is possible we could incur these costs even after we sell some of our properties. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner’s ability to borrow using the property as collateral or to sell the property. Under applicable environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment. We invest in properties historically used for industrial, light manufacturing and commercial purposes. Certain of our properties are on or are adjacent to or near other properties upon which others, including former owners or tenants of our properties have engaged, or may in the future engage, in activities that may generate or release petroleum products or other hazardous or toxic substances. Environmental laws in the United States also require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who

fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos. Some of our buildings are known to have asbestos containing materials, and others, due to the age of the building and observed conditions,

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are suspected of having asbestos containing materials. We do not believe these conditions will materially and adversely affect us. In most or all instances, no immediate action was recommended to address the conditions. Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos at one of our properties may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

We could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to our stockholders. All of our properties were subject to a Phase I or similar environmental assessment by independent environmental consultants at the time of acquisition. We generally expect to continue to obtain a Phase I or similar environmental assessment by independent environmental consultants on each property prior to acquiring it. However, these environmental assessments may not reveal all environmental costs that might have a material adverse effect on our business, assets, results of operations or liquidity and may not identify all potential environmental liabilities.

At the time of acquisition, we add each property to our portfolio environmental insurance policy that provides coverage for potential environmental liabilities, subject to the policy's coverage conditions and limitations.

We can make no assurances that future laws, ordinances or regulations will not impose material environmental liabilities on us, or the current environmental condition of our properties will not be affected by tenants, the condition of land or operations in the vicinity of our properties (such as releases from underground storage tanks), or by third parties unrelated to us.

### Insurance

We carry comprehensive general liability, fire, extended coverage and rental loss insurance covering all of the properties in our portfolio under a blanket insurance policy. In addition, we maintain a portfolio environmental insurance policy that provides coverage for potential environmental liabilities, subject to the policy's coverage conditions and limitations. Generally, we do not carry insurance for certain losses, including, but not limited to, losses caused by floods (unless the property is located in a flood plain), earthquakes, acts of war, acts of terrorism or riots. We carry employment practices liability insurance that covers us against claims by employees, former employees or potential employees for various employment related matters including wrongful termination, discrimination, sexual harassment in the workplace, hostile work environment, and retaliation, subject to the policy's coverage conditions and limitations. We carry comprehensive cyber liability insurance coverage that covers us against claims related to certain first party and third party losses including data restoration costs, crisis management expenses, credit monitoring costs, failure to implement and maintain reasonable security procedures, invasion of customer's privacy and negligence, subject to the policy's coverage conditions and limitations. We also carry directors and officers insurance. We believe the policy specifications and insured limits are appropriate and adequate given the relative risk of loss, the cost of the coverage and standard industry practice; however, our insurance coverage may not be sufficient to cover all of our losses.

### Competition

In acquiring our target properties, we compete primarily with local individuals or local operators due to the smaller, single asset (versus portfolio) focus of our acquisition strategy. From time to time we compete with other public industrial property sector REITs, single-tenant REITs, income oriented non-traded REITs, and private real estate funds. Local real estate investors historically have represented our predominant competition for deals and they typically do not have the same access to capital that we do as a publicly traded institution. We also face significant competition from owners and managers of competing properties in leasing our properties to prospective tenants and in re-leasing space to existing tenants.

### Operating Segments

We manage our operations on an aggregated, single segment basis for purposes of assessing performance and making operating decisions, and accordingly, have only one reporting and operating segment. See Note 2 in the accompanying Notes to Consolidated Financial Statements under “Segment Reporting.”

#### Employees

As of December 31, 2018, we employed 73 employees. None of our employees are represented by a labor union.

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Our Corporate Structure

We were incorporated in Maryland on July 21, 2010, and our Operating Partnership was formed as a Delaware limited partnership on December 21, 2009.

We are structured as an UPREIT; our publicly-traded entity, STAG Industrial, Inc., is the REIT in the UPREIT structure, and our Operating Partnership is the umbrella partnership. We own a majority, but not all, of the Operating Partnership. We also wholly own the sole general partner (the manager) of the Operating Partnership. Substantially all of our assets are held in, and substantially all of our operations are conducted through, the Operating Partnership. Shares of our common stock are traded on the NYSE under the symbol "STAG." The limited partnership interests in the Operating Partnership, which we sometimes refer to as "common units," are not and cannot be publicly traded, although they may provide liquidity through an exchange feature described below. Our UPREIT structure allows us to acquire properties on a tax-deferred basis by issuing common units in exchange for the property.

The common units of limited partnership interest in our Operating Partnership correlate on a one-for-one economic basis to the shares of common stock in the REIT. Each common unit receives the same distribution as a share of our common stock, the value of each common unit is tied to the value of a share of our common stock and each common unit, after one year, generally may be redeemed (that is, exchanged) for cash in an amount equivalent to the value of a share of common stock or, if we choose, for a share of common stock on a one-for-one basis. When redeeming common units for cash, the value of a share of common stock is calculated as the average common stock closing price on the NYSE for the 10 trading days immediately preceding the redemption notice date.

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The following is a simplified diagram of our UPREIT structure at December 31, 2018.

**Additional Information**

Our principal executive offices are located at One Federal Street, 23rd Floor, Boston, Massachusetts 02110. Our telephone number is (617) 574-4777.

Our website is [www.stagindustrial.com](http://www.stagindustrial.com). Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to any of those reports that we file with the SEC are available free of charge as soon as reasonably practicable through our website at [www.stagindustrial.com](http://www.stagindustrial.com). Also posted on our website, and available in print upon request, are charters of each committee of the board of directors, our code of business conduct and ethics and our corporate governance guidelines. Within the time period required by the SEC, we will post on our website any amendment to the code of business conduct and ethics and any waiver applicable to any executive officer, director or senior financial officer. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this report or any other report or document we file with or furnish to the SEC.

All reports, proxy and information statements and other information we file with the SEC are also available free of charge through the SEC's website at [www.sec.gov](http://www.sec.gov).

**Item 1A. Risk Factors**

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not presently known to us or that we may currently deem immaterial also may impair our business operations. If any of the following or other risks

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occur, our business, financial condition, operating results, cash flows, and distributions, as well as the market prices for our securities, could be materially adversely affected.

Risks Related to Our Business and Operations

Our investments are concentrated in the industrial real estate sector, and we would be adversely affected by an economic downturn in that sector.

As of December 31, 2018, the majority of our buildings were industrial properties. This concentration may expose us to the risk of economic downturns in the industrial real estate sector to a greater extent than if our properties were more diversified across other sectors of the real estate industry.

Adverse economic conditions will harm our returns and profitability.

Our operating results may be affected by market and economic challenges and uncertainties, which may result from a continued or exacerbated general economic slowdown experienced by the nation as a whole, by the local economies where our properties may be located or our tenants may conduct business, or by the real estate industry, including the following:

- poor economic conditions may result in tenant defaults under leases and extended vacancies at our properties;
- re-leasing may require concessions or reduced rental rates under the new leases due to reduced demand;
- adverse capital and credit market conditions may restrict our operating activities; and
- constricted access to credit may result in tenant defaults, non-renewals under leases or inability of potential buyers to acquire properties held for sale.

Also, to the extent we purchase real estate in an unstable market, we are subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future that it attracts at the time of our purchases, or the number of companies seeking to acquire properties decreases, the value of our investments may not appreciate or may decrease significantly below the amount we paid for these investments. The length and severity of any economic slowdown or downturn cannot be predicted. Our operations could be negatively affected to the extent that an economic slowdown or downturn is prolonged or becomes more severe.

Substantial international, national and local government deficits and the weakened financial condition of these governments may adversely affect us.

The values of, and the cash flows from, the properties we own may be affected by historical or future developments in global, national and local economies. As a result of any global economic crisis and significant government intervention, federal, state and local governments have historically incurred and may continue to incur record deficits and assume or guarantee liabilities of private financial institutions or other private entities. Increased budget deficits and weakened financial condition of federal, state and local governments may lead to reduced governmental spending, tax increases, public sector job losses, increased interest rates, currency devaluations, defaults on debt obligations or other adverse economic events, which may directly or indirectly adversely affect our business, financial condition and results of operations.

Events or occurrences that affect areas in which our properties are geographically concentrated may impact financial results.

In addition to general, regional, national and international economic conditions, our operating performance is impacted by the economic conditions of the specific markets in which we have concentrations of properties. See our "Geographic Diversification" table in Item 2, "Properties" for details of geographic concentration of our properties. Our operating performance could be adversely affected if conditions become less favorable in any of the markets in which we have a concentration of properties.

We are subject to industry concentrations that make us susceptible to adverse events with respect to certain industries. We are subject to certain industry concentrations with respect to our properties. See our "Industry Diversification" table in Item 2, "Properties" for details of industry concentration of our properties. Such industries are subject to specific risks that could result in downturns within the industries. Any downturn in one or more of these industries, or in any other industry in which we may have a significant concentration now or in the future, could adversely affect our tenants who are involved in such industries. If any of these tenants is unable to withstand such downturn or is otherwise unable to compete effectively in its business, it may be forced to declare bankruptcy, fail to meet its rental obligations, seek rental concessions or be unable to enter into new leases, which could materially and adversely affect



us.

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Default by one or more of our tenants could materially and adversely affect us.

Any of our tenants may experience a downturn in its business at any time that may significantly weaken its financial condition or cause its failure. As a result, such a tenant may decline to extend or renew its lease upon expiration, fail to make rental payments when due or declare bankruptcy. The default, financial distress or bankruptcy of a tenant could cause interruptions in the receipt of rental revenue and/or result in a vacancy, which is, in the case of a single-tenant property, likely to result in the complete reduction in the operating cash flows generated by the property and may decrease the value of that property. In addition, a majority of our leases generally require the tenant to pay all or substantially all of the operating expenses normally associated with the ownership of the property, such as utilities, real estate taxes, insurance and routine maintenance. Following a vacancy at a single-tenant property, we will be responsible for all of the operating costs at such property until it can be re-let, if at all.

If our tenants are unable to obtain financing necessary to continue to operate their businesses and pay us rent, we could be materially and adversely affected.

Many of our tenants rely on external sources of financing to operate their businesses. The U.S. financial and credit markets may experience liquidity disruptions, resulting in the unavailability of financing for many businesses. If our tenants are unable to obtain financing necessary to continue to operate their businesses, they may be unable to meet their rental obligations to us or enter into new leases with us or be forced to declare bankruptcy and reject our leases, which could materially and adversely affect us.

We have owned our properties for a limited time, and we may not be aware of characteristics or deficiencies involving any one or all of them.

Of the properties in our portfolio at December 31, 2018, 232 buildings totaling approximately 46.9 million rentable square feet have been acquired in the past five years. These properties may have characteristics or deficiencies unknown to us that could affect their valuation or revenue potential and such properties may not ultimately perform up to our expectations. We cannot assure you that the operating performance of the properties will not decline under our management.

We face risks associated with system failures through security breaches or cyber attacks, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches, whether through cyber attacks, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected and, in fact, may not be detected.

Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to mitigate this risk entirely. A security breach or other significant disruption involving our IT networks and related systems could disrupt the proper functioning of our networks and systems; result in misstated financial reports, violations of loan covenants and/or missed reporting deadlines; result in our inability to monitor our compliance with the rules and regulations regarding our qualification as a REIT; result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes; require significant management attention and resources to remedy any damages that result; subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or damage our reputation among our tenants and

investors generally.

We depend on key personnel; the loss of their full service could adversely affect us.

Our success depends to a significant degree upon the continued contributions of certain key personnel including, but not limited to, our executive officers, whose continued service is not guaranteed, and each of whom would be difficult to replace. While we have entered into employment contracts with our executive officers, they may nevertheless cease to provide services to us at any time. If any of our key personnel were to cease employment with us, our operating results could suffer. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flows. Further, such a loss could be negatively perceived

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in the capital markets. As of December 31, 2018, we have not obtained and do not expect to obtain key man life insurance on any of our key personnel.

We also believe that, as we expand, our future success depends, in large part, upon our ability to hire and retain highly skilled managerial, investment, financing, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such skilled personnel.

Our growth will depend upon future acquisitions of properties, and we may be unable to consummate acquisitions on advantageous terms or acquisitions may not perform as we expect.

We acquire and intend to continue to acquire primarily warehouse/distribution properties and light manufacturing properties. The acquisition of properties entails various risks, including the risk that our investments may not perform as we expect. Further, we face competition for attractive investment opportunities from other well-capitalized real estate investors, including both publicly-traded REITs and private institutional investment funds, and these competitors may have greater financial resources and a greater ability to borrow funds to acquire properties. This competition will increase as investments in real estate become increasingly attractive relative to other forms of investment. As a result of competition, we may be unable to acquire additional properties for the purchase price we desire. In addition, we expect to finance future acquisitions through a combination of secured and unsecured borrowings, proceeds from equity or debt offerings by us or our Operating Partnership or its subsidiaries and proceeds from property contributions and divestitures which may not be available and which could adversely affect our cash flows.

The cash available for distribution to stockholders may not be sufficient to pay dividends at expected levels, nor can we assure you of our ability to make distributions in the future.

Distributions will be authorized and determined by our board of directors in its sole discretion from time to time and will depend upon a number of factors, including:

- cash available for distribution;
- our results of operations;
- our financial condition, especially in relation to the anticipated future capital needs of our properties;
- the distribution requirements for REITs under the Code;
- our operating expenses; and
- other factors our board of directors deems relevant.

Consequently, we may not continue our current level of distributions to stockholders, and our distribution levels may fluctuate.

In addition, some of our distributions may include a return of capital. To the extent that we make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder's adjusted tax basis in its shares. A return of capital is not taxable, but it has the effect of reducing the holder's adjusted tax basis in its investment. To the extent that distributions exceed the adjusted tax basis of a holder's shares, they will be treated as gain from the sale or exchange of such stock. If we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been.

### Risks Related to Our Organization and Structure

Our growth depends on external sources of capital, which are outside of our control and affect our ability to take advantage of strategic opportunities, satisfy debt obligations and make distributions to our stockholders.

In order to maintain our qualification as a REIT, we are generally required under the Code to annually distribute at least 90% of our net taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to federal income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including acquisition financing, from operating cash flow. Consequently, we may rely on third-party sources to fund our capital needs. We may not be able to sell equity or obtain financing on favorable terms or at all. In addition, any additional debt we incur will increase our leverage and debt service obligations. Our access to third-party sources of capital depends, in part, on:

- general market conditions;



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the market's perception of our growth potential;

- our current debt levels;

our current and expected future earnings;

our cash flow and dividends; and

the market price per share of our common stock.

If we cannot raise equity or obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, meet the capital and operating needs of our existing properties or satisfy our debt service obligations. Further, in order to meet the REIT distribution requirements and maintain our REIT status and to avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes or the effect of non-deductible capital expenditures, the creation of reserves, certain restrictions on distributions under loan documents or required debt or amortization payments.

To the extent that capital is not available to acquire properties, profits may not be realized or their realization may be delayed, which could result in an earnings stream that is less predictable than some of our competitors or a failure to meet our projected earnings and distributable cash flow levels in a particular reporting period. Such a failure to meet our projected earnings and distributable cash flow levels in a particular reporting period could have an adverse effect on our financial condition and on the market price of our stock.

Our fiduciary duties as sole member of the general partner of our Operating Partnership could create conflicts of interest, which may impede business decisions that could benefit our stockholders.

We, as the sole member of the general partner of our Operating Partnership, have fiduciary duties to the other limited partners in our Operating Partnership, the discharge of which may conflict with the interests of our stockholders. The limited partners of our Operating Partnership have agreed that, in the event of a conflict in the fiduciary duties owed by us to our stockholders and, in our capacity as indirect general partner of our Operating Partnership, to such limited partners, we are under no obligation to give priority to the interests of such limited partners. In addition, those persons holding common units will have the right to vote on certain amendments to the Operating Partnership agreement (which require approval by a majority interest of the limited partners, including us) and individually to approve certain amendments that would adversely affect their rights. These voting rights may be exercised in a manner that conflicts with the interests of our stockholders. For example, we are unable to modify the rights of limited partners to receive distributions as set forth in the Operating Partnership agreement in a manner that adversely affects their rights without their consent, even though such modification might be in the best interest of our stockholders.

In addition, conflicts may arise when the interests of our stockholders and the limited partners of our Operating Partnership diverge, particularly in circumstances in which there may be an adverse tax consequence to the limited partners. Tax consequences to holders of common units upon a sale or refinancing of our properties may cause the interests of our senior management to differ from your own. As a result of unrealized built-in gain attributable to contributed property at the time of contribution, some holders of common units, including our principals, may suffer different and more adverse tax consequences than holders of our securities upon the sale or refinancing of the properties owned by our Operating Partnership, including disproportionately greater allocations of items of taxable income and gain upon a realization event. As those holders will not receive a correspondingly greater distribution of cash proceeds, they may have different objectives regarding the appropriate pricing, timing and other material terms of any sale or refinancing of certain properties, or whether to sell or refinance such properties at all.

We may experience conflicts of interest with several members of our senior management team and board who have or may become limited partners in our Operating Partnership through the receipt of common units or long-term incentive plan units in our Operating Partnership ("LTIP units") granted under the STAG Industrial, Inc. 2011 Equity Incentive Plan, as amended and restated (the "2011 Plan").

We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared and we may not be able to accurately report our financial results.

We are subject to reporting and other obligations under the Exchange Act, including the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. These reporting and other obligations place significant demands on our management, administrative, operational, internal audit and accounting resources and cause us to incur significant expenses. We may need to upgrade our systems or create new systems; implement additional financial and management controls, reporting systems and procedures; expand our internal audit function;

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or hire additional accounting, internal audit and finance staff. Any failure to maintain effective internal controls could have a material adverse effect on our business, operating results and trading price of our securities.

Our charter, the partnership agreement of our Operating Partnership and Maryland law contain provisions that may delay or prevent a change of control transaction.

Our charter contains 9.8% ownership limits. Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to limit any person to actual or constructive ownership of no more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock and no more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock. In addition, the articles supplementary for our 6.875% Series C Cumulative Redeemable Preferred Stock, par value \$0.01 per share (the "Series C Preferred Stock") provide that generally no person may own, or be deemed to own by virtue of the attribution provisions of the Code, either more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding Series C Preferred Stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limits. However, our board of directors may not grant an exemption from the ownership limits to any proposed transferee whose ownership, direct or indirect, of more than 9.8% of the value or number of our outstanding shares of our common stock or Series C Preferred Stock, could jeopardize our status as a REIT. The ownership limits contained in our charter and the restrictions on ownership of our common stock may delay or prevent a transaction or a change of control that might be in the best interest of our stockholders.

Our board of directors may create and issue a class or series of preferred stock without stockholder approval. Subject to the rights of holders of Series C Preferred Stock to approve the classification or issuance of any class or series of stock ranking senior to the Series C Preferred Stock, our board of directors is empowered under our charter to amend our charter to increase or decrease the aggregate number of shares of our common stock or the number of shares of stock of any class or series that we have authority to issue, to designate and issue from time to time one or more classes or series of preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock without stockholder approval. Subject to the rights of holders of Series C Preferred Stock discussed above, our board of directors may determine the relative rights, preferences and privileges of any class or series of preferred stock issued. The issuance of preferred stock could also have the effect of delaying or preventing a change of control transaction that might otherwise be in the best interests of our stockholders.

Certain provisions in the partnership agreement for our Operating Partnership may delay or prevent unsolicited acquisitions of us. Provisions in the partnership agreement for our Operating Partnership could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders might consider such proposals, if made, desirable. These provisions include, among others:

- redemption rights of qualifying parties;
- transfer restrictions on our common units;
- the ability of the general partner in some cases to amend the partnership agreement without the consent of the limited partners; and
- the right of the limited partners to consent to transfers of the general partnership interest and mergers under specified circumstances.

Any potential change of control transaction may be further limited as a result of provisions of the partnership unit designation for the LTIP units, which require us to preserve the rights of LTIP unit holders and may restrict us from amending the partnership agreement for our Operating Partnership in a manner that would have an adverse effect on the rights of LTIP unit holders.

Certain provisions of Maryland law could inhibit changes in control.

Title 8, Subtitle 3 of the Maryland General Corporation Law ("MGCL"), permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or our bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not currently have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under circumstances that might be in the best interest of our stockholders.



Our charter and bylaws, the partnership agreement for our Operating Partnership and Maryland law contain other provisions that may delay, defer or prevent a transaction or a change of control that might be in the best interest of our stockholders.

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Under their employment agreements, our executive officers have the right to terminate their employment and, under certain conditions, receive severance, which may adversely affect us.

The employment agreements with our executive officers provide that each executive may terminate his or her employment and, under certain conditions, receive severance based on two or three times (depending on the officer) the annual total of salary and bonus and immediate vesting of equity-based awards. In the case of certain terminations, they would not be restricted from competing with us after their departure.

Compensation awards to our management may not be tied to or correspond with our improved financial results or the stock price, which may adversely affect us.

The compensation committee of our board of directors is responsible for overseeing our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive compensation and equity-based compensation plans. Our compensation committee has significant discretion in structuring compensation packages and may make compensation decisions based on any number of factors. As a result, compensation awards may not be tied to or correspond with improved financial results at our company or the share price of our common stock.

Our board of directors can take many actions without stockholder approval.

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- amend or revise at any time and from time to time our investment, financing, borrowing and dividend policies and our policies with respect to all other activities, including growth, debt, capitalization and operations;

- amend our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal requirements;

- within the limits provided in our charter, prevent the ownership, transfer and/or accumulation of shares in order to protect our status as a REIT or for any other reason deemed to be in the best interests of us and our stockholders;

- issue additional shares without obtaining stockholder approval, which could dilute the ownership of existing stockholders;

- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series, without obtaining stockholder approval;

- subject to the rights of holders of Series C Preferred Stock, classify or reclassify any unissued shares of our common stock or preferred stock, set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;

- make certain amendments to the 2011 Plan;

- employ and compensate affiliates;

- direct our resources toward investments that do not ultimately appreciate over time;

- change creditworthiness standards with respect to third-party tenants; and

- determine that it is no longer in our best interests to continue to qualify as a REIT.

Any of these actions could increase our operating expenses, impact our ability to make distributions or reduce the value of our assets without giving you, as a stockholder, the right to vote.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers to the maximum extent permitted by Maryland law for liability actually incurred in connection with any proceeding to which they may be made, or threatened to be made, a party, except to the



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extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was either committed in bad faith or was the result of active and deliberate dishonesty, the director or officer actually received an improper personal benefit in money, property or services, or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

The number of shares of our common stock available for future sale, including by our affiliates or investors in our Operating Partnership, could adversely affect the market price of our common stock, and future sales by us of shares of our common stock may be dilutive to existing stockholders.

Sales of substantial amounts of shares of our common stock in the public market, or upon exchange of common units or exercise of any options, or the perception that such sales might occur could adversely affect the market price of our common stock. The exchange of common units for common stock, the exercise of any stock options or the vesting of any restricted stock granted under the 2011 Plan, the issuance of our common stock or common units in connection with property, portfolio or business acquisitions and other issuances of our common stock or common units could have an adverse effect on the market price of our common stock. The existence of shares of our common stock reserved for issuance under the 2011 Plan or upon exchange of common units may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. We also have filed a registration statement with the SEC allowing us to offer, from time to time, an indefinite amount of equity securities (including common and preferred stock) on an as-needed basis and subject to our ability to affect offerings on satisfactory terms based on prevailing conditions. In addition, our board of directors authorized us to issue shares of common stock in our at-the market program. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including issuances of common and preferred stock. No prediction can be made about the effect that future distributions or sales of our common stock will have on the market price of our common stock. In addition, future sales by us of our common stock may be dilutive to existing stockholders.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may adversely affect the market price of our securities.

Our common stock is ranked junior to our Series C Preferred Stock. Our outstanding Series C Preferred Stock also has or will have a preference upon our dissolution, liquidation or winding up in respect of assets available for distribution to our stockholders. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our securities or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our securities and diluting their proportionate ownership.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the price at which they traded when you acquired them. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the market price of our common stock or result in fluctuations in the market price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results;
- changes in our operations or earnings estimates or publication of research reports about us or the industry;

- changes in our dividend policy;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;

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our ability to comply with applicable financial covenants in our unsecured credit facility, unsecured term loans, unsecured notes, and other loan agreements;

additions or departures of key management personnel;

actions by institutional stockholders;

the realization of any of the other risk factors presented in this report;

speculation in the press or investment community; and

general U.S. and worldwide market and economic conditions.

General Real Estate Risks

Our performance and value are subject to general economic conditions and risks associated with our real estate assets. The investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to pay distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes and maintenance costs) that generally do not decline when circumstances reduce the income from the property.

Income from and the value of our properties may be adversely affected by:

changes in general or local economic climate;

the attractiveness of our properties to potential tenants;

changes in supply of or demand for similar or competing properties in an area;

bankruptcies, financial difficulties or lease defaults by our tenants;

technological changes, such as reconfiguration of supply chains, autonomous vehicles, drones, robotics, "3D" printing, online marketplaces for industrial space, or other developments;

changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders;

changes in operating costs and expenses and our ability to control rents;

changes in or increased costs of compliance with governmental rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws, and our potential liability thereunder;

our ability to provide adequate maintenance and insurance;

changes in the cost or availability of insurance, including coverage for mold or asbestos;

unanticipated changes in costs associated with known adverse environmental conditions or retained liabilities for such conditions;

periods of high interest rates and tight money supply;

tenant turnover;

general overbuilding or excess supply in the market; and

disruptions in the global supply chain caused by political, regulatory or other factors, including terrorism and geopolitical developments outside the United States, such as the effects of the United Kingdom's referendum to withdraw from the European Union.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or public perception that any of these events may occur, would result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Future terrorist attacks may result in declining economic activity, which could reduce the demand for, and the value of, our properties. To the extent that future attacks impact our tenants, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

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For these and other reasons, we cannot assure you that we will be profitable or that we will realize growth in the value of our properties.

Actions by our competitors may decrease or prevent increases in the occupancy and rental rates of our properties.

We compete with other owners, operators and developers of real estate, some of which own properties similar to ours in the same markets and sub-markets in which our properties are located. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire.

A significant portion of our properties have leases that expire in the next three years and we may be unable to renew leases, lease vacant space or re-lease space as leases expire.

Our results of operations, cash flows, cash available for distribution, and the value of our securities would be adversely affected if we are unable to lease, on economically favorable terms, a significant amount of space in our operating properties. As of December 31, 2018, leases with respect to approximately 38.8% (excluding month-to-month leases, which comprise an additional 0.2%) of our total annualized base rental revenue will expire before December 31, 2021. We cannot assure you that expiring leases will be renewed or that our properties will be re-leased at base rental rates equal to or above the current market rental rates. In addition, the number of vacant or partially vacant industrial properties in a market or sub-market could adversely affect our ability to re-lease the space at attractive rental rates.

We may be unable to lease vacant space or renew leases or re-lease on favorable terms.

A property may incur a vacancy either by the continued default of a tenant under its lease or the expiration of one of our leases. In addition, certain of the properties we acquire may have some level of vacancy at the time of closing.

Certain of our properties may be specifically suited to the particular needs of a tenant. We may face difficulty obtaining, or be unable to obtain, a new tenant for any vacant space we have in our properties. If the vacancy continues for a long period of time, we may suffer reduced revenue resulting in less cash available to be distributed to stockholders. In addition, the resale value of a property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

We may not have funding for future tenant improvements.

When a tenant at one of our properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract one or more new tenants, we will be required to expend funds to construct new tenant improvements in the vacated space. Except with respect to our current reserves for capital expenditures, tenant improvements and leasing commissions, we cannot assure you that we will have adequate sources of funding available to us for such purposes in the future.

Bankruptcy laws will limit our remedies if a tenant becomes bankrupt and rejects the lease and we may be unable to collect balances due on our leases.

The bankruptcy or insolvency of a tenant could diminish the income we receive from that tenant's lease. Our tenants may experience downturns in their operating results due to adverse changes to their business or economic conditions, and those tenants that are highly leveraged may have a higher possibility of filing for bankruptcy or insolvency. We may not be able to evict a tenant solely because of its bankruptcy. On the other hand, a bankruptcy court might authorize the tenant to terminate its lease with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be an unsecured pre-petition claim subject to statutory limitations, and therefore such amounts received in bankruptcy are likely to be substantially less than the remaining rent we otherwise were owed under the lease. In addition, any claim we have for unpaid past rent could be substantially less than the amount owed. If the lease for such a property is rejected in bankruptcy, our revenue would be reduced and could adversely impact our ability to pay distributions to stockholders.

Real estate investments are not as liquid as other types of investments.

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit our ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. In addition, we intend to comply with the safe

harbor rules relating to the number of properties that can be disposed of in a year, the tax bases and the costs of improvements made to these properties, and other items that enable a REIT to avoid punitive taxation on the sale of assets. Thus, our ability at any time to sell assets or contribute assets to property funds or other entities in which we have an ownership interest may be restricted. This lack of liquidity may limit our ability to vary our portfolio promptly in response to changes in economic or other conditions.



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Acquired properties may be located in new markets where we may face risks associated with investing in an unfamiliar market.

We have acquired, and may continue to acquire, properties in markets that are new to us. When we acquire properties located in these markets, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures.

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

We attempt to ensure that all of our properties are adequately insured to cover casualty losses. However, there are certain losses, including losses from floods, earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so. In addition, changes in the cost or availability of insurance could expose us to uninsured casualty losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by the amount of any such uninsured loss, and we could experience a significant loss of capital invested and potential revenue in these properties and could potentially remain obligated under any recourse debt associated with the property. Moreover, we, as the indirect general partner of our Operating Partnership, generally will be liable for all of our Operating Partnership's unsatisfied recourse obligations, including any obligations incurred by our Operating Partnership as the general partner of joint ventures. In addition, we may have no source of funding to repair or reconstruct the damaged property, and we cannot assure you that any such sources of funding will be available to us for such purposes in the future. We evaluate our insurance coverage annually in light of current industry practice through an analysis prepared by outside consultants.

Environmentally hazardous conditions, including the effect of climate change, may adversely affect our operating results.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of remediation or removing hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean up costs incurred. In addition, third parties may sue the owner or operator of a site for damages based on personal injury, natural resources or property damage or other costs, including investigation and clean up costs, resulting from the environmental contamination. The presence of hazardous or toxic substances on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, private parties. In connection with the acquisition and ownership of our properties, we may be exposed to such costs. The cost of defending against environmental claims, of compliance with environmental regulatory requirements or of remediation of any contaminated property could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our stockholders.

Environmental laws in the United States also require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos. Some of our properties contain asbestos containing building materials.

We invest in properties historically used for industrial, light manufacturing and commercial purposes. Some of these properties contain, or may have contained, underground storage tanks for the storage of petroleum products and other hazardous or toxic substances. All of these operations create a potential for the release of petroleum products or other

hazardous or toxic substances. Some of our properties are adjacent to or near other properties that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on or are adjacent to or near other properties upon which others, including former owners or tenants of our properties, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances.

From time to time, we may acquire properties, or interests in properties, with known adverse environmental conditions where we believe that the environmental liabilities associated with these conditions are quantifiable and that the acquisition will yield a superior risk adjusted return. In such an instance, we underwrite the costs of environmental investigation, clean up and monitoring into the cost. Further, in connection with property dispositions, we may agree to remain responsible for, and to bear the cost of, remediating or monitoring certain environmental conditions on the properties.

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Before acquiring a property, we typically obtain a preliminary assessment of environmental conditions at the property that meets certain specifications, often referred to as “Phase I environmental site assessment” or “Phase I environmental assessment.” It is intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. A Phase I environmental assessment generally includes an historical review, a public records review, an investigation of the surveyed site and surrounding properties, and preparation and issuance of a written report, but does not include soil sampling or subsurface investigations and typically does not include an asbestos survey. Material environmental conditions, liabilities or compliance concerns may arise after the environmental assessment has been completed. Moreover, there can be no assurance that:

future laws, ordinances or regulations will not impose any material environmental liability; or  
the current environmental condition of our properties will not be affected by tenants, by the condition of land or operations in the vicinity of our properties (such as releases from underground storage tanks), or by third parties unrelated to us.

We are also exposed to potential physical risks from any changes in climate. Our properties may be exposed to rare catastrophic weather events, such as severe storms or floods. If the frequency of extreme weather events increases due to climate change, our exposure to these events could increase. We may be harmed with respect to any real estate development or redevelopment by potential changes to the supply chain or stricter energy efficiency standards for industrial buildings. To the extent climate change causes shifts in weather patterns, our markets could experience negative consequences, including declining demand for industrial space and our inability to operate our buildings. Climate change may also have indirect negative effects on our business by increasing the cost of, or making unavailable, property insurance on terms we find acceptable and increasing the cost of energy, building materials and snow removal at our properties.

Compliance or failure to comply with the ADA and other similar regulations could result in substantial costs. Under the ADA, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the ADA, including removing access barriers, then our cash flows and the amounts available for distributions to our stockholders may be adversely affected. While we believe that our properties are currently in material compliance with these regulatory requirements, the requirements may change or new requirements may be imposed that could require significant unanticipated expenditures.

Some of our properties are subject to ground leases that expose us to the loss of such property upon breach or termination of the ground lease and may limit our ability to sell the property.

We own some properties through leasehold interests in the land underlying the building and we may acquire additional buildings in the future that are subject to similar ground leases. As lessee under a ground lease, we are exposed to the possibility of losing the property upon expiration, or an earlier breach by us, of the ground lease. In the future, our ground leases may contain certain provisions that may limit our ability to sell certain of our properties. In addition, in the future, in order to assign or transfer our rights and obligations under certain of our ground leases, we may be required to obtain the consent of the landlord which, in turn, could adversely impact the price realized from any such sale.

We also own properties that benefit from payment in lieu of tax (“PILOT”) programs or similar programs and to facilitate such tax treatment our ownership in this property is structured as a leasehold interest with the relevant municipality serving as lessor. With respect to such arrangements, we have the right to purchase the fee interest in the property for a nominal purchase price, so the risk factors set forth above for traditional ground leases are mitigated by our ability to convert such leasehold interests to fee interests. In the event of such a conversion of our ownership interests, however, any preferential tax treatment offered by the PILOT programs will be lost.

We may be unable to sell a property if or when we decide to do so, including as a result of uncertain market conditions.

We expect to hold the various real properties in which we invest until such time as we decide that a sale or other disposition is appropriate given our investment objectives. Our ability to dispose of properties on advantageous terms depends on factors beyond our control, including competition from other sellers and the availability of attractive

financing for potential buyers of our properties. We cannot predict the various market conditions affecting real estate investments which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure you that we will be able to sell our properties at a profit in the future. Accordingly, the extent to which you will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions. Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements.

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If we sell properties and provide financing to purchasers, defaults by the purchasers would adversely affect our cash flows.

If we decide to sell any of our properties, we presently intend to use our best efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to stockholders and result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

### Risks Related to Our Debt Financings

Our operating results and financial condition could be adversely affected if we are unable to make required payments on our debt.

Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur, and we are subject to risks normally associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

In particular, loans obtained to fund property acquisitions may be secured by first mortgages on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or properties securing its debt. This could cause us to lose part or all of our investment. Certain of our existing secured indebtedness is, and future secured indebtedness may be, cross-collateralized and, consequently, a default on this indebtedness could cause us to lose part or all of our investment in multiple properties.

Increases in interest rates and changes to the LIBOR settling process could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

As of December 31, 2018, we had total outstanding debt of approximately \$1.3 billion, including \$100.5 million of debt subject to variable interest rates (excluding amounts that were hedged to fix rates), and we expect that we will incur additional indebtedness in the future. Interest we pay reduces our cash available for distributions. Since we have incurred and may continue to incur variable rate debt, increases in interest rates raise our interest costs, which reduces our cash flows and our ability to make distributions to you. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected, and we may lose the property securing such indebtedness. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to sell one or more of our properties at times which may not permit realization of the maximum return on such investments.

Additionally, we pay interest under our unsecured credit facility and other debt instruments based on the London Interbank Offered Rate (“LIBOR”). In July 2017, the Financial Conduct Authority announced that by the end of 2021, LIBOR would be replaced with a more reliable alternative, due to LIBOR rate manipulation and the resulting fines assessed on several major financial institutions over the past several years. It is unclear whether new methods of calculating LIBOR will be established, such that LIBOR may continue to exist after 2021. At this time, we do not know what changes will be made by the Financial Conduct Authority, or how the changes to or replacement of LIBOR will affect the interest we pay on our unsecured credit facility and other debt instruments. Additionally, there is no guarantee that a transition from LIBOR to an alternative rate will not result in financial market disruptions, significant increases in benchmark interest rates or borrowing costs, any of which may have an adverse effect on us.

Covenants in our unsecured credit facility, unsecured term loans, unsecured notes, mortgage notes, and any future debt instruments could limit our flexibility, prevent us from paying distributions, and adversely affect our financial condition or our status as a REIT.

The terms of certain of our mortgage notes require us to comply with loan-to-collateral-value ratios, debt service coverage ratios and, in the case of an event of default, limitations on the ability of our subsidiaries that are borrowers under our mortgage notes to make distributions to us or our other subsidiaries. In addition, our unsecured credit facility, unsecured term loans and unsecured notes require us to comply with loan-to-collateral-value ratios, debt service coverage ratios, leverage ratios, and fixed charge coverage ratios. Our existing loan covenants may reduce flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we have satisfied our payment obligations. In addition, upon a default, our unsecured credit facility, unsecured term loans and unsecured notes, will limit, among other things, our ability to pay dividends, even if we are otherwise in compliance with our financial covenants. Other indebtedness that we may

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incur in the future may contain financial or other covenants more restrictive than those in our unsecured credit facility, unsecured term loans, unsecured notes and mortgage notes.

Our unsecured credit facility, unsecured term loans and unsecured notes contain, and future borrowing facilities may contain, certain cross-default provisions which are triggered in the event that our other material indebtedness is in default. These cross-default provisions may require us to repay or restructure the facilities in addition to any mortgage or other debt that is in default. If our properties were foreclosed upon, or if we are unable to refinance our indebtedness at maturity or meet our payment obligations, we would be adversely affected.

We are a holding company and conduct substantially all of our business through our Operating Partnership. We do not have, apart from our ownership of our Operating Partnership, any independent operations. As a result, we will rely on distributions from our Operating Partnership to pay any dividends we might declare on our securities. We will also rely on distributions from our Operating Partnership to meet our debt service and other obligations, including our obligations to make distributions required to maintain our REIT status. The ability of subsidiaries of our Operating Partnership to make distributions to our Operating Partnership, and the ability of our Operating Partnership to make distributions to us in turn, will depend on their operating results and on the terms of any loans that encumber the properties owned by them. Such loans may contain lock box arrangements, reserve requirements, financial covenants and other provisions that restrict the distribution of funds. In the event of a default under these loans, the defaulting subsidiary would be prohibited from distributing cash. For example, our subsidiaries are party to mortgage notes that prohibit, in the event of default, their distribution of any cash to a related party, including our Operating Partnership. As a result, a default under any of these loans by the borrower subsidiaries could cause us to have insufficient cash to make the distributions required to maintain our REIT status.

Financing arrangements involving balloon payment obligations may adversely affect us.

Most of our financing arrangements require us to make a lump-sum or “balloon” payment at maturity. Our ability to make a balloon payment at maturity is uncertain and, in the event that we do not have sufficient funds to repay the debt at maturity of these loans, we will need to refinance this debt. If the credit environment is constrained at the time the balloon payment is due, we may not be able to refinance the existing financing on acceptable terms and may be forced to choose from a number of unfavorable options. These options include agreeing to otherwise unfavorable financing terms on one or more of our unencumbered assets, selling one or more properties on disadvantageous terms or defaulting on the loan and permitting the lender to foreclose. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

If mortgage debt or unsecured debt is unavailable at reasonable rates, we may not be able to finance the purchase of our properties or refinance our debt.

If mortgage debt or unsecured debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. In addition, we run the risk of being unable to refinance mortgage debt or unsecured debt when the loans come due or of being unable to refinance such debt on favorable terms. If interest rates are higher when we refinance such debt, our net income could be reduced. We may be unable to refinance such debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us or could result in the foreclosure of any mortgaged properties. In addition, we locked in our fixed-rate debt at a point in time when we were able to obtain favorable interest rates, principal amortization and other terms. When we refinance our debt, prevailing interest rates and other factors may result in paying a greater amount of debt service, which will adversely affect our cash flow, and, consequently, our cash available for distribution to our stockholders.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates and could reduce the overall returns on your investment.

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. These instruments involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such agreements are not legally enforceable. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the 75% or 95% REIT income tests. In addition, the nature and timing of hedging transactions may influence the effectiveness of our hedging strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. Moreover, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses that may reduce the overall return on your investment.



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Adverse changes in our credit ratings could negatively affect our financing activity.

The credit ratings of our unsecured debt are based on our operating performance, liquidity and leverage ratios, overall financial position and other factors employed by the credit rating agencies. Our credit ratings can affect the amount of capital we can access, as well as the terms and pricing of any debt we may incur. There can be no assurance that we will be able to maintain our current credit ratings, and in the event our credit ratings are downgraded, we would incur greater borrowing costs and may encounter difficulty in obtaining additional financing. Also, a downgrade in our credit ratings may trigger additional payments or other negative consequences under our unsecured credit facility and other debt instruments. Adverse changes in our credit ratings could harm our business and, in particular, our financing, refinancing and other capital market activities, our ability to manage debt maturities, our future growth and our acquisition activity.

### U.S. Federal Income Tax Risks

Failure to qualify as a REIT would reduce our net earnings available for investment or distribution.

Our qualification as a REIT will depend upon our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets and other tests imposed by the Code. If we fail to qualify as a REIT for any taxable year after electing REIT status, we will be subject to federal income tax on our taxable income at regular corporate rates (21%). In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year in which we failed to qualify as a REIT. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, dividends to stockholders would no longer qualify for the dividends paid deduction and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

Even if we maintain our qualification as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to our stockholders.

Even if we maintain our qualification as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

To maintain our qualification as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.

We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.

If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.

If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% "prohibited transaction" tax unless such sale were made by our taxable REIT subsidiary ("TRS") or if we qualify for a safe harbor from tax.

Our TRS will be subject to federal, state and local income tax at regular corporate rates on any income that it earns.

We intend to make distributions to our stockholders to comply with the REIT requirements of the Code.

REIT distribution requirements could adversely affect our ability to execute our business plan.

From time to time, we may generate taxable income greater than our income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to stockholders. If we do not have other funds available in these situations, we could be required to borrow or raise equity on unfavorable terms, sell investments at disadvantageous prices, make taxable distributions of our stock or debt securities or find another alternative source of funds to distribute enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or

reduce the value of our equity. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

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To maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and reduce our stockholders’ overall return.

To maintain our qualification as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders’ investment.

Re-characterization of sale leaseback transactions may cause us to lose our REIT status.

In certain circumstances, we expect to purchase real properties and lease them back to the sellers of such properties. While we intend to structure any such sale leaseback transaction such that the lease will be characterized as a “true lease” for tax purposes, thereby allowing us to be treated as the owner of the property for federal income tax purposes, we cannot assure you that the Internal Revenue Service (“IRS”) will not challenge such characterization. In the event that any such sale leaseback transaction is challenged and re-characterized as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale leaseback transaction were so re-characterized, we might fail to satisfy the REIT qualification “asset tests” or “income tests” and, consequently, lose our REIT status effective with the year of re-characterization. Alternatively, the amount of our REIT taxable income could be recalculated which might also cause us to fail to meet the distribution requirement for a taxable year.

The prohibited transactions tax may limit our ability to engage in transactions, including dispositions of assets that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may be subject to the prohibited transaction tax upon a disposition of real property. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we can comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business. Consequently, we may choose not to engage in certain sales of real property or may conduct such sales through a TRS.

We may be subject to adverse legislative or regulatory tax changes.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could adversely affect our stockholders or us. We cannot predict how changes in the tax laws might affect our stockholders or us. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the federal income tax consequences of such qualification, or may reduce the relative attractiveness of an investment in a REIT compared to a corporation not qualified as a REIT. The Tax Cuts and Jobs Act (“TCJA”) significantly changed the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Additional technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or any future changes on REITs and their stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, we owned the properties in the following table.

State	City	Number of Asset Type Buildings	Total Rentable
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			Square Feet
Alabama			
	Montgomery	1	Warehouse / Distribution 332,000
	Phenix City	1	Warehouse / Distribution 117,568
Arkansas			
	Rogers	1	Warehouse / Distribution 400,000
Arizona			
	Avondale	1	Warehouse / Distribution 186,643

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State	City	Number of Buildings	Asset Type	Total Rentable Square Feet
California	Tucson	1	Warehouse / Distribution	129,047
	Camarillo	2	Warehouse / Distribution	732,606
	San Diego	1	Warehouse / Distribution	205,440
Colorado	Grand Junction	1	Warehouse / Distribution	82,800
	Longmont	1	Light Manufacturing	64,750
Connecticut	Avon	1	Light Manufacturing	78,400
	East Windsor	2	Warehouse / Distribution	271,111
	Milford	1	Warehouse / Distribution	200,000
	North Haven	3	Warehouse / Distribution	824,727
	Wallingford	1	Warehouse / Distribution	105,000
Delaware	New Castle	1	Warehouse / Distribution	485,987
Florida	Daytona Beach	1	Light Manufacturing	142,857
	Jacksonville	4	Warehouse / Distribution	1,025,720
	Ocala	1	Warehouse / Distribution	619,466
	Orlando	1	Light Manufacturing	215,900
	Orlando	1	Warehouse / Distribution	155,000
	Pensacola	1	Flex / Office	30,620
Georgia	Augusta	1	Warehouse / Distribution	203,726
	Calhoun	1	Warehouse / Distribution	151,200
	Dallas	1	Warehouse / Distribution	92,807
	Forest Park	1	Warehouse / Distribution	373,900
	LaGrange	2	Warehouse / Distribution	645,191
	Norcross	1	Warehouse / Distribution	152,036
	Savannah	1	Warehouse / Distribution	504,200
	Shannon	1	Warehouse / Distribution	568,516
	Smyrna	1	Warehouse / Distribution	102,000
	Statham	1	Warehouse / Distribution	225,680
	Stone Mountain	1	Warehouse / Distribution	78,000
Idaho	Idaho Falls	1	Warehouse / Distribution	90,300
Illinois	Batavia	1	Warehouse / Distribution	102,500
	Belvidere	10	Warehouse / Distribution	1,469,222
	DeKalb	1	Warehouse / Distribution	146,740
	Gurnee	2	Warehouse / Distribution	562,500
	Harvard	1	Light Manufacturing	126,304
	Itasca	1	Warehouse / Distribution	202,000
	Libertyville	1	Warehouse / Distribution	251,961
	Libertyville	1	Flex / Office	35,141

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Machesney Park	1	Warehouse / Distribution	80,000
McHenry	2	Warehouse / Distribution	169,311
Montgomery	1	Warehouse / Distribution	584,301
Sauk Village	1	Warehouse / Distribution	375,785
South Holland	1	Warehouse / Distribution	202,902
Waukegan	1	Warehouse / Distribution	131,252
West Chicago	5	Light Manufacturing	305,874
West Chicago	1	Warehouse / Distribution	249,470
Wood Dale	1	Light Manufacturing	137,607
Woodstock	1	Light Manufacturing	129,803

Indiana

Albion	7	Light Manufacturing	261,013
Elkhart	2	Warehouse / Distribution	170,100
Fort Wayne	1	Warehouse / Distribution	108,800
Goshen	1	Warehouse / Distribution	366,000
Greenwood	1	Warehouse / Distribution	446,500
Kendallville	1	Light Manufacturing	58,500

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State	City	Number of Buildings	Asset Type	Total Rentable Square Feet
	Lafayette	3	Warehouse / Distribution	466,400
	Lebanon	1	Warehouse / Distribution	478,721
	Marion	1	Warehouse / Distribution	249,920
	Portage	1	Warehouse / Distribution	212,000
	South Bend	1	Warehouse / Distribution	225,000
Iowa				
	Council Bluffs	1	Warehouse / Distribution	90,000
	Des Moines	1	Warehouse / Distribution	121,922
	Marion	1	Warehouse / Distribution	95,500
Kansas				
	Edwardsville	1	Warehouse / Distribution	270,869
	Lenexa	2	Warehouse / Distribution	276,219
	Olathe	1	Warehouse / Distribution	496,373
	Wichita	3	Warehouse / Distribution	248,550
Kentucky				
	Bardstown	1	Warehouse / Distribution	102,318
	Danville	1	Warehouse / Distribution	757,047
	Erlanger	1	Warehouse / Distribution	108,620
	Florence	1	Warehouse / Distribution	465,136
	Hebron	1	Warehouse / Distribution	109,000
	Louisville	3	Warehouse / Distribution	722,741
Louisiana				
	Baton Rouge	1	Warehouse / Distribution	279,236
	Shreveport	1	Warehouse / Distribution	420,259
Maine				
	Belfast	5	Flex / Office	306,554
	Biddeford	2	Warehouse / Distribution	265,126
	Gardiner	1	Warehouse / Distribution	265,000
	Lewiston	1	Flex / Office	60,000
	Portland	1	Warehouse / Distribution	100,600
Maryland				
	Hampstead	1	Warehouse / Distribution	1,035,249
	White Marsh	1	Warehouse / Distribution	60,000
Massachusetts				
	Chicopee	1	Warehouse / Distribution	217,000
	Malden	2	Light Manufacturing	109,943
	Norton	1	Warehouse / Distribution	200,000
	South Easton	1	Light Manufacturing	86,000
	Stoughton	2	Warehouse / Distribution	258,213
	Westborough	1	Warehouse / Distribution	121,700
Michigan				
	Belleville	1	Light Manufacturing	160,464
	Chesterfield	4	Warehouse / Distribution	478,803
	Grand Rapids	1	Warehouse / Distribution	301,317

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Holland	1	Warehouse / Distribution	195,000
Kentwood	1	Light Manufacturing	85,157
Lansing	4	Warehouse / Distribution	770,425
Livonia	2	Warehouse / Distribution	285,306
Marshall	1	Light Manufacturing	57,025
Novi	3	Warehouse / Distribution	685,010
Plymouth	1	Warehouse / Distribution	125,214
Redford	1	Warehouse / Distribution	135,728
Romulus	1	Light Manufacturing	274,500
Romulus	1	Warehouse / Distribution	303,760
Sterling Heights	1	Warehouse / Distribution	108,000
Walker	1	Warehouse / Distribution	210,000
Warren	2	Warehouse / Distribution	422,377
Minnesota			
Carlos	1	Light Manufacturing	196,270
Bloomington	1	Light Manufacturing	145,351
Brooklyn Park	1	Warehouse / Distribution	200,720



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State	City	Number of Buildings	Asset Type	Total Rentable Square Feet
	Maple Grove	1	Warehouse / Distribution	108,628
	Mendota Heights	1	Warehouse / Distribution	87,183
	New Hope	1	Light Manufacturing	107,348
	Oakdale	1	Warehouse / Distribution	109,444
	Plymouth	1	Warehouse / Distribution	120,606
	Rogers	1	Warehouse / Distribution	386,724
	Savage	1	Warehouse / Distribution	244,050
	South Saint Paul	1	Warehouse / Distribution	422,727
Missouri				
	Earth City	1	Warehouse / Distribution	116,783
	Hazlewood	1	Warehouse / Distribution	305,550
	O'Fallon	2	Warehouse / Distribution	186,854
Nevada				
	Las Vegas	1	Light Manufacturing	122,472
	Las Vegas	1	Warehouse / Distribution	34,916
	Reno	1	Light Manufacturing	87,264
	Sparks	1	Warehouse / Distribution	161,986
New Hampshire				
	Londonderry	1	Warehouse / Distribution	125,060
	Nashua	1	Warehouse / Distribution	337,391
New Jersey				
	Burlington	2	Warehouse / Distribution	1,552,121
	Franklin Township	2	Warehouse / Distribution	306,962
	Lopatcong	1	Warehouse / Distribution	237,500
	Pedricktown	1	Warehouse / Distribution	245,749
New York				
	Buffalo	1	Warehouse / Distribution	117,000
	Cheektowaga	1	Warehouse / Distribution	121,760
	Farmington	3	Warehouse / Distribution	301,246
	Gloversville	3	Warehouse / Distribution	172,465
	Johnstown	1	Warehouse / Distribution	57,102
	Johnstown	1	Light Manufacturing	42,325
North Carolina				
	Charlotte	4	Warehouse / Distribution	462,451
	Durham	1	Warehouse / Distribution	80,600
	Greensboro	1	Warehouse / Distribution	128,287
	Huntersville	1	Warehouse / Distribution	185,570
	Lexington	1	Warehouse / Distribution	201,800
	Mebane	2	Warehouse / Distribution	606,840
	Mebane	1	Light Manufacturing	202,691
	Mooresville	2	Warehouse / Distribution	799,200
	Mountain Home	1	Warehouse / Distribution	146,014
	Newton	1	Warehouse / Distribution	217,200
	Pineville	1	Light Manufacturing	75,400
	Rural Hall	1	Warehouse / Distribution	250,000

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	Salisbury	1	Warehouse / Distribution	288,000
	Smithfield	1	Warehouse / Distribution	307,845
	Troutman	1	Warehouse / Distribution	301,000
	Winston-Salem	1	Warehouse / Distribution	385,000
	Youngsville	1	Warehouse / Distribution	365,000
Ohio				
	Bedford Heights	1	Warehouse / Distribution	173,034
	Boardman	1	Warehouse / Distribution	175,900
	Columbus	2	Warehouse / Distribution	333,645
	Dayton	2	Warehouse / Distribution	775,727
	Fairborn	1	Warehouse / Distribution	258,680
	Fairfield	2	Warehouse / Distribution	364,948
	Gahanna	1	Warehouse / Distribution	383,000
	Groveport	1	Warehouse / Distribution	320,657
	Grove City	1	Warehouse / Distribution	175,512
	Hilliard	1	Warehouse / Distribution	237,500
	Macedonia	1	Warehouse / Distribution	201,519

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State	City	Number of Buildings	Asset Type	Total Rentable Square Feet
	Mason	1	Light Manufacturing	116,200
	North Jackson	1	Warehouse / Distribution	209,835
	North Jackson	1	Warehouse / Distribution	307,315
	Oakwood Village	1	Warehouse / Distribution	75,000
	Salem	1	Light Manufacturing	271,000
	Seville	2	Warehouse / Distribution	345,000
	Streetsboro	1	Warehouse / Distribution	343,416
	Strongsville	1	Warehouse / Distribution	161,984
	Toledo	1	Warehouse / Distribution	177,500
	Twinsburg	1	Warehouse / Distribution	150,974
	West Chester	1	Warehouse / Distribution	269,868
Oklahoma				
	Oklahoma City	2	Warehouse / Distribution	303,740
	Tulsa	1	Warehouse / Distribution	175,000
Oregon				
	Salem	2	Light Manufacturing	155,900
Pennsylvania				
	Allentown	1	Warehouse / Distribution	289,900
	Charleroi	1	Warehouse / Distribution	119,161
	Clinton	3	Warehouse / Distribution	737,768
	Croydon	1	Warehouse / Distribution	101,869
	Elizabethtown	1	Warehouse / Distribution	206,236
	Lancaster	1	Warehouse / Distribution	240,529
	Langhorne	2	Light Manufacturing	287,647
	Langhorne	1		102,000

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		Warehouse / Distribution	
Lebanon	1	Warehouse / Distribution	211,358
Mechanicsburg	4	Warehouse / Distribution	1,077,054
Muhlenberg Townsh	1	Warehouse / Distribution	394,289
New Kensington	1	Warehouse / Distribution	200,500
O'Hara Township	1	Warehouse / Distribution	887,084
Pittston	1	Warehouse / Distribution	437,446
Reading	1	Warehouse / Distribution	248,000
Warrendale	1	Warehouse / Distribution	179,394
Williamsport	1	Warehouse / Distribution	250,000
York	2	Warehouse / Distribution	661,468
South Carolina			
Columbia	1	Light Manufacturing	185,600
Duncan	2	Warehouse / Distribution	787,380
Edgefield	1	Light Manufacturing	126,190
Fountain Inn	1	Light Manufacturing	203,000
Fountain Inn	2	Warehouse / Distribution	442,472
Gaffney	1	Warehouse / Distribution	226,968
Graniteville	1	Warehouse / Distribution	450,000
Greenville	1	Warehouse / Distribution	157,500
Greenwood	2	Light Manufacturing	175,055
Greer	6	Warehouse / Distribution	645,417
Laurens	1	Warehouse / Distribution	125,000
Piedmont	4	Warehouse / Distribution	610,891
Rock Hill	2	Warehouse / Distribution	590,520
Simpsonville	3	Warehouse / Distribution	1,138,494

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	Spartanburg	6	Warehouse / Distribution	1,209,963
	Ware Shoals	1	Light Manufacturing	20,514
	West Columbia	4	Warehouse / Distribution	769,532
South Dakota	Rapid City	1	Flex / Office	132,365
Tennessee	Chattanooga	3	Warehouse / Distribution	646,200
	Cleveland	1	Warehouse / Distribution	151,704
	Clinton	1	Warehouse / Distribution	166,000
	Jackson	1	Warehouse / Distribution	216,902
	Knoxville	1	Light Manufacturing	106,000
	Knoxville	1	Warehouse / Distribution	108,400

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State	City	Number of Buildings	Asset Type	Total Rentable Square Feet
	Loudon	1	Warehouse / Distribution	104,000
	Madison	1	Warehouse / Distribution	418,406
	Mascot	1	Warehouse / Distribution	130,560
	Mascot	1	Light Manufacturing	130,560
	Murfreesboro	1	Warehouse / Distribution	102,505
	Nashville	1	Warehouse / Distribution	150,000
	Portland	1	Warehouse / Distribution	414,043
	Vonore	1	Warehouse / Distribution	342,700
Texas				
	Arlington	2	Warehouse / Distribution	290,132
	Cedar Hill	1	Warehouse / Distribution	420,000
	Conroe	1	Warehouse / Distribution	252,662
	El Paso	8	Warehouse / Distribution	1,887,074
	Garland	1	Light Manufacturing	253,900
	Houston	2	Light Manufacturing	408,599
	Houston	7	Warehouse / Distribution	827,859
	Laredo	1	Warehouse / Distribution	206,810
	Mission	1	Warehouse / Distribution	270,084
	Rockwall	1	Warehouse / Distribution	389,546
	Stafford	1	Warehouse / Distribution	68,300
	Waco	1	Warehouse / Distribution	66,400
Virginia				
	Chester	1	Warehouse / Distribution	100,000
	Independence	1	Warehouse / Distribution	120,000
	Harrisonburg	1	Warehouse / Distribution	357,673
Wisconsin				
	Caledonia	1	Light Manufacturing	53,680
	Chippewa Falls	2	Light Manufacturing	97,400
	DeForest	1	Warehouse / Distribution	254,431
	De Pere	1	Warehouse / Distribution	200,000
	East Troy	1	Warehouse / Distribution	149,624
	Germantown	4	Warehouse / Distribution	520,163
	Hartland	1	Warehouse / Distribution	121,050
	Janesville	1	Warehouse / Distribution	700,000
	Kenosha	1	Light Manufacturing	175,052
	Madison	2	Warehouse / Distribution	283,000
	Mayville	1	Light Manufacturing	339,179
	New Berlin	1	Warehouse / Distribution	205,063
	Oak Creek	2	Warehouse / Distribution	232,144
	Pewaukee	2	Warehouse / Distribution	288,201
	Pleasant Prairie	1	Light Manufacturing	105,637
	Pleasant Prairie	1	Warehouse / Distribution	195,415
	Sun Prairie	1	Warehouse / Distribution	427,000
	West Allis	4	Warehouse / Distribution	241,977
	Yorkville	1	Warehouse / Distribution	98,151

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76,796,145

As of December 31, 2018, 25 of our 390 buildings were encumbered by mortgage indebtedness totaling approximately \$57.0 million (excluding unamortized deferred financing fees, debt issuance costs, and fair market value premiums). See Note 4 in the accompanying Notes to the Consolidated Financial Statements and the accompanying Schedule III for additional information.

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## Geographic Diversification

The following table sets forth information about the ten largest markets in our portfolio based on total annualized base rental revenue as of December 31, 2018.

Top Ten Markets <sup>(1)</sup>	% of Total Annualized Base Rental Revenue	
Philadelphia, PA	9.4	%
Chicago, IL	8.4	%
Greenville/Spartanburg, SC	5.9	%
Milwaukee/Madison, WI	4.4	%
Detroit, MI	4.3	%
Pittsburgh, PA	3.4	%
Charlotte, NC	3.3	%
Minneapolis/St Paul, MN	3.2	%
Houston, TX	3.1	%
Cincinnati/Dayton, OH	2.8	%
Total	48.2	%

(1) As defined by CoStar Realty Information, Inc.

## Industry Diversification

The following table sets forth information about the ten largest tenant industries in our portfolio based on total annualized base rental revenue as of December 31, 2018.

Top Ten Tenant Industries <sup>(1)</sup>	% of Total Annualized Base Rental Revenue	
Capital Goods	15.0	%
Automobiles & Components	12.5	%
Materials	11.1	%
Transportation	9.8	%
Consumer Durables & Apparel	8.7	%
Commercial & Prof Services	7.9	%
Food, Beverage & Tobacco	7.4	%
Retailing	4.7	%
Household & Personal Products	4.4	%
Food & Staples Retailing	4.2	%
Total	85.7	%

(1) Industry classification based on Global Industry Classification Standard methodology.

## Tenant Diversification

The following table sets forth information about the ten largest tenants in our portfolio based on total annualized base rental revenue as of December 31, 2018.

Top Ten Tenants <sup>(1)</sup>	Number of Leases	% of Total
--------------------------------	---------------------	------------



		Annualized Base Rental Revenue	
General Service Administration	1	2.3	%
XPO Logistics	4	1.8	%
Deckers Outdoor	2	1.4	%
Yanfeng US Automotive Interior	3	1.2	%
Solo Cup	1	1.2	%
TriMas Corporation	4	1.2	%
DHL	4	1.0	%
WestRock Company	6	0.9	%
Generation Brands	1	0.9	%
Carolina Beverage Group	2	0.9	%
Total	28	12.8	%

(1) Includes tenants, guarantors, and/or non-guarantor parents.

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## Scheduled Lease Expirations

As of December 31, 2018, our weighted average lease term was approximately 4.9 years. We define weighted average lease term as the contractual lease term in years, assuming that tenants exercise no renewal options, purchase options, or early termination rights, weighted by square footage. The following table sets forth a summary of lease expirations for leases in place as of December 31, 2018, plus available space, for each of the ten calendar years beginning with 2019 and thereafter in our portfolio.

Lease Expiration Year	Number of Leases Expiring	Total Rentable Square Feet	% of Total Occupied Square Feet	Total Annualized Base Rental Revenue (in thousands)	% of Total Annualized Base Rental Revenue
Available	—	3,456,600	—	\$ —	—
Month-to-month leases	5	129,500	0.2 %	642	0.2 %
2019	46	6,924,804	9.4 %	30,021	9.7 %
2020	52	9,994,198	13.6 %	42,748	13.8 %
2021	70	10,931,569	14.9 %	47,431	15.3 %
2022	56	7,015,995	9.6 %	29,774	9.6 %
2023	51	9,118,286	12.4 %	34,695	11.2 %
2024	36	6,456,861	8.8 %	26,780	8.6 %
2025	24	4,031,385	5.5 %	17,650	5.7 %
2026	24	4,491,582	6.1 %	18,976	6.1 %
2027	12	1,916,418	2.6 %	9,105	3.0 %
2028	23	4,589,199	6.3 %	19,085	6.2 %
Thereafter	30	7,739,748	10.6 %	32,911	10.6 %
Total/weighted average	429	76,796,145	100.0 %	\$ 309,818	100.0 %

## Item 3. Legal Proceedings

From time to time, we are a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. We are not currently a party, as plaintiff or defendant, to any legal proceedings that, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operations if determined adversely to our company.

## Item 4. Mine Safety Disclosures

Not applicable.

## PART II.

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information about our equity compensation plans and other related stockholder matters is incorporated by reference to our definitive Proxy Statement for our 2019 Annual Meeting of Stockholders.

## Market Information

Our common stock is listed on the NYSE and is traded under the symbol "STAG."

## Holders of Our Common Stock

As of February 11, 2019, we had 65 stockholders of record. This figure does not reflect the beneficial ownership of shares held in the nominee name.

## Dividends

To maintain our qualification as a REIT, we must make annual distributions to our stockholders of at least 90% of our taxable net income (not including net capital gains). Dividends are declared at the discretion of our board of directors and depend on actual and anticipated cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors our board of directors may consider relevant.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

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Performance Graph

The following graph provides a comparison of the cumulative total return on our common stock with the cumulative total return on the Standard & Poor's 500 Index and the MSCI US REIT Index. The MSCI US REIT Index represents performance of publicly-traded REITs. Returns over the indicated period are based on historical data and should not be considered indicative of future returns. The graph covers the period from December 31, 2013 to December 31, 2018 and assumes that \$100 was invested in our common stock and in each index on December 31, 2013 and that all dividends were reinvested.

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act, or incorporated by reference into any filing by us under the Securities Act, except as shall be expressly set forth by specific reference in such filing.

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## Item 6. Selected Financial Data

The following sets forth selected financial and operating data for our company on a historical consolidated basis. The following data should be read in conjunction with the Consolidated Financial Statements and Notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report on Form 10-K. Our selected historical Consolidated Balance Sheet information as of December 31, 2018, 2017, 2016, 2015 and 2014, and our selected historical Consolidated Statement of Operations data for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, have been derived from the audited financial statements of STAG Industrial, Inc. Certain prior year amounts have been reclassified to conform to the current year presentation.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Statements of Operations Data:					
Revenue					
Total revenue	\$350,993	\$301,087	\$250,243	\$218,633	\$173,816
Expenses					
Property	69,021	57,701	48,904	42,627	33,388
General and administrative	34,052	33,349	33,395	28,750	26,396
Property acquisition costs	—	5,386	4,567	4,757	4,390
Depreciation and amortization	167,617	150,881	125,444	110,421	87,703
Loss on impairments	6,182	1,879	16,845	29,272	2,840
Gain on involuntary conversion	—	(325)	) —	—	—
Other expenses	1,277	1,786	1,149	1,048	803
Total expenses	278,149	250,657	230,304	216,875	155,520
Other income (expense)					
Interest and other income	20	12	10	9	15
Interest expense	(48,817)	) (42,469)	) (42,923)	) (36,098)	) (25,109)
Loss on extinguishment of debt	(13)	) (15)	) (3,261)	) —	) (686)
Gain on the sales of rental property, net	72,211	24,242	61,823	4,986	2,799
Total other income (expense)	23,401	(18,230)	) 15,649	(31,103)	) (22,981)
Net income (loss)	\$96,245	\$32,200	\$35,588	\$(29,345)	) \$(4,685)
Less: income (loss) attributable to noncontrolling interest after preferred stock dividends	3,319	941	1,069	(1,962)	) (992)
Less: preferred stock dividends	7,604	9,794	13,897	10,848	10,848
Less: redemption of preferred stock	2,661	—	—	—	—
Less: amount allocated to participating securities	276	334	384	385	345
Net income (loss) attributable to common stockholders	\$82,385	\$21,131	\$20,238	\$(38,616)	) \$(14,886)
Net income (loss) per share attributable to common stockholders — basic	\$0.80	\$0.24	\$0.29	\$(0.58)	) \$(0.28)
Net income (loss) per share attributable to common stockholders — diluted	\$0.79	\$0.23	\$0.29	\$(0.58)	) \$(0.28)
Balance Sheets Data (December 31):					
Rental property, before accumulated depreciation and amortization	\$3,555,133	\$3,097,276	\$2,541,705	\$2,188,642	\$1,809,895
Rental property, after accumulated depreciation and amortization	\$2,991,701	\$2,567,577	\$2,116,836	\$1,839,967	\$1,558,434
Total assets	\$3,102,532	\$2,680,667	\$2,186,156	\$1,901,782	\$1,623,802
Total debt	\$1,325,908	\$1,173,781	\$1,036,139	\$980,248	\$680,478
Total liabilities	\$1,432,900	\$1,270,360	\$1,119,230	\$1,043,925	\$731,924

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Total equity	\$1,669,632	\$1,410,307	\$1,066,926	\$857,857	\$891,878
Other Data:					
Dividends declared per common share	\$1.419996	\$1.405002	\$1.389996	\$1.365	\$1.29
Net cash provided by operating activities	\$197,769	\$162,098	\$135,788	\$121,747	\$96,803
Net cash used in investing activities	\$507,201	\$571,635	\$346,259	\$370,589	\$421,740
Net cash provided by financing activities	\$303,845	\$415,861	\$211,870	\$238,464	\$342,225

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### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. For the definitions of certain terms used in the following discussion, refer to Item 1, "Business - Certain Definitions" included elsewhere in this Annual Report on Form 10-K.

#### Overview

We are a REIT focused on the acquisition, ownership, and operation of single-tenant, industrial properties throughout the United States. We seek to (i) identify properties that offer relative value across all locations, industrial property types, and tenants through the principled application of our proprietary risk assessment model, (ii) operate our properties in an efficient, cost-effective manner, and (iii) capitalize our business appropriately given the characteristics of our assets. We are a Maryland corporation and our common stock is publicly traded on the NYSE under the symbol "STAG."

We are organized and conduct our operations to qualify as a REIT under Sections 856 through 860 of the Code, and generally are not subject to federal income tax to the extent we currently distribute our income to our stockholders and maintain our qualification as a REIT. We remain subject to state and local taxes on our income and property and to U.S. federal income and excise taxes on our undistributed income.

Our qualification and taxation as a REIT depends upon our ability to meet on a continuing basis, through actual annual operating results, qualification tests in the federal income tax laws. Those tests involve the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of our capital stock ownership and the percentage of our earnings that we distribute.

As of December 31, 2018, we owned 390 buildings in 37 states with approximately 76.8 million rentable square feet, consisting of 320 warehouse/distribution buildings, 58 light manufacturing buildings, nine flex/office buildings, and three Value Add Portfolio buildings. We own both single- and multi-tenant properties, although we focus on the former.

As of December 31, 2018, our buildings were approximately 95.5% leased to 349 tenants, with no single tenant accounting for more than approximately 2.3% of our total annualized base rental revenue and no single industry accounting for more than approximately 15.0% of our total annualized base rental revenue.

We own the interests in all of our properties and conduct substantially all of our business through our Operating Partnership. We are the sole member of the sole general partner of the Operating Partnership. As of December 31, 2018, we owned approximately 96.5% of the common equity of our Operating Partnership, and our current and former executive officers, directors, senior employees and their affiliates, and third parties who contributed properties to us in exchange for common equity in our Operating Partnership, owned the remaining 3.5%.

#### Factors That May Influence Future Results of Operations

Our ability to increase revenues or cash flow will depend in part on our (i) external growth, specifically acquisition activity, and (ii) internal growth, specifically occupancy and rental rates on our portfolio. A variety of other factors, including those noted below, also affect our future results of operations.

#### Outlook

The outlook for our business remains positive, albeit on a moderated basis in light of more than nine years of economic growth, some uncertainty regarding the current U.S. presidential administration and its policy initiatives, and continued asset appreciation. In December 2018, the federal funds target rate was raised 25 basis points to a target range of 2.25% to 2.50%. We believe that this announcement, combined with the unwinding of the Central Bank's balance sheet by selling Treasury securities, signal the Central Bank's confidence in the economy. If interest rates rise further as a result of Federal Reserve policy action (short-term interest rates) or changes in market expectations and capital flows (long-term interest rates), we believe strengthening economic conditions are likely to accompany these changes. This strengthening of economic conditions combined with the currently favorable industrial supply-demand environment should translate to a net positive result for our business. Specifically, our existing portfolio should benefit from rising rental rates and our acquisition activity should benefit from higher yields. Furthermore, we believe certain characteristics of our business should position us well in a rising interest rate environment, including the fact that we have minimal floating rate debt exposure (taking into account our hedging activities) and that many of our competitors for the assets we purchase tend to be smaller local and regional investors may be more affected by interest rate increases.



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Several industrial specific trends contribute to the expected strong demand, including:

- the rise of e-commerce (as compared to the traditional retail store distribution model) and the concomitant demand by e-commerce industry participants for well-located, functional distribution space;
- the increasing attractiveness of the U.S. as a manufacturing and distribution location because of the size of the U.S. consumer market, an increase in overseas labor costs and the overall cost of supplying and shipping goods (i.e. the shortening and fattening of the supply chain); and
- the overall quality of the transportation infrastructure in the U.S.

Our portfolio continues to benefit from historically low availability throughout the national industrial market. As of year-end 2018, demand for space has continued to outpace new supply supporting an accommodative environment for owners. Development activity has steadily increased over the past several years and is now reaching material levels in a growing number of primary industrial markets. Though availability remains historically low, this is a trend we will monitor closely in the coming year. At this point the supply remains fairly concentrated in the larger primary markets. We have limited exposure to many of these markets. On the demand side, we note that the quality and availability of labor remains a key focus of tenants making occupancy decisions. We will continue to monitor the supply and demand fundamentals for industrial real estate and assess its impact on our business.

#### Conditions in Our Markets

The buildings in our portfolio are located in markets throughout the United States. Positive or negative changes in economic or other conditions, new supply, adverse weather conditions and natural disasters and other factors in these markets may affect our overall performance.

#### Rental Income

We receive income primarily in the form of rental income from the tenants who occupy our buildings. The amount of rental income generated by the buildings in our portfolio depends principally on occupancy and rental rates.

The following table provides a summary of our Operating Portfolio leases executed during the years ended December 31, 2018 and 2017. Certain leases contain rental concessions; any such rental concessions are accounted for on a straight-line basis over the term of the lease.

Operating Portfolio	Square Feet	Cash Basis Rent Per Square Foot	SL Rent Per Square Foot	Total Costs Per Square Foot <sup>(1)</sup>	Cash Rent Change	SL Rent Change	Weighted Average Lease Term <sup>(2)</sup> (years)	Rental Concessions per Square Foot <sup>(3)</sup>
Year ended December 31, 2018								
New Leases <sup>(4)</sup>	2,513,085	\$ 3.63	\$ 3.77	\$ 2.12	10.3 %	17.8 %	6.3	\$ 0.71
Renewal Leases <sup>(5)</sup>	7,129,299	\$ 4.07	\$ 4.22	\$ 0.81	7.3 %	14.5 %	4.8	\$ 0.11
Total/weighted average	9,642,384	\$ 3.96	\$ 4.10	\$ 1.15	7.9 %	15.2 %	5.2	\$ 0.26
Year ended December 31, 2017								
New Leases <sup>(4)</sup>	2,554,246	\$ 4.04	\$ 4.29	\$ 1.46	4.5 %	10.6 %	4.5	\$ 0.23
Renewal Leases <sup>(5)</sup>	8,644,161	\$ 3.89	\$ 4.04	\$ 0.66	2.5 %	10.9 %	5.3	\$ 0.29
Total/weighted average	11,198,407	\$ 3.92	\$ 4.10	\$ 0.84	2.9 %	10.8 %	5.2	\$ 0.28

We define Total Costs as the costs for improvements of vacant and renewal spaces, as well as the legal fees and (1) commissions for leasing transactions. Total Costs per square foot represent the total costs expected to be incurred on the leases signed during the period and do not reflect actual expenditures for the period.

- (2) We define weighted average lease term as the contractual lease term in years, assuming that tenants exercise no renewal options, purchase options, or early termination rights, weighted by square footage.
- (3) Represents the total rental concessions for the entire lease term.
- (4) We define a New Lease as any lease that is signed for an initial term equal to or greater than twelve months for any vacant space; this includes a new tenant or an existing tenant that is expanding into new (additional) space.  
We define a Renewal Lease as a lease signed by an existing tenant to extend the term for twelve months or more, including (i) a renewal of the same space as the current lease at lease expiration, (ii) a renewal of only a portion of the current space at lease expiration and (iii) an early renewal or workout, which ultimately does extend the original term for twelve months or more.
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### Property Operating Expenses

Our property operating expenses generally consist of utilities, real estate taxes, management fees, insurance, and site repair and maintenance costs. For the majority of our tenants, our property operating expenses are controlled, in part, by the triple net provisions in tenant leases. In our triple net leases, the tenant is responsible for all aspects of and costs related to the building and its operation during the lease term, including utilities, taxes, insurance, and maintenance costs. However, we also have modified gross leases and gross leases in our building portfolio. The terms of those leases vary and on some occasions we may absorb certain building related expenses of our tenants. In our modified gross leases, we are responsible for some building related expenses during the lease term, but the cost of most of the expenses is passed through to the tenant for reimbursement to us. In our gross leases, we are responsible for all costs related to the building and its operation during the lease term. Our overall performance will be affected by the extent to which we are able to pass-through property operating expenses to our tenants.

### Scheduled Lease Expirations

Our ability to re-lease space subject to expiring leases will impact our results of operations and is affected by economic and competitive conditions in our markets and by the desirability of our individual buildings. Leases that comprise approximately 9.7% of our total annualized base rental revenue will expire during the period from January 1, 2019 to December 31, 2019, excluding month-to-month leases. We assume, based upon internal renewal probability estimates, that some of our tenants will renew and others will vacate and the associated space will be re-let subject to downtime assumptions. Using the aforementioned assumptions, we expect that the rental rates on the respective new leases will generally be higher than the rates under existing leases expiring during the period January 1, 2019 to December 31, 2019, thereby resulting in slightly higher revenue from the same space.

### Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

See Note 2 in the accompanying Notes to the Consolidated Financial Statements for a discussion of new accounting pronouncements.

### Rental Property and Deferred Leasing Intangibles

Rental property is carried at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized.

We capitalize costs directly related to the development, pre-development, redevelopment or improvement of rental property. Real estate taxes, compensation costs of development personnel, insurance, interest, and other directly

related costs during construction periods are capitalized as incurred and depreciated commencing with the date the property is substantially completed. Such costs begin to be capitalized to the development projects from the point we are undergoing the necessary activities to get the development project ready for its intended use and cease when the development projects are substantially completed and held available for occupancy. Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is ready for its intended use, at the weighted average borrowing rate of our unsecured indebtedness during the period.

For properties classified as held for sale, we cease depreciating and amortizing the rental property and value the rental property at the lower of depreciated and amortized cost or fair value, less costs to dispose. We present those properties classified as held for sale with any qualifying assets and liabilities associated with those properties as held for sale in the accompanying Consolidated Balance Sheets.

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We allocate the purchase price of business combinations or asset acquisitions of properties based upon the fair value of the assets and liabilities acquired, which generally consist of land, buildings, tenant improvements, mortgage debt assumed, and deferred leasing intangibles, which includes in-place leases, above market and below market leases, and tenant relationships. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. The portion of the purchase price that is allocated to above and below market leases is valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease term plus the term of any bargain renewal options. The purchase price is further allocated to in-place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant’s lease and its overall relationship with the respective tenant.

The above and below market lease values are amortized into rental income over the remaining lease term. The value of in-place lease intangibles and tenant relationships are amortized over the remaining lease term (and expected renewal period of the respective lease for tenant relationships) as increases to depreciation and amortization expense. The remaining lease terms are adjusted for bargain renewal options or assumed exercises of early termination options, as applicable. If a tenant subsequently terminates its lease, any unamortized portion of above and below market leases is accelerated into rental income and the in-place lease value and tenant relationships are accelerated into depreciation and amortization expense over the shortened lease term.

The purchase price allocated to deferred leasing intangible assets are included in rental property on our Consolidated Balance Sheets and the purchase price allocated to deferred leasing intangible liabilities are included in deferred leasing intangibles on our Consolidated Balance Sheets under the liabilities section.

In determining the fair value of the debt assumed, we discount the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on a current market rate. The associated fair market value debt adjustment is amortized through interest expense over the life of the debt on a basis which approximates the effective interest method.

Using information available at the time of acquisition, we allocate the total consideration to tangible assets and liabilities and identified intangible assets and liabilities, as discussed above. We may adjust the preliminary purchase price allocations after obtaining more information about asset valuations and liabilities assumed.

We evaluate the carrying value of all tangible and intangible rental property assets and deferred leasing intangible liabilities held for use for possible impairment when an event or change in circumstance has occurred that indicates their carrying value may not be recoverable. The evaluation includes estimating and reviewing anticipated future undiscounted cash flows to be derived from the asset and the ultimate sale of the asset. If such cash flows are less than the asset’s carrying value, an impairment charge is recognized to the extent by which the asset’s carrying value exceeds the estimated fair value. Estimating future cash flows is highly subjective and is based in part on assumptions regarding anticipated hold period, future occupancy, rental rates, capital requirements, and exit capitalization rates that could differ from actual results. The discount rate used to present value the cash flows for determining fair value is also subjective.

Depreciation expense is computed using the straight-line method based on the following estimated useful lives.

Description	Estimated Useful Life
Building	40 Years
Building and land improvements	Up to 20 years
Tenant improvements	Shorter of useful life or terms of related lease

Goodwill

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Our goodwill of approximately \$4.9 million represents amounts allocated to the assembled workforce from the acquired management company, and is presented in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. Goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis at December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We take a qualitative approach to consider whether an impairment of goodwill exists prior to quantitatively determining the fair value of the reporting unit in step one of the impairment test. We have not recorded any impairments to goodwill through December 31, 2018.

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### Use of Derivative Financial Instruments

We record all derivatives on the accompanying Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or we elect not to apply hedge accounting.

In accordance with fair value measurement guidance, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting arrangements on a net basis by counterparty portfolio. Credit risk is the risk of failure of the counterparty to perform under the terms of the contract. We minimize the credit risk in the interest rate swaps by entering into transactions with various high-quality counterparties. Our exposure to credit risk at any point is generally limited to amounts recorded as assets on the accompanying Consolidated Balance Sheets.

### Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, restricted cash, tenant accounts receivable, interest rate swaps, accounts payable, accrued expenses, unsecured credit facility, unsecured term loans, unsecured notes, and mortgage notes. See Note 4 in the accompanying Notes to Consolidated Financial Statements for the fair value of our indebtedness. See Note 5 in the accompanying Notes to Consolidated Financial Statements for the fair value of our interest rate swaps.

We adopted fair value measurement provisions for our financial instruments recorded at fair value. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

### Incentive and Equity-Based Employee Compensation Plans

We grant equity-based compensation awards to our employees and directors in the form of restricted shares of common stock, LTIP units, outperformance programs, and performance units. See Notes 6, 7 and 8 in the accompanying Notes to Consolidated Financial Statements for further discussion of restricted shares of common stock, LTIP units, and the outperformance programs and performance units, respectively. We measure equity-based compensation expense based on the fair value of the awards on the grant date and recognize the expense ratably over the vesting period, and forfeitures are recognized in the period in which they occur.

### Revenue Recognition

All current leases are classified as operating leases and rental revenue is recognized on a straight-line basis over the term of the lease (and expected bargain renewal terms or assumed exercise of early termination options) when collectability is reasonably assured. Differences between rental revenue earned and amounts due under the lease are

charged or credited, as applicable, to accrued rental revenue. Additional rents from expense reimbursements for insurance, real estate taxes and certain other expenses are recognized in the period in which the related expenses are incurred.

Rental income recognition commences when the tenant takes possession of or controls the physical use of the leased space and the leased space is substantially complete and ready for its intended use. In order to determine whether the leased space is substantially complete and ready for its intended use, we determine whether we or the tenant own the tenant improvements. When it is determined that we are the owner of the tenant improvements, rental income recognition begins when the tenant takes possession of or controls the physical use of the finished space, which is generally when our owned tenant improvements are completed. In instances when it is determined that the tenant is the owner of tenant improvements, rental income recognition begins when the tenant takes possession of or controls the physical use of the leased space.



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When we are the owner of tenant improvements or other capital items, the cost to construct the tenant improvements or other capital items, including costs paid for or reimbursed by the tenants, is recorded as capital assets. For these tenant improvements or other capital items, the amount funded by or reimbursed by the tenants are recorded as deferred revenue, which is amortized on a straight-line basis as income over the shorter of the useful life of the capital asset or the term of the related lease.

Early lease termination fees are recorded in rental income on a straight-line basis from the notification date of such termination to the then remaining (not the original) lease term, if any, or upon collection if collection is not reasonably assured.

By the terms of their leases, certain tenants are obligated to pay directly the costs of their properties' insurance, real estate taxes and certain other expenses and these costs are not reflected in our Consolidated Financial Statements. To the extent any tenant responsible for these costs under its respective lease defaults on its lease or it is deemed probable that the tenant will fail to pay for such costs, we would record a liability for such obligation. We do not recognize recovery revenue related to leases where the tenant will pay expenses directly for real estate taxes, insurance, ground lease payments, and certain other expenses.

Results of Operations

The following discussion of our results of our same store (as defined below) net operating income ("NOI") should be read in conjunction with our Consolidated Financial Statements. For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see "Non-GAAP Financial Measures" below. Same store results are considered to be useful to investors in evaluating our performance because they provide information relating to changes in building-level operating performance without taking into account the effects of acquisitions or dispositions. We encourage the reader to not only look at our same store results, but also our total portfolio results, due to historic and future growth.

Comparison of the year ended December 31, 2018 to the year ended December 31, 2017

We define same store properties as properties that were in the Operating Portfolio for the entirety of the comparative periods presented. Same store properties exclude Operating Portfolio properties with expansions placed into service or transferred from the Value Add Portfolio to the Operating Portfolio after December 31, 2016. On December 31, 2018, we owned 270 industrial buildings consisting of approximately 53.0 million square feet, which represents approximately 69.1% of our total portfolio, that are considered our same store portfolio in the analysis below. Same store occupancy decreased approximately 1.2% to 95.4% as of December 31, 2018 compared to 96.6% as of December 31, 2017.

The following table summarizes selected operating information for our same store portfolio and our total portfolio for the years ended December 31, 2018 and 2017 (dollars in thousands). This table includes a reconciliation from our same store portfolio to our total portfolio by also providing information for the years ended December 31, 2018 and 2017 with respect to the buildings acquired and disposed of and Operating Portfolio buildings with expansions placed into service or transferred from the Value Add Portfolio to the Operating Portfolio after December 31, 2016 and our flex/office buildings and Value Add Portfolio.

Same Store Portfolio		Acquisitions/Dispositions				Total Portfolio					
Year ended		Change		Year ended		Year ended		Year ended December		Change	
December 31,				December 31,		December 31,		31,			
2018	2017	\$	%	2018	2017	2018	2017	2018	2017	\$	%
Revenue											

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Operating revenue													
Rental income	\$207,455	\$203,707	\$3,748	1.8	%	\$71,884	\$41,883	\$16,315	\$10,241	\$295,654	\$255,831	\$39,823	15.6
Tenant recoveries	35,858	35,224	634	1.8	%	14,367	7,186	3,814	2,595	54,039	45,005	9,034	20.1
Other income	898	98	800	816.3	%	309	96	93	57	1,300	251	1,049	417.9
Total operating revenue	244,211	239,029	5,182	2.2	%	86,560	49,165	20,222	12,893	350,993	301,087	49,906	16.6
Expenses													
Property	45,622	42,893	2,729	6.4	%	16,692	9,590	6,707	5,218	69,021	57,701	11,320	19.6
Net operating income <sup>(1)</sup>	\$198,589	\$196,136	\$2,453	1.3	%	\$69,868	\$39,575	\$13,515	\$7,675	\$281,972	\$243,386	\$38,586	15.9
Other expenses													
General and administrative										34,052	33,349	703	2.1
Property acquisition costs										—	5,386	(5,386)	(100.0)
Depreciation and amortization										167,617	150,881	16,736	11.1
Loss on impairments										6,182	1,879	4,303	229.0
Gain on involuntary conversion										—	(325)	325	(100.0)
Other expenses										1,277	1,786	(509)	(28.5)
Total other expenses										209,128	192,956	16,172	8.4
Total expenses										278,149	250,657	27,492	11.0
Other income (expense)													
Interest and other income										20	12	8	66.7
Interest expense										(48,817)	(42,469)	(6,348)	14.9
Loss on extinguishment of debt										(13)	(15)	2	(13.3)
Gain on the sales of rental property, net										72,211	24,242	47,969	197.9
Total other income (expense)										23,401	(18,230)	41,631	228.4
Net income										\$96,245	\$32,200	\$64,045	198.9

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see “Non-GAAP Financial Measures” below.

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Net Income

Net income for our total portfolio increased by \$64.0 million or 198.9% to \$96.2 million for the year ended December 31, 2018 compared to \$32.2 million for the year ended December 31, 2017.

Same Store Total Operating Revenue

Same store total operating revenue consists primarily of (i) rental income consisting of base rent, straight-line rent and above and below market lease amortization from our properties, and (ii) tenant recoveries.

For a detailed reconciliation of our same store total operating revenue to net income, see the table above.

Same store rental income increased by \$3.7 million or 1.8% to \$207.5 million for the year ended December 31, 2018 compared to \$203.7 million for the year ended December 31, 2017. Approximately \$7.3 million of the increase was attributable to rental increases due to new leases and renewals of existing tenants. Same store rental income also increased by approximately \$0.7 million due to a net decrease in the amortization of net above market leases. These increases were partially offset by an approximately \$4.3 million decrease due to a reduction of base rent due to tenants downsizing their spaces and vacancies.

Same store tenant recoveries increased by \$0.6 million or 1.8% to \$35.9 million for the year ended December 31, 2018 compared to \$35.2 million for the year ended December 31, 2017. Approximately \$1.7 million of the increase was primarily due to increases in occupancy and real estate taxes levied by the taxing authority, as well as changes to lease terms where we began paying the real estate taxes and operating expenses on behalf of tenants that had previously paid its taxes and operating expenses directly to respective vendors. This increase was partially offset by a decrease of approximately \$0.5 million related to vacancy of previously occupied buildings and decreases in real estate taxes levied by the taxing authority. The increase was also partially offset by one of our properties where it was determined, during the year ended December 31, 2017, that the tenant will not be able to meet its requirements set forth by the taxing authority to be entitled to an abatement of real estate taxes. The abatement was applicable to prior periods, and therefore the expense and related tenant recovery income recorded for the year ended December 31, 2017 includes 36 months of real estate taxes, which attributed to approximately \$0.6 million of the decrease in same store tenant recoveries as it did not recur for the year ended December 31, 2018.

Same Store Operating Expenses

Same store operating expenses consist primarily of property operating expenses and real estate taxes and insurance.

For a detailed reconciliation of our same store portfolio operating expenses to net income, see the table above.

Total same store expenses increased by \$2.7 million or 6.4% to \$45.6 million for the year ended December 31, 2018 compared to \$42.9 million for the year ended December 31, 2017. This increase was primarily related to increases in general repairs and maintenance expense of approximately \$0.4 million, real estate taxes levied by the related taxing authority of approximately \$0.8 million, snow removal and utilities expenses of approximately \$0.9 million, insurance expense of approximately \$0.4 million, and bad debt expense of approximately \$0.8 million. These increases were partially offset by a decrease in real estate taxes attributable to one of our properties where it was determined, during the year ended December 31, 2017, that the tenant will not be able to meet its requirements set forth by the taxing authority to be entitled to an abatement of real estate taxes. The abatement was applicable to prior periods, and therefore the expense and related tenant recovery income recorded for the year ended December 31, 2017 includes 36 months of real estate taxes, which attributed to approximately \$0.6 million of the decrease in same store operating expenses as it did not recur for the year ended December 31, 2018.

## Acquisitions and Dispositions Net Operating Income

For a detailed reconciliation of our acquisitions and dispositions NOI to net income, see the table above.

Subsequent to December 31, 2016, we acquired 100 buildings consisting of approximately 20.0 million square feet (excluding six buildings that were included in the Value Add Portfolio at December 31, 2018 or transferred from the Value Add Portfolio to the Operating Portfolio after December 31, 2016), and sold 30 buildings consisting of approximately 5.8 million square feet. For the years ended December 31, 2018 and 2017, the buildings acquired after December 31, 2016 contributed approximately \$61.3 million and \$22.1 million to NOI, respectively. For the years ended December 31, 2018 and 2017, the buildings sold after December 31, 2016 contributed approximately \$8.6 million and \$17.5 million to NOI, respectively. Refer to Note 3 in the accompanying Notes to Consolidated Financial Statements for additional discussion regarding buildings acquired or sold.

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### Other Net Operating Income

Our other assets include our flex/office buildings, Value Add Portfolio, and Operating Portfolio buildings with expansions placed in service or transferred from the Value Add Portfolio to the Operating Portfolio after December 31, 2016. Other NOI also includes termination income from buildings from our same store portfolio.

For a detailed reconciliation of our other NOI to net income, see the table above.

At December 31, 2018 we owned nine flex/office buildings consisting of approximately 0.6 million square feet, three buildings in our Value Add Portfolio consisting of approximately 0.6 million square feet, and nine buildings consisting of approximately 2.7 million square feet that were Operating Portfolio buildings with expansions placed in service or transferred from the Value Add Portfolio to the Operating Portfolio after December 31, 2016. These buildings contributed approximately \$13.0 million and \$7.6 million to NOI for the years ended December 31, 2018 and 2017, respectively. Additionally, there was \$0.5 million and \$0.1 million of termination fee income from certain buildings in our same store portfolio for the years ended December 31, 2018 and December 31, 2017, respectively.

### Total Other Expenses

Total other expenses consist of general and administrative expenses, property acquisition costs, depreciation and amortization, loss on impairments, gain on involuntary conversion, and other expenses.

Total other expenses increased \$16.2 million or 8.4% for the year ended December 31, 2018 to \$209.1 million compared to \$193.0 million for the year ended December 31, 2017. This is primarily a result of an increase in depreciation and amortization of approximately \$16.7 million as a result of acquisitions that increased the depreciable asset base. The increase was also attributable to four buildings that were impaired in the amount of approximately \$6.2 million during the year ended December 31, 2018, whereas there was only one building impaired in the amount of approximately \$1.9 million during the year ended December 31, 2017. These increases were partially offset by a decrease in property acquisition costs of approximately \$5.4 million due to the adoption of Accounting Standards Update 2017-01, as discussed in Note 2 of the accompanying Notes to Consolidated Financial Statements.

### Total Other Income (Expense)

Total other income (expense) consists of interest and other income, interest expense, loss on extinguishment of debt, and gain on the sales of rental property, net. Interest expense includes interest incurred during the period as well as adjustments related to amortization of financing fees and debt issuance costs, and amortization of fair market value adjustments associated with the assumption of debt.

Total net other income increased \$41.6 million or 228.4% to a net other income position of \$23.4 million for the year ended December 31, 2018 compared to a net other expense position of \$18.2 million for the year ended December 31, 2017. This increase was primarily the result of an increase in the gain on the sales of rental property of approximately \$48.0 million. This was partially offset by an increase in interest expense of approximately \$6.3 million which was primarily attributable to a higher unsecured credit facility balance during the year ended December 31, 2018 compared to the year ended December 31, 2017, and the issuance of new unsecured term loans and unsecured notes as discussed in Note 4 of the accompanying Notes to Consolidated Financial Statements. The increase in interest expense was slightly offset by the repayment of several mortgage notes during the year ended December 31, 2017.

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Comparison of year ended December 31, 2017 to the year ended December 31, 2016

We define same store properties as properties that were in the Operating Portfolio for the entirety of the comparative periods presented. Same store properties exclude Operating Portfolio properties with expansions placed into service or transferred from the Value Add Portfolio to the Operating Portfolio after December 31, 2015. On December 31, 2017 we owned 238 industrial buildings consisting of approximately 46.9 million square feet, which represented approximately 66.8% of our total portfolio, that are considered our same store portfolio in the analysis below. Same store occupancy decreased approximately 0.4% to 95.6% as of December 31, 2017 compared to 96.0% as of December 31, 2016.

The following table summarizes selected operating information for our same store portfolio and our total portfolio for the years ended December 31, 2017 and 2016 (dollars in thousands). This table includes a reconciliation from our same store portfolio to our total portfolio by also providing information for the years ended December 31, 2017 and 2016 with respect to the buildings acquired and disposed of and Operating Portfolio buildings with expansions placed into service or transferred from the Value Add Portfolio to the Operating Portfolio after December 31, 2015 and our flex/office buildings and Value Add Portfolio.

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	Same Store Portfolio				Acquisitions/Dispositions				Total Portfolio			
	Year ended December 31,		Change		Year ended December 31,		Year ended December 31,		Year ended December 31,		Change	
	2017	2016	\$	%	2017	2016	2017	2016	2017	2016	\$	%
Revenue												
Operating revenue												
Rental income	\$177,871	\$177,228	\$643	0.4 %	\$66,935	\$25,954	\$11,025	\$9,559	\$255,831	\$212,741	\$43,090	20.3 %
Tenant recoveries	31,319	29,301	2,018	6.9 %	11,248	5,201	2,438	2,605	45,005	37,107	7,898	21.3 %
Other income	98	106	(8 )	(7.5)%	96	66	57	223	251	395	(144 )	(36.5 )%
Total operating revenue	209,288	206,635	2,653	1.3 %	78,279	31,221	13,520	12,387	301,087	250,243	50,844	20.3 %
Expenses												
Property	39,518	36,882	2,636	7.1 %	13,247	6,854	4,936	5,168	57,701	48,904	8,797	18.0 %
Net operating income <sup>(1)</sup>	\$169,770	\$169,753	\$17	— %	\$65,032	\$24,367	\$8,584	\$7,219	\$243,386	\$201,339	\$42,047	20.9 %
Other expenses												
General and administrative									33,349	33,395	(46 )	(0.1 )%
Property acquisition costs									5,386	4,567	819	17.9 %
Depreciation and amortization									150,881	125,444	25,437	20.3 %
Loss on impairments									1,879	16,845	(14,966 )	(88.8 )%
Gain on involuntary conversion									(325 )	—	(325 )	100.0 %
Other expenses									1,786	1,149	637	55.4 %
Total other expenses									192,956	181,400	11,556	6.4 %
Total expenses									250,657	230,304	20,353	8.8 %
Other income (expense)												
Interest and other income									12	10	2	20.0 %
Interest expense									(42,469 )	(42,923 )	454	(1.1 )%
Loss on extinguishment of debt									(15 )	(3,261 )	3,246	(99.5 )%
Gain on the sales of rental property, net									24,242	61,823	(37,581 )	(60.8 )%
Total other income (expense)									(18,230 )	15,649	(33,879 )	(216.5)%
Net income									\$32,200	\$35,588	\$(3,388 )	(9.5 )%

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see “Non-GAAP Financial Measures” below.



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### Net Income

Net income for our total portfolio decreased by \$3.4 million or 9.5% to \$32.2 million for the year ended December 31, 2017 compared to \$35.6 million for the year ended December 31, 2016.

### Same Store Total Operating Revenue

Same store total operating revenue consists primarily of (i) rental income consisting of base rent, straight-line rent and above and below market lease amortization from our properties, and (ii) tenant reimbursements for insurance, real estate taxes and certain other expenses (“tenant recoveries”).

For a detailed reconciliation of our same store total operating revenue to net income, see the table above.

Same store rental income increased by \$0.6 million or 0.4% to \$177.8 million for the year ended December 31, 2017 compared to \$177.2 million for the year ended December 31, 2016. Approximately \$4.8 million of the increase was attributable to rental increases due to new leases and renewals of existing tenants. Same store rental income also increased approximately \$0.6 million due to a net decrease in the amortization of net above market leases. These increases were partially offset by an approximately \$4.8 million decrease due to a reduction of base rent due to tenants downsizing their spaces and vacancies.

Same store tenant recoveries increased by \$2.0 million or 6.9% to \$31.3 million for the year ended December 31, 2017 compared to \$29.3 million for the year ended December 31, 2016. Approximately \$2.8 million of the increase was primarily due to increases in occupancy and real estate taxes levied by the taxing authority, as well as changes to lease terms where we began paying the real estate taxes and operating expenses on behalf of tenants that had previously paid its taxes and operating expenses directly to respective vendors. The increase was also attributable to one of our properties where it was determined that the tenant will not be able to meet its requirements set forth by the taxing authority to be entitled to an abatement of real estate taxes. The abatement was applicable to prior periods, and as such the expense and related recovery recorded for the year ended December 31, 2017 includes an additional 36 months of real estate taxes, which attributed to approximately \$0.6 million of the increase in same store tenant recoveries. This increase was partially offset by a decrease of approximately \$1.4 million related to vacancy of previously occupied buildings, as well as decreases in real estate taxes levied by the taxing authority

### Same Store Operating Expenses

Same store operating expenses consist primarily of property operating expenses and real estate taxes and insurance.

For a detailed reconciliation of our same store portfolio operating expenses to net income, see the table above.

Total same store expenses increased by \$2.6 million or 7.1% to \$39.5 million for the year ended December 31, 2017 compared to \$36.9 million for the year ended December 31, 2016. This increase was primarily related to net increases in real estate taxes levied by the related taxing authority of approximately \$1.4 million, as well as an increase of approximately \$0.7 million in general repairs and maintenance and utilities expenses. The remaining increase was attributable to one of our properties where it was determined that the tenant will not be able to meet its requirements set forth by the taxing authority to be entitled to an abatement of real estate taxes. The abatement was applicable to prior periods, and as such the expense and related recovery recorded for the year ended December 31, 2017 includes an additional 36 months of real estate taxes, which attributed to approximately \$0.6 million of the increase in same store operating expenses. These increases were partially offset by a decrease of approximately \$0.1 million in snow removal expenses.

### Acquisitions and Dispositions Net Operating Income

For a detailed reconciliation of our acquisitions and dispositions net operating income to net income, see the table above.

Subsequent to December 31, 2015, we acquired 100 buildings consisting of approximately 21.4 million square feet, and sold 35 buildings consisting of approximately 6.1 million square feet. For the years ended December 31, 2017 and 2016, the buildings acquired after December 31, 2015 contributed approximately \$62.2 million and \$11.3 million to NOI, respectively. For the years ended December 31, 2017 and 2016, the buildings sold after December 31, 2015 contributed approximately \$2.8 million and \$13.1 million to net operating income, respectively. Refer to Note 3 in the accompanying Notes to Consolidated Financial Statements for additional discussion regarding buildings acquired or sold.

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### Other Net Operating Income

Our other assets include our flex/office buildings, Value Add Portfolio, and Operating Portfolio buildings with expansions placed in service or transferred from the Value Add Portfolio to the Operating Portfolio after December 31, 2015. Other NOI also includes asset management fee income and termination income from buildings from our same store portfolio.

For a detailed reconciliation of our other net operating income to net income, see the table above.

At December 31, 2017 we owned 14 flex/office buildings consisting of approximately 0.9 million square feet, three buildings consisting of approximately 0.6 million square feet that were placed into service after December 31, 2015, and one building consisting of approximately 0.3 million square feet that was in redevelopment. These buildings contributed approximately \$7.2 million and \$6.9 million to NOI for the years ended December 31, 2017 and 2016, respectively. We earned \$0.1 million and \$0.2 million in asset management fee income for the years ended December 31, 2017 and 2016, respectively. Additionally, there was \$1.3 million and \$0.1 million of termination fee income from certain buildings in our same store portfolio for the years ended December 31, 2017 and December 31, 2016, respectively.

### Total Other Expenses

Total other expenses consist of general and administrative expense, property acquisition costs, depreciation and amortization, loss on impairments, gain on involuntary conversion, and other expenses.

Total other expenses increased \$11.6 million or 6.4% for the year ended December 31, 2017 to \$193.0 million compared to \$181.4 million for the year ended December 31, 2016. The increase was primarily related to an increase of approximately \$25.4 million in depreciation and amortization as a result of buildings acquired which increased the depreciable asset base. This increase was also attributable to an increase in property acquisition costs of approximately \$0.8 million which was due to increased acquisition volume during the year ended December 31, 2017 as compared to the year ended December 31, 2016. Other expenses also increased approximately \$0.6 million which was primarily attributable to a loss on incentive fee due to the finalization of a one-time incentive fee payable to Columbus Nova Real Estate Acquisition Group, LLC as discussed in Note 11 of the accompanying Notes to Consolidated Financial Statements. These increases were partially offset by a decrease of approximately \$15.0 million in loss on impairments as there was one building that was impaired during the year ended December 31, 2017, whereas there were 12 buildings impaired for the year ended December 31, 2016. There was also a gain on involuntary conversion of approximately \$0.3 million, as discussed in Note 3 of the accompanying Notes to Consolidated Financial Statements. General and administrative expense remained relatively flat for the year ended December 31, 2017 compared to the year ended December 31, 2016. This was primarily attributable to a decrease of approximately \$3.1 million related to the severance of a former executive officer during the year ended December 31, 2016, which did not recur in 2017, but which was offset by an increase in non-cash compensation expense related to the 2017 equity grants for employees and independent directors, salary and other payroll costs, and other general and administrative expenses.

### Total Other Income (Expense)

Total other income (expense) consists of interest and other income, interest expense, loss on extinguishment of debt, and gain on the sales of rental property. Interest expense includes interest incurred during the period as well as adjustments related to amortization of financing fees and debt issuance costs, amortization of fair market value adjustments associated with the assumption of debt, and gains or losses on hedge ineffectiveness.

Total net other expense decreased \$33.9 million or 216.5% to a net other expense position of \$18.2 million for the year ended December 31, 2017 compared to a net other income position of \$15.6 million for the year ended December 31, 2016. This decrease was primarily the result of a decrease in the gain on the sales of rental property of approximately \$37.6 million. This was partially offset by a decrease in loss on extinguishment of debt of approximately \$3.2 million which was primarily attributable to the payment of prepayment fees for loans repaid during the year ended December 31, 2016 which did not recur in 2017. Additionally, interest expense decreased approximately \$0.5 million which was primarily related to a decrease in the weighted average interest rate, as well as an increase in gain on hedge ineffectiveness of approximately \$0.1 million for the year ended December 31, 2017 compared to the year ended December 31, 2016.

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## Non-GAAP Financial Measures

In this report, we disclose and discuss funds from operations (“FFO”) and NOI, which meet the definition of “non-GAAP financial measures” as set forth in Item 10(e) of Regulation S-K promulgated by the SEC. As a result, we are required to include in this report a statement of why management believes that presentation of these measures provides useful information to investors.

## Funds From Operations

FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance, and we believe that to understand our performance further, FFO should be compared with our reported net income or net loss in accordance with GAAP, as presented in our consolidated financial statements included in this report.

We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (“NAREIT”). FFO represents GAAP net income (loss), excluding gains (or losses) from sales of depreciable operating buildings, impairment write-downs of depreciable real estate, real estate related depreciation and amortization (excluding amortization of deferred financing costs and fair market value of debt adjustment) and after adjustments for unconsolidated partnerships and joint ventures.

Management uses FFO as a supplemental performance measure because it is a widely recognized measure of the performance of REITs. FFO may be used by investors as a basis to compare our operating performance with that of other REITs.

However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our buildings that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our buildings, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. In addition, other REITs may not calculate FFO in accordance with the NAREIT definition, and, accordingly, our FFO may not be comparable to such other REITs’ FFO. FFO should not be used as a measure of our liquidity, and is not indicative of funds available for our cash needs, including our ability to pay dividends.

The following table sets forth a reconciliation of our FFO attributable to common stockholders and unit holders for the periods presented to net income, the nearest GAAP equivalent.

Reconciliation of Net Income to FFO (in thousands)	Year ended December 31,		
	2018	2017	2016
Net income	\$96,245	\$32,200	\$35,588
Rental property depreciation and amortization	167,321	150,591	125,182
Loss on impairments	6,182	1,879	16,845
Gain on the sales of rental property, net	(72,211 )	(24,242 )	(61,823 )
FFO	\$197,537	\$160,428	\$115,792
Preferred stock dividends	(7,604 )	(9,794 )	(13,897 )
Redemption of preferred stock	(2,661 )	—	—
Other expenses	—	—	(384 )
FFO attributable to common stockholders and unit holders	\$187,272	\$150,634	\$101,511

## Net Operating Income

We consider NOI to be an appropriate supplemental performance measure to net income (loss) because we believe it helps investors and management understand the core operations of our buildings. NOI is defined as rental revenue, including reimbursements and other income, less property expenses and real estate taxes and insurance. NOI should not be viewed as an alternative measure of our financial performance since it excludes expenses which could materially impact our results of operations. Further, our NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating NOI.

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The following table sets forth a reconciliation of our NOI for the periods presented to net income, the nearest GAAP equivalent.

Reconciliation of Net Income to NOI (in thousands)	Year ended December 31,		
	2018	2017	2016
Net income	\$96,245	\$32,200	\$35,588
Asset management fee income	—	(52)	(210)
General and administrative	34,052	33,349	33,395
Transaction costs	214	5,386	4,567
Depreciation and amortization	167,617	150,881	125,444
Interest and other income	(20)	(12)	(10)
Interest expense	48,817	42,469	42,923
Loss on impairments	6,182	1,879	16,845
Gain on involuntary conversion	—	(325)	—
Loss on extinguishment of debt	13	15	3,261
Other expenses	1,063	1,097	1,149
Loss on incentive fee	—	689	—
Gain on the sales of rental property, net	(72,211)	(24,242)	(61,823)
Net operating income	\$281,972	\$243,334	\$201,129

## Cash Flows

Comparison of the year ended December 31, 2018 to the year ended December 31, 2017

The following table summarizes our cash flows for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Cash Flows (dollars in thousands)	Year ended		Change	
	2018	2017	\$	%
Net cash provided by operating activities	\$197,769	\$162,098	\$35,671	22.0%
Net cash used in investing activities	\$507,201	\$571,635	\$(64,434)	(11.3)%
Net cash provided by financing activities	\$303,845	\$415,861	\$(112,016)	(26.9)%

Net cash provided by operating activities increased \$35.7 million to \$197.8 million for the year ended December 31, 2018, compared to \$162.1 million for the year ended December 31, 2017. The increase was primarily attributable to incremental operating cash flows from property acquisitions completed after December 31, 2017, and operating performance at existing properties. These increases were partially offset by the loss of cash flows from property dispositions completed after December 31, 2017 and fluctuations in working capital due to timing of payments and rental receipts.

Net cash used in investing activities decreased by \$64.4 million to \$507.2 million for the year ended December 31, 2018, compared to \$571.6 million for the year ended December 31, 2017. The decrease is primarily attributable an increase in net proceeds from the sale of 19 buildings during the year ended December 31, 2018 for net proceeds of approximately \$207.9 million, compared to the year ended December 31, 2017 where we sold 11 buildings for net proceeds of approximately \$65.1 million. This was partially offset by an increase in cash paid for the acquisition of 53 buildings during the year ended December 31, 2018 of approximately \$675.6 million, compared to the acquisition of 53 buildings during the year ended December 31, 2017 of approximately \$593.0 million.

Net cash provided by financing activities decreased \$112.0 million to \$303.8 million for the year ended December 31, 2018, compared to \$415.9 million for the year ended December 31, 2017. The decrease was primarily due to an increase in net cash outflow on our unsecured credit facility of approximately \$413.5 million and a decrease in proceeds from sales of common stock of approximately \$37.1 million, as well as an approximately \$17.9 million increase in dividends paid during the year ended December 31, 2018 compared to the year ended December 31, 2017 and the redemption of the 6.625% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") of

\$70.0 million on July 11, 2018. These increases in net cash outflow were partially offset by the \$150.0 million draw on the unsecured term loan that was entered into on July 28, 2017, the funding of the unsecured notes that were entered into on April 10, 2018 of \$175.0 million, as well as a decrease in the repayment of mortgage notes of approximately \$103.6 million during the year ended December 31, 2018 compared to the year ended December 31, 2017.



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Comparison of the year ended December 31, 2017 to the year ended December 31, 2016

The following table summarizes our cash flows for the year ended December 31, 2017 compared to the year ended December 31, 2016.

Cash Flows (dollars in thousands)	Year ended		Change	
	December 31, 2017	December 31, 2016	\$	%
Net cash provided by operating activities	\$162,098	\$135,788	\$26,310	19.4%
Net cash used in investing activities	\$571,635	\$346,259	\$225,376	65.1%
Net cash provided by financing activities	\$415,861	\$211,870	\$203,991	96.3%

Net cash provided by operating activities increased \$26.3 million to \$162.1 million for the year ended December 31, 2017, compared to \$135.8 million for the year ended December 31, 2016. The increase was primarily attributable to incremental operating cash flows from property acquisitions completed after December 31, 2016, and operating performance at existing properties. These increases were partially offset by the loss of cash flows from property dispositions completed after December 31, 2016 and fluctuations in working capital due to timing of payments and rental receipts.

Net cash used in investing activities increased by \$225.4 million to \$571.6 million for the year ended December 31, 2017, compared to \$346.3 million for the year ended December 31, 2016. The increase was primarily attributable to an increase in cash paid for the acquisition of 53 buildings during the year ended December 31, 2017 of approximately \$593.0 million, compared to the acquisition of 47 buildings during the year ended December 31, 2016 of approximately \$467.3 million. The increase is also attributable to a decrease in net proceeds from the sales of rental property of approximately \$87.0 million. Additionally, we had an increase in cash paid for additions of land and building improvements of approximately \$15.3 million, primarily due to tenant improvement projects and the expansion of buildings. These increases were partially offset by proceeds received from insurance on involuntary conversion, as well as fluctuations in acquisition deposits.

Net cash provided by financing activities increased \$204.0 million to \$415.9 million for the year ended December 31, 2017, compared to \$211.9 million for the year ended December 31, 2016. The increase was primarily due to an increase of net cash inflow of \$271.0 million from our unsecured credit facility, and an increase in proceeds from sales of common stock of \$144.9 million during the year ended December 31, 2017 compared to the year ended December 31, 2016. Additionally, we redeemed the 9.0% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock") on November 2, 2016 for \$69.0 million, which did not recur during the year ended December 31, 2017. These increases were partially offset by a decrease in cash inflow from the issuance of the Series C Preferred Stock on March 17, 2016 of \$75.0 million and proceeds from our unsecured term loans of \$150.0 million that were drawn on December 29, 2016. The increases were also partially offset by an increase of the repayment of mortgage notes of approximately \$35.0 million, and an increase in dividends and distributions paid of approximately \$23.6 million as a result of the increased number of shares and units outstanding as well as a \$0.014172 increase in the dividend paid per share during the year ended December 31, 2017 compared to the year ended December 31, 2016.

#### Liquidity and Capital Resources

We believe that our liquidity needs will be satisfied through cash flows generated by operations, disposition proceeds, and financing activities. Operating cash flow is primarily rental income, expense recoveries from tenants, and other income from operations and is our principal source of funds that we use to pay operating expenses, debt service, recurring capital expenditures, and the distributions required to maintain our REIT qualification. We look to the capital markets (common equity, preferred equity, and debt) to primarily fund our acquisition activity. We seek to increase cash flows from our properties by maintaining quality standards for our buildings that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. We believe that our revenue, together with proceeds from building sales and debt and equity financings, will continue to provide funds for our short-term and medium-term liquidity needs.

Our short-term liquidity requirements consist primarily of funds to pay for operating expenses and other expenditures directly associated with our buildings, including interest expense, interest rate swap payments, scheduled principal payments on outstanding indebtedness, funding of property acquisitions under contract, general and administrative expenses, and capital expenditures for tenant improvements and leasing commissions.

Our long-term liquidity needs, in addition to recurring short-term liquidity needs as discussed above, consist primarily of funds necessary to pay for acquisitions, non-recurring capital expenditures, and scheduled debt maturities. We intend to satisfy our long-term liquidity needs through cash flow from operations, the issuance of equity or debt securities, other borrowings, property dispositions, or, in connection with acquisitions of certain additional buildings, the issuance of common units in the Operating Partnership.

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As of December 31, 2018, we had total immediate liquidity of approximately \$576.9 million, comprised of \$8.0 million of cash and cash equivalents and \$568.9 million of immediate availability on our unsecured credit facility and unsecured term loans.

In addition, we require funds for future dividends to be paid to our common and preferred stockholders and common unit holders in our Operating Partnership. These distributions on our common stock are voluntary (at the discretion of our board of directors), to the extent in excess of distribution requirements in order to maintain our REIT status for federal income tax purposes, and the excess portion may be reduced or stopped if needed to fund other liquidity requirements or for other reasons. The table below sets forth the dividends attributable to our common stock that were declared or paid during the year ended December 31, 2018.

Month Ended 2018	Declaration Date	Record Date	Per Share	Payment Date
December 31	October 10, 2018	December 31, 2018	\$0.118333	January 15, 2019
November 30	October 10, 2018	November 30, 2018	0.118333	December 17, 2018
October 31	October 10, 2018	October 31, 2018	0.118333	November 15, 2018
September 30	July 11, 2018	September 28, 2018	0.118333	October 15, 2018
August 31	July 11, 2018	August 31, 2018	0.118333	September 17, 2018
July 31	July 11, 2018	July 31, 2018	0.118333	August 15, 2018
June 30	April 10, 2018	June 29, 2018	0.118333	July 16, 2018
May 31	April 10, 2018	May 31, 2018	0.118333	June 15, 2018
April 30	April 10, 2018	April 30, 2018	0.118333	May 15, 2018
March 31	November 2, 2017	March 29, 2018	0.118333	April 16, 2018
February 28	November 2, 2017	February 28, 2018	0.118333	March 15, 2018
January 31	November 2, 2017	January 31, 2018	0.118333	February 15, 2018
Total			\$1.419996	

On January 10, 2019, our board of directors declared the common stock dividends for the months ending January 31, 2019, February 28, 2019 and March 31, 2019 at a monthly rate of \$0.119167 per share of common stock.

We pay quarterly cumulative dividends on the Series C Preferred Stock at a rate equivalent to the fixed annual rate of \$1.71875 per share, respectively. The table below sets forth the dividends on the Preferred Stock Issuances during the year ended December 31, 2018.

Quarter Ended 2018	Declaration Date	Series B Preferred Stock Per Share	Series C Preferred Stock Per Share	Payment Date
December 31	October 10, 2018	\$ —	\$ 0.4296875	December 31, 2018
September 30	July 11, 2018	0.0460069	(1) 0.4296875	October 1, 2018
June 30	April 10, 2018	0.4140625	0.4296875	July 2, 2018
March 31	February 14, 2018	0.4140625	0.4296875	April 2, 2018
Total		\$ 0.8741319	\$ 1.7187500	

On June 11, 2018, we gave notice to redeem all 2,800,000 issued and outstanding shares of the Series B Preferred (1) Stock. On July 11, 2018, we redeemed all of the Series B Preferred Stock at a cash redemption price of \$25.00 per share, plus accrued and unpaid dividends to but excluding the redemption date, without interest.

On January 10, 2019, our board of directors declared the Series C Preferred Stock dividend for the quarter ending March 31, 2019 at a quarterly rate of \$0.4296875 per share.



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## Indebtedness Outstanding

The following table sets forth certain information with respect to the indebtedness outstanding as of December 31, 2018.

Loan	Principal Outstanding (in thousands)	Interest Rate <sup>(1)</sup>	Maturity Date	Prepayment Terms <sup>(2)</sup>
Unsecured credit facility:				
Unsecured Credit Facility <sup>(3)</sup>	\$ 100,500	L + 0.90%	Jan-15-2023	i
Total unsecured credit facility	100,500			
Unsecured term loans:				
Unsecured Term Loan C	150,000	L + 1.00%	Sep-29-2020	i
Unsecured Term Loan B	150,000	L + 1.00%	Mar-21-2021	i
Unsecured Term Loan A	150,000	L + 1.00%	Mar-31-2022	i
Unsecured Term Loan D	150,000	L + 1.00%	Jan-04-2023	i
Unsecured Term Loan E <sup>(4)</sup>	—	L + 1.00%	Jan-15-2024	i
Total unsecured term loans	600,000			
Less: Total unamortized deferred financing fees and debt issuance costs	(3,640 )			
Total carrying value unsecured term loans, net	596,360			
Unsecured notes:				
Series F Unsecured Notes	100,000	3.98 %	Jan-05-2023	ii
Series A Unsecured Notes	50,000	4.98 %	Oct-1-2024	ii
Series D Unsecured Notes	100,000	4.32 %	Feb-20-2025	ii
Series G Unsecured Notes	75,000	4.10 %	Jun-13-2025	ii
Series B Unsecured Notes	50,000	4.98 %	Jul-1-2026	ii
Series C Unsecured Notes	80,000	4.42 %	Dec-30-2026	ii
Series E Unsecured Notes	20,000	4.42 %	Feb-20-2027	ii
Series H Unsecured Notes	100,000	4.27 %	Jun-13-2028	ii
Total unsecured notes	575,000			
Less: Total unamortized deferred financing fees and debt issuance costs	(2,512 )			
Total carrying value unsecured notes, net	572,488			
Mortgage notes (secured debt):				
Wells Fargo Bank, National Association CMBS Loan	53,216	4.31 %	Dec-1-2022	iii
Thrivent Financial for Lutherans	3,795	4.78 %	Dec-15-2023	iv
Total mortgage notes	57,011			
Add: Total unamortized fair market value premiums	50			
Less: Total unamortized deferred financing fees and debt issuance costs	(501 )			

Total carrying value mortgage notes, net	56,560		
Total / weighted average interest rate <sup>(5)</sup>	\$ 1,325,908	3.56	%

Interest rate as of December 31, 2018. At December 31, 2018, the one-month LIBOR (“L”) was 2.50269%. The interest rate is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in (1) obtaining debt or any unamortized fair market value premiums. The spread over the applicable rate for our unsecured credit facility and unsecured term loans is based on our debt rating, as defined in the respective loan agreements.

Prepayment terms consist of (i) pre-payable with no penalty; (ii) pre-payable with penalty; (iii) pre-payable without (2) penalty three months prior to the maturity date, however can be defeased; and (iv) pre-payable without penalty three months prior to the maturity date.

(3) The capacity of the unsecured credit facility is \$500.0 million.

(4) Capacity of \$175.0 million, which we have until July 25, 2019 to draw.

The weighted average interest rate was calculated using the fixed interest rate swapped on the notional amount of (5) \$600.0 million of debt that was in effect as of December 31, 2018, and is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums.

The aggregate undrawn nominal commitments on the unsecured credit facility and unsecured term loans as of December 31, 2018 was approximately \$568.9 million, including issued letters of credit. Our actual borrowing capacity at any given point in time may be less and is restricted to a maximum amount based on our debt covenant compliance.

The Wells Fargo, National Association CMBS loan agreement is a commercial mortgage backed security that provides for a secured loan. There are 24 properties that are collateral for the CMBS loan. The Operating Partnership guarantees the obligations under the CMBS loan.

On December 20, 2018, upon obtaining our second investment grade rating, the spread over the applicable rate on our unsecured credit facility and unsecured term loans changed from being based upon our consolidated leverage ratio, as defined in the respective loan agreements, to being based upon our debt rating, as defined in the respective loan agreements.

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The chart below details our debt capital structure as of December 31, 2018.

Debt Capital Structure	December 31, 2018	
Total principal outstanding (in thousands)	\$1,332,511	
Weighted average duration (years)	4.7	
% Secured debt	4	%
% Debt maturing next 12 months	—	%
Net Debt to Real Estate Cost Basis <sup>(1)</sup>	38	%

We define Net Debt as our amounts outstanding under our unsecured credit facility, unsecured term loans, unsecured notes, and mortgage notes, less cash and cash equivalents. We define Real Estate Cost Basis as the book value of rental property and deferred leasing intangibles, exclusive of the related accumulated depreciation and amortization.

We regularly pursue new financing opportunities to ensure an appropriate balance sheet position. As a result of these dedicated efforts, we are confident in our ability to meet future debt maturities and building acquisition funding needs. We believe that our current balance sheet is in an adequate position at the date of this filing, despite possible volatility in the credit markets.

Our interest rate exposure as it relates to interest expense payments on our floating rate debt is managed through our use of interest rate swaps, which fix the rate of our long term floating rate debt. For a detailed discussion on our use of interest rate swaps, see “Interest Rate Risk” below.

#### Unsecured Credit Facility, Unsecured Term Loans, and Unsecured Notes

The unsecured credit facility provides for a facility fee payable by us to the lenders at a rate per annum of 0.125% to 0.3%, depending on our debt rating, as defined in the credit agreement, of the aggregate commitments (currently \$500.0 million). The facility fee is due and payable quarterly.

Covenants: Our ability to borrow, maintain borrowings and avoid default under the unsecured credit facility, the unsecured term loans, and unsecured notes is subject to our ongoing compliance with a number of financial covenants, including:

- a maximum consolidated leverage ratio of not greater than 0.60:1.00;
- a maximum secured leverage ratio of not greater than 0.40:1.00;
- a maximum unencumbered leverage ratio of not greater than 0.60:1.00;
- a minimum fixed charge ratio of not less than or equal to 1.50:1.00; and
- a minimum unsecured interest coverage ratio of not less than or equal to 1.75:1.00.

The respective note purchase agreements additionally contain a financial covenant that requires us to maintain a minimum interest coverage ratio of not less than 1.50:1.00.

Pursuant to the terms of our unsecured debt agreements, we may not pay distributions that exceed the minimum amount required for us to qualify and maintain our status as a REIT if a default or event of default occurs and is continuing.

Our unsecured credit facility, unsecured term loans, unsecured notes, and mortgage notes are subject to ongoing compliance with a number of financial and other covenants. As of December 31, 2018, we were in compliance with the applicable financial covenants.

Events of Default: Our unsecured credit facility and unsecured term loans contain customary events of default, including but not limited to non-payment of principal, interest, fees or other amounts, defaults in the compliance with the covenants contained in the documents evidencing the unsecured credit facility and the unsecured term loans, cross-defaults to other material debt and bankruptcy or other insolvency events.

Borrower and Guarantors: The Operating Partnership is the borrower under the unsecured credit facility, the unsecured term loans and is the issuer of the unsecured notes. STAG Industrial, Inc. and certain of its subsidiaries

guarantee the obligations under our unsecured debt agreements.

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## Contractual Obligations

The following table reflects our contractual obligations as of December 31, 2018, specifically our obligations under long-term debt agreements and ground lease agreements.

Contractual Obligations (in thousands) <sup>(1)(2)</sup>	Payments by Period				
	Total	2019	2020-2021	2022-2023	Thereafter
Principal payments <sup>(3)</sup>	\$1,332,511	\$1,926	\$304,109	\$551,476	\$475,000
Interest payments—Fixed rate debt	180,451	27,513	54,770	48,337	49,831
Interest payments—Variable rate debt <sup>(5)</sup>	65,976	20,225	35,132	10,591	28
Property lease <sup>(4)</sup>	2,716	1,203	1,513	—	—
Ground leases <sup>(4)</sup>	50,202	907	1,836	1,879	45,580
Total	\$1,631,856	\$51,774	\$397,360	\$612,283	\$570,439

From time to time in the normal course of our business, we enter into various contracts with third parties that may obligate us to make payments, such as maintenance agreements at our buildings. Such contracts, in the aggregate, do not represent material obligations, are typically short-term and cancellable within 90 days and are not included in the table above.

The terms of the loan agreements for the Wells Fargo, National Association CMBS loan calls for a monthly leasing escrow payment of approximately \$0.1 million and the balance of the reserve is capped at \$2.1 million. The cap was not met at December 31, 2018 and the balance at December 31, 2018 was approximately \$2.0 million. The funding of these reserves is not included in the table above.

The total payments do not include unamortized deferred financing fees, debt issuance costs, or fair market value premiums associated with certain loans.

This is not included in our Consolidated Balance Sheets included in this report.

Amounts include interest rate payments on the \$600.0 million current notional amount of our interest rate swaps, as discussed below.

## Equity

## Preferred Stock

On June 11, 2018, we gave notice to redeem all 2,800,000 issued and outstanding shares of the Series B Preferred Stock. We recognized a deemed dividend to the holders of the Series B Preferred Stock of approximately \$2.7 million on the accompanying Consolidated Statements of Operations for the year ended December 31, 2018 related to redemption costs and the original issuance costs of the Series B Preferred Stock. On July 11, 2018, we redeemed all of the Series B Preferred Stock.

The table below sets forth our outstanding preferred stock issuances as of December 31, 2018.

Preferred Stock Issuances	Issuance Date	Number of Shares	Liquidation Value Per Share	Interest Rate
6.875% Series C Cumulative Redeemable Preferred Stock	March 17, 2016	3,000,000	\$ 25.00	6.875%

The Series C Preferred Stock ranks senior to our common stock with respect to dividend rights and rights upon the liquidation, dissolution or winding up of our affairs. The Series C Preferred Stock has no stated maturity date and is not subject to mandatory redemption or any sinking fund. Generally, we are not permitted to redeem the Series C Preferred Stock prior to March 17, 2021, except in limited circumstances relating to our ability to qualify as a REIT and in certain other circumstances related to a change of control.

## Common Stock

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The following sets forth our at-the market (“ATM”) common stock offering program as of December 31, 2018. We may from time to time sell common stock through sales agents under the program.

ATM Common Stock Offering Program	Date	Maximum Aggregate Offering Price (in thousands)	Aggregate Common Stock Available as of December 31, 2018 (in thousands)
2017 \$500 million ATM	November 13, 2017	\$ 500,000	\$ 99,227

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The tables below set forth the activity for the ATM common stock offering programs during the three months and year ended December 31, 2018 (in thousands, except share data).

ATM Common Stock Offering Program	Three months ended December 31, 2018				
	Shares Sold	Weighted Average Price Per Share	Gross Proceeds	Sales Agents' Fee	Net Proceeds
	2017 \$500 million ATM	4,336,652	\$ 26.29	\$ 113,990	\$ 1,152
Total/weighted average	4,336,652	\$ 26.29	\$ 113,990	\$ 1,152	\$ 112,838

  

ATM Common Stock Offering Program	Year ended December 31, 2018				
	Shares Sold	Weighted Average Price Per Share	Gross Proceeds	Sales Agents' Fee	Net Proceeds
	2017 \$500 million ATM	14,724,614	\$ 26.52	\$ 390,447	\$ 4,040
Total/weighted average	14,724,614	\$ 26.52	\$ 390,447	\$ 4,040	\$ 386,407

## Noncontrolling Interest

We own our interests in all of our properties and conduct substantially all of our business through our Operating Partnership. We are the sole member of the sole general partner of the Operating Partnership. As of December 31, 2018, we owned approximately 96.5% of the common units of our Operating Partnership, and our current and former executive officers, directors, senior employees and their affiliates, and third parties who contributed properties to us in exchange for common units in our Operating Partnership, owned the remaining 3.5%.

## Interest Rate Risk

We use interest rate swaps to fix the rate of our variable rate debt. As of December 31, 2018, all of our outstanding variable rate debt, with the exception of our unsecured credit facility, was fixed with interest rate swaps through maturity.

We recognize all derivatives on the balance sheet at fair value. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income (loss), which is a component of equity. Derivatives that are not designated as hedges must be adjusted to fair value and the changes in fair value must be reflected as income or expense.

We have established criteria for suitable counterparties in relation to various specific types of risk. We only use counterparties that have a credit rating of no lower than investment grade at swap inception from Moody's Investor Services, Standard & Poor's, Fitch Ratings, or other nationally recognized rating agencies.

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The following table details our outstanding interest rate swaps as of December 31, 2018.

Interest Rate Derivative Counterparty	Trade Date	Effective Date	Notional Amount (in thousands)	Fair Value (in thousands)	Pay Fixed Interest Rate	Receive Variable Interest Rate	Maturity Date
Regions Bank	Mar-01-2013	Mar-01-2013	\$ 25,000	\$ 337	1.3300%	One-month L	Feb-14-2020
Capital One, N.A.	Jun-13-2013	Jul-01-2013	\$ 50,000	\$ 478	1.6810%	One-month L	Feb-14-2020
Capital One, N.A.	Jun-13-2013	Aug-01-2013	\$ 25,000	\$ 233	1.7030%	One-month L	Feb-14-2020
Regions Bank	Sep-30-2013	Feb-03-2014	\$ 25,000	\$ 152	1.9925%	One-month L	Feb-14-2020
The Toronto-Dominion Bank	Oct-14-2015	Sep-29-2016	\$ 25,000	\$ 480	1.3830%	One-month L	Sep-29-2020
PNC Bank, N.A.	Oct-14-2015	Sep-29-2016	\$ 50,000	\$ 954	1.3906%	One-month L	Sep-29-2020
Regions Bank	Oct-14-2015	Sep-29-2016	\$ 35,000	\$ 671	1.3858%	One-month L	Sep-29-2020
U.S. Bank, N.A.	Oct-14-2015	Sep-29-2016	\$ 25,000	\$ 476	1.3950%	One-month L	Sep-29-2020
Capital One, N.A.	Oct-14-2015	Sep-29-2016	\$ 15,000	\$ 285	1.3950%	One-month L	Sep-29-2020
Royal Bank of Canada	Jan-08-2015	Mar-20-2015	\$ 25,000	\$ 408	1.7090%	One-month L	Mar-21-2021
The Toronto-Dominion Bank	Jan-08-2015	Mar-20-2015	\$ 25,000	\$ 407	1.7105%	One-month L	Mar-21-2021
The Toronto-Dominion Bank	Jan-08-2015	Sep-10-2017	\$ 100,000	\$ 506	2.2255%	One-month L	Mar-21-2021
Wells Fargo, N.A.	Jan-08-2015	Mar-20-2015	\$ 25,000	\$ 469	1.8280%	One-month L	Mar-31-2022
The Toronto-Dominion Bank	Jan-08-2015	Feb-14-2020	\$ 25,000	\$ (46 )	2.4535%	One-month L	Mar-31-2022
Regions Bank	Jan-08-2015	Feb-14-2020	\$ 50,000	\$ (115 )	2.4750%	One-month L	Mar-31-2022
Capital One, N.A.	Jan-08-2015	Feb-14-2020	\$ 50,000	\$ (171 )	2.5300%	One-month L	Mar-31-2022
The Toronto-Dominion Bank	Jul-20-2017	Oct-30-2017	\$ 25,000	\$ 549	1.8485%	One-month L	Jan-04-2023
Royal Bank of Canada	Jul-20-2017	Oct-30-2017	\$ 25,000	\$ 549	1.8505%	One-month L	Jan-04-2023
Wells Fargo, N.A.	Jul-20-2017	Oct-30-2017	\$ 25,000	\$ 547	1.8505%	One-month L	Jan-04-2023
PNC Bank, N.A.	Jul-20-2017	Oct-30-2017	\$ 25,000	\$ 549	1.8485%	One-month L	Jan-04-2023
PNC Bank, N.A.	Jul-20-2017	Oct-30-2017	\$ 50,000	\$ 1,101	1.8475%	One-month L	Jan-04-2023
The Toronto-Dominion Bank	Jul-24-2018	Jul-26-2019	\$ 50,000	\$ (1,050 )	2.9180%	One-month L	Jan-12-2024
PNC Bank, N.A.	Jul-24-2018	Jul-26-2019	\$ 50,000	\$ (1,055 )	2.9190%	One-month L	Jan-12-2024
Bank of Montreal	Jul-24-2018	Jul-26-2019	\$ 50,000	\$ (1,050 )	2.9190%	One-month L	Jan-12-2024
U.S. Bank, N.A.	Jul-24-2018	Jul-26-2019	\$ 25,000	\$ (524 )	2.9190%	One-month L	Jan-12-2024

The swaps outlined in the above table were all designated as cash flow hedges of interest rate risk, and all are valued as Level 2 financial instruments. As of December 31, 2018, the fair value of 18 of our 25 interest rate swaps that were in an asset position was approximately \$9.2 million and seven interest rate swaps that were in a liability position was approximately \$4.0 million, including any adjustment for nonperformance risk related to these agreements.

As of December 31, 2018, we had \$700.5 million of variable rate debt. As of December 31, 2018, all of our outstanding variable rate debt, with exception of our unsecured credit facility, was fixed with interest rate swaps through maturity. To the extent interest rates increase, interest costs on our floating rate debt not fixed with interest rate swaps will increase, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our security holders. From time to time, we may enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. In addition, an increase in interest rates could decrease the amounts third parties are willing to pay for our assets, thereby limiting our

ability to change our portfolio promptly in response to changes in economic or other conditions.

#### Inflation

Our business could be impacted in multiple ways due to inflation. We believe, however, that we are well positioned to be able to manage our business in an inflationary environment. Specifically, as of December 31, 2018 our weighted average lease term was approximately 4.9 years and, on average, approximately 9-16% of our total annualized base rental revenue will roll annually over the next few years. We expect that this lease roll will allow us to capture inflationary increases in rent on a relatively efficient basis. In addition, as of December 31, 2018 we have long term liabilities averaging approximately 4.7 years when excluding our unsecured credit facility. Our variable rate debt as of December 31, 2018 has been fully swapped to fixed rates through maturity with the exception of our unsecured credit facility. Therefore, as rents rise and increase our operating cash flow, this positive impact will flow more directly to the bottom line without the offset of higher in place debt costs. Lastly, while inflation will likely lead to increases in the operating costs of our portfolio, such as real estate taxes, utility expenses, and other operating expenses, the majority of our leases are either triple net leases or otherwise provide for tenant reimbursement for costs related to these expenses. Therefore, the increased costs in an inflationary environment would generally be passed through to our tenant.

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## Off-balance Sheet Arrangements

As of December 31, 2018, we had letters of credit related to development projects and certain other agreements of approximately \$5.6 million. As of December 31, 2018, we had no other material off-balance sheet arrangements. See the table under “Liquidity and Capital Resources—Contractual Obligations” above for information regarding certain off-balance sheet arrangements.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The primary market risk we are exposed to is interest rate risk. We have used derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings, primarily through interest rate swaps.

As of December 31, 2018, we had \$700.5 million of variable rate debt outstanding. As of December 31, 2018, all of our outstanding variable rate debt, with the exception of \$100.5 million outstanding under our unsecured credit facility, was fixed with interest rate swaps through maturity. To the extent we undertake additional variable rate indebtedness, if interest rates increase, then so will the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our security holders. Further, rising interest rates could limit our ability to refinance existing debt when it matures or significantly increase our future interest expense. From time to time, we enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risk that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under GAAP. In addition, an increase in interest rates could decrease the amounts third parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions. If interest rates increased by 100 basis points and assuming we had an outstanding balance of \$100.5 million on the unsecured credit facility (the portion outstanding at December 31, 2018 not fixed by interest rate swaps) for the year ended December 31, 2018, our interest expense would have increased by approximately \$1.0 million for the year ended December 31, 2018.

## Item 8. Financial Statements and Supplementary Data

The required response under this Item is submitted in a separate section of this report. See Index to Consolidated Financial Statements on page F-1.

The tables below reflect the Company’s selected quarterly information for the quarters ended December 31, 2018 and 2017, September 30, 2018 and 2017, June 30, 2018 and 2017, and March 31, 2018 and 2017 (in thousands, except for per share data).

Selected Interim Financial Information	Three months ended,			
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Total revenue	\$93,290	\$ 88,946	\$85,474	\$83,283
Net income	\$47,256	\$ 8,876	\$14,964	\$25,149
Net income attributable to common stockholders	\$44,256	\$ 7,237	\$9,264	\$21,676
Net income per share attributable to common stockholders — basic and diluted	\$0.40	\$ 0.07	\$0.09	\$0.22
Selected Interim Financial Information	Three months ended,			

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	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Total revenue	\$81,270	\$ 78,144	\$72,193	\$69,480
Net income	\$8,924	\$ 21,839	\$1,368	\$69
Net income (loss) attributable to common stockholders	\$6,124	\$ 18,478	\$(1,119 )	\$(2,359 )
Net income (loss) per share attributable to common stockholders — basic and diluted	\$0.06	\$ 0.20	\$(0.01 )	\$(0.03 )

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure  
None.

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Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by SEC Rule 13a-15(b), we have evaluated, under the supervision of and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of December 31, 2018. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures for the periods covered by this report were effective to provide reasonable assurance that information required to be disclosed by our Company in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2018. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears on page F-2 of this Annual Report on Form 10 K.

Changes in Internal Controls

There was no change to our internal control over financial reporting during the fourth quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 11 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 will be included in the Proxy Statement to be filed relating to our 2019 Annual Meeting of Stockholders and is incorporated herein by reference.





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PART IV.

Item 15. Exhibits and Financial Statement Schedules

1. Consolidated Financial Statements

The financial statements listed in the accompanying Index to Consolidated Financial Statements on page F-1 are filed as a part of this report.

2. Financial Statement Schedules

The financial statement schedules required by this Item are filed with this report and listed in the accompanying Index to Consolidated Financial Statements on page F-1. All other financial statement schedules are not applicable.

3. Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Description of Document
3.1	<u>Articles of Amendment and Restatement of STAG Industrial, Inc. (including all articles of amendment and articles supplementary) (1)</u>
3.2	<u>Third Amended and Restated Bylaws of STAG Industrial, Inc. (2)</u>
4.1	<u>Form of Common Stock Certificate of STAG Industrial, Inc. (3)</u>
4.2	<u>Form of Certificate for the 6.875% Series C Cumulative Redeemable Preferred Stock of STAG Industrial, Inc. (4)</u>
10.1	<u>Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (5)</u>
10.2	<u>First Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (6)</u>
10.3	<u>Second Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (7)</u>
10.4	<u>Third Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (8)</u>
10.5	<u>STAG Industrial, Inc. 2011 Equity Incentive Plan (9)*</u>
10.6	<u>Amendment to the 2011 Equity Incentive Plan, dated as of May 6, 2013 (10)*</u>
10.7	<u>Second Amendment to the 2011 Equity Incentive Plan, dated as of February 20, 2015 (11)*</u>
10.8	<u>Amended and Restated STAG Industrial, Inc. 2011 Equity Incentive Plan (2)*</u>
10.9	<u>Form of LTIP Unit Agreement (9)*</u>
10.10	<u>Form of Performance Award Agreement (12)*</u>
10.11	<u>Amended and Restated Executive Employment Agreement with Benjamin S. Butcher, dated May 4, 2015 (13)*</u>
10.12	<u>Executive Employment Agreement with William R. Crooker, dated February 25, 2016 (12)*</u>
10.13	<u>Executive Employment Agreement with Stephen C. Mecke, dated April 20, 2011 (5)*</u>
10.14	<u>Executive Employment Agreement with Jeffrey M. Sullivan, dated October 27, 2014 (14)*</u>
10.15	<u>Executive Employment Agreement with David G. King, dated April 20, 2011 (5)*</u>
10.16	<u>Executive Employment Agreement with Peter S. Fearey, dated February 25, 2016 (12)*</u>
10.17	<u>Form of Indemnification Agreement between STAG Industrial, Inc. and its directors and officers (15)*</u>
10.18	<u>Registration Rights Agreement, dated April 20, 2011, by and among STAG Industrial, Inc., STAG Industrial Operating Partnership, L.P. and the persons named therein (5)</u>
10.19	<u>Services Agreement between STAG Industrial Management, LLC and STAG Manager II, LLC, as amended (16)</u>
10.20	<u>Credit Agreement, dated as of July 26, 2018, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (17)</u>

10.21 Second Amended and Restated Term Loan Agreement, dated as of December 20, 2016, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (18)

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Exhibit	Description of Document
10.22	<u>First Amendment to Second Amended and Restated Term Loan Agreement, dated as of July 28, 2017, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (19)</u>
10.23	<u>Second Amendment to Second Amended and Restated Term Loan Agreement, dated as of July 26, 2018, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (17)</u>
10.24	<u>Amended and Restated Term Loan Agreement, dated as of December 20, 2016, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (18)</u>
10.25	<u>First Amendment to Amended and Restated Term Loan Agreement, dated as of July 28, 2017, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (19)</u>
10.26	<u>Second Amendment to Amended and Restated Term Loan Agreement, dated as of July 26, 2018, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (17)</u>
10.27	<u>Term Loan Agreement, dated as of September 29, 2015, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (20)</u>
10.28	<u>Second Amendment to Term Loan Agreement, dated as of July 28, 2017, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (19)</u>
10.29	<u>Third Amendment to Term Loan Agreement, dated as of July 26, 2018, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (17)</u>
10.30	<u>Term Loan Agreement, dated as of July 28, 2017, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Bank of America, N.A., and the other lenders party thereto (19)</u>
10.31	<u>First Amendment to Term Loan Agreement, dated as of July 26, 2018, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Bank of America, N.A., and the other lenders party thereto (17)</u>
10.32	<u>Term Loan Agreement, dated as of July 26, 2018, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (17)</u>
10.33	<u>Note Purchase Agreement, dated as of April 16, 2014, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (21)</u>
10.34	<u>First Amendment to Note Purchase Agreement, dated as of December 18, 2014, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (22)</u>
10.35	<u>Second Amendment to Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (23)</u>
10.36	<u>Third Amendment to Note Purchase Agreement, dated as of April 10, 2018, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (24)</u>
10.37	<u>Note Purchase Agreement, dated as of December 18, 2014, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (22)</u>
10.38	<u>First Amendment to Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (23)</u>
10.39	<u>Second Amendment to Note Purchase Agreement, dated as of April 10, 2018, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (24)</u>
10.40	<u>Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (23)</u>
10.41	<u>First Amendment to Note Purchase Agreement, dated as of April 10, 2018, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (24)</u>

- 10.42 Note Purchase Agreement, dated as of April 10, 2018, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (24)
- 21.1 Subsidiaries of STAG Industrial, Inc.
- 23.1 Consent of PricewaterhouseCoopers LLP
- 24.1 Power of Attorney (included on signature page)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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Exhibit Description of Document

- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
 The following materials from STAG Industrial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (vi) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these consolidated financial statements.
- \*Represents management contract or compensatory plan or arrangement.
- (1) Incorporated by reference to the Quarterly Report on Form 10-Q filed with the SEC on July 31, 2018.  
 (2) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on May 1, 2018.  
 (3) Incorporated by reference to the Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on September 24, 2010.  
 (4) Incorporated by reference to the Registration Statement on Form 8-A filed with the SEC on March 10, 2016.  
 (5) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on April 21, 2011.  
 (6) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on November 2, 2011.  
 (7) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on April 16, 2013.  
 (8) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on March 18, 2016.  
 (9) Incorporated by reference to the Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on April 5, 2011.  
 (10) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on May 6, 2013.  
 (11) Incorporated by reference to the Annual Report on Form 10-K filed with the SEC on February 23, 2015.  
 (12) Incorporated by reference to the Quarterly Report on Form 10-Q filed with the SEC on May 3, 2016.  
 (13) Incorporated by reference to the Quarterly Report on Form 10-Q filed with the SEC on July 23, 2015.  
 (14) Incorporated by reference to the Quarterly Report on Form 10-Q filed with the SEC on October 31, 2014.  
 (15) Incorporated by reference to the Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on February 16, 2011.  
 (16) Incorporated by reference to the Annual Report on Form 10-K filed with the SEC on February 26, 2014.  
 (17) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on July 31, 2018.  
 (18) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on December 27, 2016.  
 (19) Incorporated by reference to the Quarterly Report on Form 10-Q filed with the SEC on November 2, 2017.  
 (20) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on October 1, 2015.  
 (21) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on April 22, 2014.  
 (22) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on December 19, 2014.  
 (23) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on December 4, 2015.  
 (24) Incorporated by reference to the Current Report on Form 8-K filed with the SEC on April 13, 2018.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STAG INDUSTRIAL, INC.

Dated: February 13, 2019

By: /s/ Benjamin S. Butcher  
 Benjamin S. Butcher  
 Chairman, Chief  
 Executive Officer and  
 President

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and directors of STAG Industrial, Inc., hereby severally constitute Benjamin S. Butcher and William R. Crooker, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, the Form 10-K filed herewith and any and all amendments to said Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable STAG Industrial, Inc. to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Form 10-K and any and all amendments thereto.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and dates indicated.

Date	Signature	Title
February 13, 2019	/s/ Benjamin S. Butcher Benjamin S. Butcher	Chairman, Chief Executive Officer (principal executive officer) and President
February 13, 2019	/s/ Virgis W. Colbert Virgis W. Colbert	Director
February 13, 2019	/s/ Michelle S. Dilley Michelle S. Dilley	Director
February 13, 2019	/s/ Jeffrey D. Furber Jeffrey D. Furber	Director
February 13, 2019	/s/ Larry T. Guillemette Larry T. Guillemette	Director
February 13, 2019	/s/ Francis X. Jacoby III Francis X. Jacoby III	Director
February 13, 2019	/s/ Christopher P. Marr Christopher P. Marr	Director

February 13, 2019 /s/ Hans S. Weger  
Hans S. Weger Director

February 13, 2019 /s/ William R.  
Crooker Chief Financial Officer, Executive Vice President and Treasurer (principal  
William R. Crooker financial and accounting officer)

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STAG INDUSTRIAL, INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of STAG Industrial, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of STAG Industrial, Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP  
Boston, Massachusetts  
February 13, 2019

We have served as the Company's or its predecessor's auditor since 2009.

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## STAG Industrial, Inc.

## Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2018	December 31, 2017
Assets		
Rental Property:		
Land	\$ 364,023	\$ 321,560
Buildings and improvements, net of accumulated depreciation of \$316,930 and \$249,057, respectively	2,285,663	1,932,764
Deferred leasing intangibles, net of accumulated amortization of \$246,502 and \$280,642, respectively	342,015	313,253
Total rental property, net	2,991,701	2,567,577
Cash and cash equivalents	7,968	24,562
Restricted cash	14,574	3,567
Tenant accounts receivable, net	42,236	33,602
Prepaid expenses and other assets	36,902	25,364
Interest rate swaps	9,151	6,079
Assets held for sale, net	—	19,916
Total assets	\$ 3,102,532	\$ 2,680,667
Liabilities and Equity		
Liabilities:		
Unsecured credit facility	\$ 100,500	\$ 271,000
Unsecured term loans, net	596,360	446,265
Unsecured notes, net	572,488	398,234
Mortgage notes, net	56,560	58,282
Accounts payable, accrued expenses and other liabilities	45,507	43,216
Interest rate swaps	4,011	1,217
Tenant prepaid rent and security deposits	22,153	19,045
Dividends and distributions payable	13,754	11,880
Deferred leasing intangibles, net of accumulated amortization of \$12,764 and \$13,555, respectively	21,567	21,221
Total liabilities	1,432,900	1,270,360
Commitments and contingencies (Note 11)		
Equity:		
Preferred stock, par value \$0.01 per share, 15,000,000 shares authorized, Series B, -0- and 2,800,000 shares (liquidation preference of \$25.00 per share) issued and outstanding at December 31, 2018 and December 31, 2017, respectively	—	70,000
Series C, 3,000,000 shares (liquidation preference of \$25.00 per share) issued and outstanding at December 31, 2018 and December 31, 2017	75,000	75,000
Common stock, par value \$0.01 per share, 150,000,000 shares authorized, 112,165,786 and 97,012,543 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	1,122	970
Additional paid-in capital	2,118,179	1,725,825
Cumulative dividends in excess of earnings	(584,979	) (516,691 )
Accumulated other comprehensive income	4,481	3,936
Total stockholders' equity	1,613,803	1,359,040
Noncontrolling interest	55,829	51,267

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Total equity	1,669,632	1,410,307
Total liabilities and equity	\$ 3,102,532	\$ 2,680,667

The accompanying notes are an integral part of these consolidated financial statements.

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STAG Industrial, Inc.  
Consolidated Statements of Operations  
(in thousands, except share data)

	Year ended December 31,		
	2018	2017	2016
Revenue			
Rental income	\$295,654	\$255,831	\$212,741
Tenant recoveries	54,039	45,005	37,107
Other income	1,300	251	395
Total revenue	350,993	301,087	250,243
Expenses			
Property	69,021	57,701	48,904
General and administrative	34,052	33,349	33,395
Property acquisition costs	—	5,386	4,567
Depreciation and amortization	167,617	150,881	125,444
Loss on impairments	6,182	1,879	16,845
Gain on involuntary conversion	—	(325)	—
Other expenses	1,277	1,786	1,149
Total expenses	278,149	250,657	230,304
Other income (expense)			
Interest and other income	20	12	10
Interest expense	(48,817)	(42,469)	(42,923)
Loss on extinguishment of debt	(13)	(15)	(3,261)
Gain on the sales of rental property, net	72,211	24,242	61,823
Total other income (expense)	23,401	(18,230)	15,649
Net income	\$96,245	\$32,200	\$35,588
Less: income attributable to noncontrolling interest after preferred stock dividends	3,319	941	1,069
Net income attributable to STAG Industrial, Inc.	\$92,926	\$31,259	\$34,519
Less: preferred stock dividends	7,604	9,794	13,897
Less: redemption of preferred stock	2,661	—	—
Less: amount allocated to participating securities	276	334	384
Net income attributable to common stockholders	\$82,385	\$21,131	\$20,238
Weighted average common shares outstanding — basic	103,401	89,538	70,637
Weighted average common shares outstanding — diluted	103,807	90,004	70,853
Net income per share — basic and diluted			
Net income per share attributable to common stockholders — basic	\$0.80	\$0.24	\$0.29
Net income per share attributable to common stockholders — diluted	\$0.79	\$0.23	\$0.29
The accompanying notes are an integral part of these consolidated financial statements.			

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STAG Industrial, Inc.

Consolidated Statements of Comprehensive Income

(in thousands)

	Year ended December 31,		
	2018	2017	2016
Net income	\$96,245	\$32,200	\$35,588
Other comprehensive income:			
Income on interest rate swaps	310	5,670	898
Other comprehensive income	310	5,670	898
Comprehensive income	96,555	37,870	36,486
Income attributable to noncontrolling interest after preferred stock dividends	(3,319 )	(941 )	(1,069 )
Other comprehensive income attributable to noncontrolling interest	(12 )	(238 )	(44 )
Comprehensive income attributable to STAG Industrial, Inc.	\$93,224	\$36,691	\$35,373

The accompanying notes are an integral part of these consolidated financial statements.

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STAG Industrial, Inc.

Consolidated Statements of Equity

(in thousands, except share data)

	Common Stock				Cumulative Dividends in Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest - Unit Holders in Operating Partnership	Total Equity
Preferred Stock	Shares	Amount	Additional Paid-in Capital						
Balance, December 31, 2015	\$ 139,000	68,077,333	\$ 681	\$ 1,017,397	\$(332,271)	\$(2,350)	\$ 822,457	\$ 35,400	\$ 857,857
Proceeds from sales of common stock	—	12,090,038	121	282,548	—	—	282,669	—	282,669
Issuance of preferred stock	75,000	—	—	—	—	—	75,000	—	75,000
Offering costs	—	—	—	(6,928)	—	—	(6,928)	—	(6,928)
Dividends and distributions, net	—	—	—	—	(113,226)	—	(113,226)	(5,707)	(118,933)
Non-cash compensation activity, net	—	116,441	1	3,690	—	—	3,691	6,084	9,775
Redemption of common units to common stock	—	68,492	1	616	—	—	617	(617)	—
Redemption of preferred stock	(69,000)	—	—	—	—	—	(69,000)	—	(69,000)
Rebalancing of noncontrolling interest	—	—	—	(3,617)	—	—	(3,617)	3,617	—
Other comprehensive income	—	—	—	—	—	854	854	44	898
Net income	—	—	—	—	34,519	—	34,519	1,069	35,588
Balance, December 31, 2016	\$ 145,000	\$ 80,352,304	\$ 804	\$ 1,293,706	\$(410,978)	\$(1,496)	\$ 1,027,036	\$ 39,890	\$ 1,066,926
Proceeds from sales of common stock	—	16,262,375	163	427,379	—	—	427,542	—	427,542
Offering costs	—	—	—	(6,053)	—	—	(6,053)	—	(6,053)
Dividends and distributions, net	—	—	—	—	(136,778)	—	(136,778)	(6,378)	(143,156)
	—	46,604	—	4,138	(194)	—	3,944	4,676	8,620

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Non-cash compensation activity, net									
Redemption of common units to common stock	—	351,260	3	3,929	—	—	3,932	(3,932 )	—
Issuance of units	—	—	—	—	—	—	—	18,558	18,558
Rebalancing of noncontrolling interest	—	—	—	2,726	—	—	2,726	(2,726 )	—
Other comprehensive income	—	—	—	—	—	5,432	5,432	238	5,670
Net income	—	—	—	—	31,259	—	31,259	941	32,200
Balance, December 31, 2017	\$145,000	97,012,543	\$970	\$1,725,825	\$(516,691)	\$3,936	\$1,359,040	\$51,267	\$1,410,307
Cash flow hedging instruments cumulative effect adjustment (Note 2)	—	—	—	—	(258 )	247	(11 )	11	—
Proceeds from sales of common stock	—	14,724,614	148	390,299	—	—	390,447	—	390,447
Redemption of preferred stock	(70,000 )	—	—	5,141	(5,158 )	—	(70,017 )	—	(70,017 )
Offering costs	—	—	—	(4,348 )	—	—	(4,348 )	—	(4,348 )
Dividends and distributions, net	—	—	—	—	(155,261 )	—	(155,261 )	(5,481 )	(160,742 )
Non-cash compensation activity, net	—	76,574	1	3,194	(537 )	—	2,658	4,772	7,430
Redemption of common units to common stock	—	352,055	3	4,398	—	—	4,401	(4,401 )	—
Rebalancing of noncontrolling interest	—	—	—	(6,330 )	—	—	(6,330 )	6,330	—
Other comprehensive income	—	—	—	—	—	298	298	12	310
Net income	—	—	—	—	92,926	—	92,926	3,319	96,245
Balance, December 31,	\$75,000	112,165,786	\$1,122	\$2,118,179	\$(584,979)	\$4,481	\$1,613,803	\$55,829	\$1,669,632

2018

The accompanying notes are an integral part of these consolidated financial statements.

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STAG Industrial, Inc.  
Consolidated Statements of Cash Flows  
(in thousands)

	Year ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$96,245	\$32,200	\$35,588
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	167,617	150,881	125,444
Loss on impairments	6,182	1,879	16,845
Gain on involuntary conversion	—	(325)	—
Non-cash portion of interest expense	2,316	1,897	1,632
Intangible amortization in rental income, net	4,164	4,583	6,213
Straight-line rent adjustments, net	(11,163)	(7,475)	(1,817)
Dividends on forfeited equity compensation	15	2	3
Loss on extinguishment of debt	13	15	3,261
Gain on the sales of rental property, net	(72,211)	(24,242)	(61,823)
Non-cash compensation expense	8,922	9,547	9,729
Change in assets and liabilities:			
Tenant accounts receivable, net	(903)	(2,125)	(1,435)
Prepaid expenses and other assets	(8,921)	(9,103)	(4,580)
Accounts payable, accrued expenses and other liabilities	2,385	514	6,161
Tenant prepaid rent and security deposits	3,108	3,850	567
Total adjustments	101,524	129,898	100,200
Net cash provided by operating activities	197,769	162,098	135,788
Cash flows from investing activities:			
Acquisitions of land and buildings and improvements	(564,805)	(497,264)	(377,559)
Additions of land and building and improvements	(34,584)	(45,790)	(30,485)
Acquisitions of other assets	(794)	—	(158)
Proceeds from sales of rental property, net	207,943	65,075	152,079
Proceeds from insurance on involuntary conversion	—	1,796	—
Acquisitions of other liabilities	242	—	—
Acquisition deposits, net	(4,916)	255	(560)
Acquisitions of deferred leasing intangibles	(110,287)	(95,707)	(89,576)
Net cash used in investing activities	(507,201)	(571,635)	(346,259)
Cash flows from financing activities:			
Proceeds from unsecured credit facility	894,500	677,500	513,000
Repayment of unsecured credit facility	(1,065,000)	(434,500)	(541,000)
Proceeds from unsecured term loans	150,000	—	150,000
Proceeds from unsecured notes	175,000	—	—
Repayment of mortgage notes	(1,843)	(105,470)	(70,444)
Proceeds from sale of preferred stock	—	—	75,000
Redemption of preferred stock	(70,000)	—	(69,000)
Payment of loan fees and costs	(4,465)	(1,209)	(715)
Payment of loan prepayment fees and costs	—	(15)	(3,278)
Dividends and distributions	(158,869)	(141,006)	(117,441)
Proceeds from sales of common stock	390,447	427,542	282,669
Repurchase and retirement of share-based compensation	(1,524)	(969)	—
Offering costs	(4,401)	(6,012)	(6,921)

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Net cash provided by financing activities	303,845	415,861	211,870
Increase (decrease) in cash and cash equivalents and restricted cash	(5,587 )	6,324	1,399
Cash and cash equivalents and restricted cash—beginning of period	28,129	21,805	20,406
Cash and cash equivalents and restricted cash—end of period	\$22,542	\$28,129	\$21,805
Supplemental disclosure:			
Cash paid for interest, net of capitalized interest	\$46,364	\$40,685	\$39,367
Supplemental schedule of non-cash investing and financing activities			
Issuance of units for acquisitions of land and building and improvements and deferred leasing intangibles	\$—	\$18,558	\$—
Additions to building and other capital improvements	\$—	\$(158 )	\$(1,175 )
Transfer of other assets to building and other capital improvements	\$—	\$158	\$—
Acquisitions of land and buildings and improvements	\$(840 )	\$(17,461)	\$(3,572 )
Acquisitions of deferred leasing intangibles	\$(48 )	\$(2,079 )	\$(1,008 )
Partial disposal of building due to involuntary conversion of building	\$—	\$363	\$779
Investing other receivables due to involuntary conversion of building	\$—	\$(363 )	\$(779 )
Change in additions of land, building, and improvements included in accounts payable, accrued expenses, and other liabilities	\$147	\$(7,125 )	\$(1,455 )
Additions to building and other capital improvements from non-cash compensation	\$(25 )	\$(26 )	\$(18 )
Assumption of mortgage notes	\$—	\$—	\$4,037
Fair market value adjustment to mortgage notes acquired	\$—	\$—	\$75
Change in loan fees, costs, and offering costs included in accounts payable, accrued expenses, and other liabilities	\$40	\$(15 )	\$26
Reclassification of preferred stock called for redemption to liability	\$70,000	\$—	\$—
Dividends and distributions accrued	\$13,754	\$11,880	\$9,728

The accompanying notes are an integral part of these consolidated financial statements.

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STAG Industrial, Inc.

Notes to Consolidated Financial Statements

### 1. Organization and Description of Business

STAG Industrial, Inc. (the “Company”) is an industrial real estate operating company focused on the acquisition, ownership, and operation of single-tenant, industrial properties throughout the United States. The Company was formed as a Maryland corporation and has elected to be treated and intends to continue to qualify as a real estate investment trust (“REIT”) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). The Company is structured as an umbrella partnership REIT, commonly called an UPREIT, and owns substantially all of its properties and conducts substantially all of its business through its operating partnership, STAG Industrial Operating Partnership, L.P., a Delaware limited partnership (the “Operating Partnership”). As of December 31, 2018 and 2017, the Company owned a 96.5% and 95.9%, respectively, common equity interest in the Operating Partnership. The Company, through its wholly owned subsidiary, is the sole general partner of the Operating Partnership. As used herein, the “Company” refers to STAG Industrial, Inc. and its consolidated subsidiaries and partnerships, including the Operating Partnership, except where context otherwise requires.

As of December 31, 2018, the Company owned 390 buildings in 37 states with approximately 76.8 million rentable square feet (square feet unaudited herein and throughout the Notes), consisting of 323 warehouse/distribution buildings, 58 light manufacturing buildings, and nine flex/office buildings. The Company’s buildings were approximately 95.5% leased (unaudited) to 349 tenants (unaudited) as of December 31, 2018.

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The Company’s consolidated financial statements include the accounts of the Company, the Operating Partnership and their subsidiaries. Interests in the Operating Partnership not owned by the Company are referred to as “Noncontrolling Common Units.” These Noncontrolling Common Units are held by other limited partners in the form of common units (“Other Common Units”) and long term incentive plan units (“LTIP units”) issued pursuant to the STAG Industrial, Inc. 2011 Equity Incentive Plan, as amended (the “2011 Plan”). All significant intercompany balances and transactions have been eliminated in the consolidation of entities. The financial statements of the Company are presented on a consolidated basis for all periods presented.

#### Reclassifications and New Accounting Pronouncements

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

#### New Accounting Standards Adopted

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The purpose of this updated guidance is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those years, with early adoption permitted, and the Company adopted this standard effective January 1, 2018 using the modified retrospective transition method. The adoption of this standard resulted in a cumulative effect adjustment of approximately \$0.3 million recorded as an increase to cumulative dividends in excess of earnings and an increase to accumulated other comprehensive income as of January 1, 2018 in the accompanying Consolidated Statements of Equity.

In May 2017, the FASB issued ASU 2017-09, Stock Compensation (Topic 718): Scope of Modification Accounting, which provides updated guidance about which changes to the terms or conditions of a share-based payment award would require an entity to apply modification accounting under the topic. This standard is effective for fiscal years beginning after December 15, 2017 and interim periods within those years, and the Company adopted this standard prospectively effective January 1, 2018. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. The new standard was issued as part of the new revenue standard (ASU 2014-09, as discussed below), and defines “in substance nonfinancial asset,” unifies guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing sales

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of real estate, removes exceptions to the financial asset derecognition model, and clarifies the accounting for contributions of nonfinancial assets to joint ventures. As a result of the new guidance, the guidance specific to real estate sales in Subtopic 360-20 was eliminated, and sales and partial sales of real estate assets will now be subject to the same derecognition model as all other nonfinancial assets. This standard is effective at the same time an entity adopts ASU 2014-09, which the Company adopted effective January 1, 2018. The Company adopted this standard effective January 1, 2018 using the modified retrospective approach. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new standard provides a screen to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within those periods, and the Company adopted this standard prospectively effective January 1, 2018. As a result, it is expected that the majority of the Company's acquisitions will be accounted for as asset acquisitions, whereas under the former guidance the majority of the Company's acquisitions had been accounted for as business combinations. The most significant difference between the two accounting models that impacts the Company's consolidated financial statements is that in an asset acquisition, property acquisition costs are generally a component of the consideration transferred to acquire a group of assets and are capitalized as a component of the cost of the assets, whereas in a business combination, property acquisition costs are expensed and not included as part of the consideration transferred.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standard requires that the statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This standard is effective for fiscal years beginning after December 15, 2017 and the Company adopted this standard effective January 1, 2018. As a result, the Company has included restricted cash with cash and cash equivalents when reconciling the beginning and end of period total amounts on the accompanying Consolidated Statements of Cash Flows. The effects of this standard were applied retrospectively to all prior periods presented. For the year ended December 31, 2017, the effect of the change in accounting principle was a decrease in cash provided by operating activities of approximately \$0.5 million and an increase in cash used in investing activities of approximately \$5.6 million on the accompanying Consolidated Statements of Cash Flows. For the year ended December 31, 2016, the effect of the change in accounting principle was an increase in cash provided by operating activities of approximately \$0.4 million and a decrease in cash used in investing activities of approximately \$0.9 million on the accompanying Consolidated Statements of Cash Flows.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for the annual periods beginning after December 31, 2017 and for annual periods and interim periods within those years, and the Company adopted this standard prospectively effective January 1, 2018. The adoption of this standard did not have a material effect on the Company's consolidated financial statements, as its only effect was related to certain disclosures in the notes to the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. Additionally, the new revenue guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this standard effective January 1, 2018 using the modified retrospective approach. The adoption of this



standard did not have a material effect on the Company's consolidated financial statements.

#### New Accounting Standards Issued but not yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), and various subsequent ASU's, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). Topic 842 supersedes the previous leases standard, Topic 840, Leases. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right of use asset and a lease

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liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is expected to impact the Company's consolidated financial statements as the Company has certain operating and land lease arrangements for which it is the lessee, which will result in the recording of a right of use asset and the related lease liability. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The new standard must be adopted using the modified retrospective transition method by recognizing a cumulative effect adjustment to the opening balance of cumulative dividends in excess of earnings, by either applying the new guidance at the beginning of the earliest comparative period or by applying the new guidance at the adoption date. The Company intends to adopt available practical expedients which allows the Company to 1) not reassess whether any expired or existing contracts are or contain leases; 2) not reassess the lease classification for any expired or existing leases; and 3) not reassess initial direct costs for any existing leases. Upon the Company's adoption of ASU 2016-02 on January 1, 2019, the Company expects to record a right of use asset of approximately \$16 million and a related lease liability of approximately \$18 million on the accompanying Consolidated Balance Sheets.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which the Company adopted on January 1, 2018, as discussed in "New Accounting Standards Adopted" above. Lease contracts with customers, which constitute a vast majority of the Company's revenues, are specifically excluded from the model's scope. However, once the new leases standard under ASU 2016-02 is adopted by the Company, the new revenue standard may apply to executory costs and other components of revenue due under leases that are deemed to be non-lease components (such as common area maintenance and provision of utilities), even when the revenue for such activities is not separately stipulated in the lease. In that case, revenue from these items previously recognized on a straight-line basis under current lease guidance would be recognized under the new revenue guidance as the related services are delivered. As a result, while the total revenue recognized over time would not differ under the new guidance, the recognition pattern may be different. In July 2018, the FASB issued ASU 2018-11 which amends Topic 842, Leases, and provides lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under the new revenue guidance and both of the following are met: i) the timing and pattern of transfer of the non-lease component(s) and associated lease component are the same; and ii) the lease component, if accounted for separately, would be classified as an operating lease. Under this new expedient, if the non-lease components associated with the lease component are the predominant component of the combined component, a company should account for the combined component in accordance with Topic 606. Otherwise, the company should account for the combined component as an operating lease in accordance with Topic 842. In December 2018, the FASB issued ASU 2018-20 which amends Topic 842, Leases, and allows lessors to continue to exclude from revenue the lessor costs that are paid by lessees directly to third parties. The Company plans to adopt the standard using the practical expedient, and the adoption of ASU 2016-02 on January 1, 2019 is not expected to materially impact the Company's consolidated financial statements.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Rental Property and Deferred Leasing Intangibles

Rental property is carried at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized.

The Company capitalizes costs directly and indirectly related to the development, pre-development, redevelopment, or improvement of rental property. Real estate taxes, compensation costs of development personnel, insurance, interest, and other directly related costs during construction periods are capitalized as incurred, with depreciation commencing with the date the property is substantially completed. Such costs begin to be capitalized to the development projects from the point the Company is undergoing the necessary activities to get the development project ready for its intended use and cease when the development projects are substantially completed and held available for occupancy. Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is ready for its intended use, at the weighted average borrowing rate of the Company's unsecured indebtedness during the period.

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For properties classified as held for sale, the Company ceases depreciating and amortizing the rental property and values the rental property at the lower of depreciated and amortized cost or fair value less costs to dispose. The Company presents those properties classified as held for sale with any qualifying assets and liabilities associated with those properties as held for sale in the accompanying Consolidated Balance Sheets.

The Company allocates the purchase price of business combinations or asset acquisitions of properties based upon the fair value of the assets and liabilities acquired, which generally consist of land, buildings, tenant improvements, mortgage debt assumed, and deferred leasing intangibles, which includes in-place leases, above market and below market leases, and tenant relationships. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. The portion of the purchase price that is allocated to above and below market leases is valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease term plus the term of any bargain renewal options. The purchase price is further allocated to in-place lease values and tenant relationships based on the Company's evaluation of the specific characteristics of each tenant's lease and its overall relationship with the respective tenant.

The above and below market lease values are amortized into rental income over the remaining lease term. The value of in-place lease intangibles and tenant relationships are amortized over the remaining lease term (and expected renewal period of the respective lease for tenant relationships) as increases to depreciation and amortization expense. The remaining lease terms are adjusted for bargain renewal options or assumed exercises of early termination options, as applicable. If a tenant subsequently terminates its lease, any unamortized portion of above and below market leases is accelerated into rental income and the in-place lease value and tenant relationships are accelerated into depreciation and amortization expense over the shortened lease term.

The purchase price allocated to deferred leasing intangible assets are included in rental property, net on the accompanying Consolidated Balance Sheets and the purchase price allocated to deferred leasing intangible liabilities are included in deferred leasing intangibles, net on the accompanying Consolidated Balance Sheets under the liabilities section.

In determining the fair value of the debt assumed, the Company discounts the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on a current market rate. The associated fair market value debt adjustment is amortized through interest expense over the life of the debt on a basis which approximates the effective interest method.

Using information available at the time of acquisition, the Company allocates the total consideration to tangible assets and liabilities and identified intangible assets and liabilities. The Company may adjust the preliminary purchase price allocations after obtaining more information about asset valuations and liabilities assumed.

The Company evaluates the carrying value of all tangible and intangible rental property assets and deferred leasing intangible liabilities held for use for possible impairment when an event or change in circumstance has occurred that indicates their carrying value may not be recoverable. The evaluation includes estimating and reviewing anticipated future undiscounted cash flows to be derived from the asset and the ultimate sale of the asset. If such cash flows are less than the asset's carrying value, an impairment charge is recognized to the extent by which the asset's carrying value exceeds the estimated fair value. Estimating future cash flows is highly subjective and is based in part on assumptions regarding anticipated hold period, future occupancy, rental rates, capital requirements, and exit capitalization rates that could differ from actual results. The discount rate used to present value the cash flows for determining fair value is also subjective.

Depreciation expense is computed using the straight-line method based on the following estimated useful lives.

Description	Estimated Useful Life
Building	40 Years
Building and land improvements	Up to 20 years
Tenant improvements	Shorter of useful life or terms of related lease

Fully depreciated or amortized assets or liabilities and the associated accumulated depreciation or amortization are written-off. The Company wrote-off fully depreciated or amortized tenant improvements, deferred leasing intangible assets, and deferred leasing intangible liabilities of approximately \$1.3 million, \$113.1 million, \$4.3 million, respectively, for the year ended December 31, 2018 and approximately \$2.2 million, \$30.0 million, \$1.5 million, respectively, for the year ended December 31, 2017.

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## Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less. The Company maintains cash and cash equivalents in United States banking institutions that may exceed amounts insured by the Federal Deposit Insurance Corporation. While the Company monitors the cash balances in its operating accounts, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or lack of access to cash in its operating accounts, and mitigates this risk by using nationally recognized banking institutions.

## Restricted Cash

Restricted cash may include tenant security deposits, cash held in escrow for real estate taxes and capital improvements as required in various mortgage note agreements, and cash held by the Company's transfer agent for preferred stock dividends that are distributed subsequent to period end. Restricted cash may also include cash held by qualified intermediaries to facilitate a like-kind exchange of real estate under Section 1031 of the Code. The following table presents a reconciliation of cash and cash equivalents and restricted cash reported on the accompanying Consolidated Balance Sheets to amounts reported on the accompanying Consolidated Statements of Cash Flows.

Reconciliation of cash and cash equivalents and restricted cash (in thousands)	December 31, December	
	2018	31, 2017
Cash and cash equivalents	\$ 7,968	\$ 24,562
Restricted cash	14,574	3,567
Total cash and cash equivalents and restricted cash	\$ 22,542	\$ 28,129

## Tenant Accounts Receivable, net

Tenant accounts receivable, net on the accompanying Consolidated Balance Sheets includes both tenant accounts receivable, net and accrued rental income, net. The Company provides an allowance for doubtful accounts against the portion of tenant accounts receivable that is estimated to be uncollectible. As of December 31, 2018 and 2017, the Company had an allowance for doubtful accounts of approximately \$0.8 million and \$0.1 million, respectively.

The Company accrues rental income earned, but not yet receivable, in accordance with GAAP. As of December 31, 2018 and 2017, the Company had accrued rental income, net of allowance of approximately \$32.4 million and \$24.7 million, respectively. The Company maintains an allowance for estimated losses that may result from those revenues, which as of December 31, 2018 and 2017, was approximately \$0 and \$0.2 million, respectively.

As of December 31, 2018 and 2017, the Company had approximately \$18.3 million and \$12.7 million, respectively, of total lease security deposits available in the form of existing letters of credit, which are not reflected on the accompanying Consolidated Balance Sheets. As of December 31, 2018 and 2017, the Company had approximately \$0.7 million and \$0.7 million, respectively, of lease security deposits available in cash, which are included in restricted cash on the accompanying Consolidated Balance Sheets. The Company's remaining lease security deposits are commingled in cash and cash equivalents. These funds may be used to settle tenant accounts receivables in the event of a default under the related lease. As of December 31, 2018 and December 31, 2017, the Company's total liability associated with these lease security deposits was approximately \$8.4 million and \$8.1 million, respectively, and is included in tenant prepaid rent and security deposits on the accompanying Consolidated Balance Sheets.

## Deferred Costs

Deferred financing fees and debt issuance costs include costs incurred in obtaining debt that are capitalized and are presented as a direct deduction from the carrying amount of the associated debt liability that is not a line-of-credit

arrangement on the accompanying Consolidated Balance Sheets. Deferred financing fees and debt issuance costs related to line-of-credit arrangements are presented as an asset in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. The deferred financing fees and debt issuance costs are amortized through interest expense over the life of the respective loans on a basis which approximates the effective interest method. Any unamortized amounts upon early repayment of debt are written off in the period of repayment as a loss on extinguishment of debt. Fully amortized deferred financing fees and debt issuance costs are written off upon maturity of the underlying debt.

Leasing commissions include commissions, compensation costs of leasing personnel, and other direct and incremental costs incurred to obtain new tenant leases as well as to renew existing tenant leases, and are presented in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. Leasing commission are capitalized and amortized over the terms of the related leases (and bargain renewal terms or assumed exercise of early termination options) using the straight-line method. If a lease terminates prior to the expiration of its initial term, any unamortized costs related to the lease are accelerated into amortization expense. Changes in leasing commissions are presented in the cash flows from operating activities section of the accompanying Consolidated Statements of Cash Flows.

#### Goodwill

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill of the Company of approximately \$4.9 million represents amounts allocated to the assembled workforce from the acquired management company, and is presented in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. The Company's goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis at December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company takes a qualitative approach to consider whether an impairment of goodwill exists prior to quantitatively determining the fair value of the reporting unit in step one of the impairment test. The Company has recorded no impairments to goodwill through December 31, 2018.

#### Use of Derivative Financial Instruments

The Company records all derivatives on the accompanying Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting arrangements on a net basis by counterparty portfolio. Credit risk is the risk of failure of the counterparty to perform under the terms of the contract. The Company minimizes the credit risk in its derivative financial instruments by entering into transactions with various high-quality counterparties. The Company's exposure to credit risk at any point is generally limited to amounts recorded as assets on the accompanying Consolidated Balance Sheets.

#### Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, restricted cash, tenant accounts receivable, interest rate swaps, accounts payable, accrued expenses, unsecured credit facility, unsecured term loans, unsecured notes, and mortgage notes. See Note 4 for the fair value of the Company's indebtedness. See Note 5 for the fair value of the Company's interest rate swaps.



The Company adopted fair value measurement provisions for its financial instruments recorded at fair value. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

## Offering Costs

Underwriting commissions and direct offering costs have been reflected as a reduction of additional paid-in capital on the accompanying Consolidated Balance Sheets and Consolidated Statements of Equity. Indirect costs associated with equity offerings are expensed as incurred and included in general and administrative expenses on the accompanying Consolidated Statements of Operations.

## Dividends

Earnings and profits, which determine the taxability of dividends to stockholders, will differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of gains on the sale of real property, revenue and expense recognition, and in the estimated useful lives and basis used to compute depreciation. In addition, the Company's distributions include a return of capital. To the extent that the Company makes distributions in excess of its current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder's adjusted tax basis in its shares. A return of capital may not be taxable. A return of capital has the effect of reducing the holder's adjusted tax basis in its investment, which may or may not be taxable to the holder.

The Company paid approximately \$5.2 million (\$1.88125 per share) of the 9.0% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") dividends for the year ended December 31, 2016, that were treated as ordinary income for tax purposes.

The Company paid approximately \$2.4 million (\$0.87413 per share) of the 6.625% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") dividends, of which \$0.71493 per share was treated as ordinary income for tax purposes, \$0.07521 per share was treated as unrecaptured section 1250 capital gain for tax purposes, and \$0.08399 per share was treated as other capital gain for income tax purposes for the year ended December 31, 2018. The Company paid approximately \$4.6 million (\$1.65625 per share) and \$4.6 million (\$1.65625 per share) of the Series B Preferred Stock dividends for the years ended December 31, 2017 and 2016, respectively, that were treated as ordinary income for tax purposes.

The Company paid approximately \$5.2 million (\$1.71875 per share) of the 6.875% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") dividends, of which \$1.40573 per share was treated as ordinary income for tax purposes, \$0.14789 per share was treated as unrecaptured section 1250 capital gain for tax purposes, and \$0.16513 per share was treated as other capital gain for income tax purposes for the year ended December 31, 2018. The Company paid approximately \$5.2 million (\$1.71875 per share) and \$4.1 million (\$1.355905 per share) of the Series C Preferred Stock dividends for the years ended December 31, 2017 and 2016, respectively, that were treated as ordinary income for tax purposes.

The tax treatment of dividends per common share for federal income tax purposes is as follows.

	Year ended December 31,					
	2018		2017		2016	
Federal Income Tax Treatment of Dividends per Common Share	Per Share	%	Per Share	%	Per Share	%
Ordinary income	\$1.051783	74.1 %	\$0.965483	68.8 %	\$0.944038	68.0 %
Return of capital	0.133170	9.4 %	0.437852	31.2 %	0.445125	32.0 %
Unrecaptured section 1250 capital gain	0.110647	7.8 %	—	— %	—	— %
Other capital gain	0.123563	8.7 %	—	— %	—	— %
Total <sup>(1)</sup>	\$1.419163	100.0 %	\$1.403335	100.0 %	\$1.389163	100.0 %

(1) The December 2016 monthly common stock dividend of \$0.115833 per share was included in the stockholder's 2017 tax year. The December 2017 monthly common stock dividend of \$0.1175 per share was included in the

stockholder's 2018 tax year. The December 2018 monthly common stock dividend of \$0.118333 per share will be included in the stockholder's 2019 tax year.

#### Revenue Recognition

All current leases are classified as operating leases and rental income is recognized on a straight-line basis over the term of the lease (and expected bargain renewal terms or assumed exercise of early termination options) when collectability is reasonably assured. Differences between rental income earned and amounts due under the lease are charged or credited, as applicable, to accrued rental income. Additional rents from expense reimbursements for insurance, real estate taxes and certain other expenses are recognized in the period in which the related expenses are incurred.

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Rental income recognition commences when the tenant takes possession of or controls the physical use of the leased space and the leased space is substantially complete and ready for its intended use. In order to determine whether the leased space is substantially complete and ready for its intended use, the Company determines whether the Company or the tenant own the tenant improvements. When it is determined that the Company is the owner of the tenant improvements, rental income recognition begins when the tenant takes possession of or controls the physical use of the finished space, which is generally when the Company owned tenant improvements are completed. In instances when it is determined that the tenant is the owner of tenant improvements, rental income recognition begins when the tenant takes possession of or controls the physical use of the leased space.

When the Company is the owner of tenant improvements or other capital items, the cost to construct the tenant improvements or other capital items, including costs paid for or reimbursed by the tenants, is recorded as capital assets. For these tenant improvements or other capital items, the amount funded by or reimbursed by the tenants are recorded as deferred revenue, which is amortized on a straight-line basis as income over the shorter of the useful life of the capital asset or the term of the related lease.

The Company earned revenue from asset management fees, which are included on the accompanying Consolidated Statements of Operations in other income. The Company recognized revenue from asset management fees when the related fees were earned and were realized or realizable. As of December 31, 2017, the Company no longer earned revenue from asset management fees.

#### Tenant Recoveries

By the terms of their leases, certain tenants are obligated to pay directly the costs of their properties' insurance, real estate taxes, ground lease payments, and certain other expenses, and these costs are not reflected on the Company's consolidated financial statements. The Company does not recognize recovery revenue related to leases where the tenant has assumed the cost for real estate taxes, insurance, ground lease payments and certain other expenses. To the extent any tenant is responsible for these costs under its respective lease defaults on its lease or it is deemed probable that the tenant will fail to pay for such costs, the Company will record a liability for such obligation. The Company estimates that real estate taxes, which are the responsibility of these certain tenants, were approximately \$15.0 million, \$12.4 million and \$10.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. These amounts would have been the maximum real estate tax expense of the Company, excluding any penalties or interest, had the tenants not met their contractual obligations for these periods.

#### Termination Income

Early lease termination fees are recorded in rental income on a straight-line basis from the notification date of such termination to the then remaining (not the original) lease term, if any, or upon collection if collection is not reasonably assured.

On December 21, 2016, the tenant at the Golden, CO property exercised its early lease termination option per the terms of the lease agreement. The option provided that the tenant's lease terminate effective December 31, 2017 and required the tenant to pay a termination fee of approximately \$0.9 million. The termination fee was recognized on a straight-line basis from December 21, 2016 through the relinquishment of the space on December 31, 2017. The termination fee income of approximately \$0.8 million and \$0.1 million is included in rental income on the accompanying Consolidated Statements of Operations for the years ended December 31, 2017 and 2016, respectively.

#### Gain on the Sales of Rental Property, net

The timing of the derecognition of a rental property and the corresponding recognition of gain on the sales of rental property, net is measured by various criteria related to the terms of the sale transaction, and if the Company has lost

control of the property and the acquirer has gained control of the property after the transaction. If the derecognition criteria is met, the full gain is recognized.

#### Incentive and Equity-Based Employee Compensation Plans

The Company grants equity-based compensation awards to its employees and directors in the form of restricted shares of common stock, LTIP units, and outperformance programs and performance units (outperformance programs and performance units are collectively, "Performance-based Compensation Plans"). See Notes 6, 7 and 8 for further discussion of restricted shares of common stock, LTIP units, and Performance-based Compensation Plans, respectively. The Company measures equity-based compensation expense based on the fair value of the awards on the grant date and recognizes the expense ratably over the vesting period, and forfeitures are recognized in the period in which they occur.

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## Taxes

## Federal Income Taxes

The Company elected to be taxed as a REIT under the Code commencing with its taxable year ended December 31, 2011 and intends to continue to qualify as a REIT. As a REIT, the Company is generally not subject to corporate level federal income tax on the earnings distributed currently to its stockholders that it derives from its REIT qualifying activities. As a REIT, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership.

The Company will not be required to make distributions with respect to income derived from the activities conducted through subsidiaries that the Company elects to treat as taxable REIT subsidiaries ("TRS") for federal income tax purposes, nor will it have to comply with income, assets, or ownership restrictions inside of the TRS. Certain activities that the Company undertakes must or should be conducted by a TRS, such as performing non-customary services for its tenants and holding assets that it cannot hold directly. A TRS is subject to federal and state income taxes. The Company's TRS recognized a net loss of approximately \$0.1 million, \$0.4 million and \$0.1 million, for the years ended December 31, 2018, 2017 and 2016, respectively, which has been included on the accompanying Consolidated Statements of Operations.

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

Reconciliation of Net Income to Taxable Income (in thousands)	Year ended December 31,		
	2018	2017	2016
Net income	\$96,245	\$32,200	\$35,588
Book/tax differences from depreciation and amortization	82,392	80,416	66,763
Above/below market lease amortization	4,164	4,583	6,213
Loss on impairments	6,182	1,879	16,845
Book/tax difference on termination income	(134 )	(786 )	678
Book/tax difference on property acquisition costs	—	5,262	4,498
Book/tax difference on extinguishment of debt	—	15	(17 )
Book/tax difference on accrued bonus payment	(50 )	745	1,170
Book/tax difference on bad debt expense	660	(91 )	83
Book/tax difference on non-cash compensation	3,857	6,270	7,188
Book/tax difference on gain on the sales of rental property, net	(43,471 )	(26,134 )	(53,580 )
Straight-line rent adjustments, net	(11,029 )	(6,689 )	(2,495 )
Book/tax difference on non-cash portion of interest expense	2,316	1,897	1,631
Book/tax difference on prepaid rent of Sec. 467 leases	545	(122 )	(274 )
Book/tax difference on gain on involuntary conversion	—	(325 )	—
Other book/tax differences, net	257	465	284
Loss attributable to noncontrolling interest	(5,286 )	(4,572 )	(4,069 )
Taxable income subject to distribution requirement <sup>(1)</sup>	\$136,648	\$95,013	\$80,506

(1) The Company distributed in excess of 100% of its taxable income to its stockholders during the years ended December 31, 2018, 2017 and 2016, respectively.

## State and Local Income, Excise, and Franchise Tax

The Company and certain of its subsidiaries are subject to certain state and local income, excise and franchise taxes. Taxes in the amount of approximately \$0.9 million, \$1.0 million and \$1.0 million have been recorded in other expenses on the accompanying Consolidated Statements of Operations for the years ended December 31, 2018, 2017

and 2016, respectively.

#### Uncertain Tax Positions

Tax benefits of uncertain tax positions are recognized only if it is more likely than not that the tax position will be sustained based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. The measurement of a tax benefit for an uncertain tax position that meets the “more likely than not” threshold is based on a cumulative probability model under which the largest amount of tax benefit recognized is the amount with a greater than 50% likelihood of being realized upon ultimate settlement with the taxing authority having full knowledge of all the relevant information. As of December 31, 2018, 2017 and 2016, there were no liabilities for uncertain tax positions.

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## Earnings Per Share

The Company uses the two-class method of computing earnings per common share, which is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing net income available to common stockholders by the sum of the weighted average number of common shares outstanding and any dilutive securities for the period.

## Segment Reporting

The Company manages its operations on an aggregated, single segment basis for purposes of assessing performance and making operating decisions and, accordingly, has only one reporting and operating segment.

## Concentrations of Credit Risk

Concentrations of credit risk relevant to the Company may arise when a number of financing arrangements, including revolving credit facilities or derivatives, are entered into with the same lenders or counterparties, and have similar economic features that would cause their inability to meet contractual obligations. The Company mitigates the concentration of credit risk as it relates to financing arrangements by entering into loan syndications with multiple, reputable financial institutions and diversifying its debt counterparties. The Company also reduces exposure by diversifying its derivatives across multiple counterparties who meet established credit and capital guidelines.

Concentrations of credit risk may also arise when the Company enters into leases with multiple tenants concentrated in the same industry, or into a significant lease or multiple leases with a single tenant, or tenants are located in the same geographic region, or have similar economic features that would cause their inability to meet contractual obligations, including those to the Company, to be similarly affected. The Company regularly monitors its tenant base to assess potential concentrations of credit risk through financial statement review, tenant management calls, and press releases. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk.

## 3. Rental Property

The following table summarizes the components of rental property, net as of December 31, 2018 and 2017.

Rental Property, net (in thousands)	December 31, 2018	December 31, 2017
Land	\$ 364,023	\$ 321,560
Buildings, net of accumulated depreciation of \$199,497 and \$160,281, respectively	2,082,781	1,756,579
Tenant improvements, net of accumulated depreciation of \$36,450 and \$32,714, respectively	30,704	30,138
Building and land improvements, net of accumulated depreciation of \$80,983 and \$56,062, respectively	168,229	143,170
Construction in progress	3,949	2,877
Deferred leasing intangibles, net of accumulated amortization of \$246,502 and \$280,642, respectively	342,015	313,253
Total rental property, net	\$ 2,991,701	\$ 2,567,577

## Acquisitions



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The following tables summarize the acquisitions of the Company during the years ended December 31, 2018 and 2017.

Year ended December 31, 2018

Market <sup>(1)</sup>	Date Acquired	Square Feet	Buildings	Purchase Price (in thousands)
Greenville/Spartanburg, SC	January 11, 2018	203,000	1	\$ 10,755
Minneapolis/St Paul, MN	January 26, 2018	145,351	1	13,538
Philadelphia, PA	February 1, 2018	278,582	1	18,277
Houston, TX	February 22, 2018	242,225	2	22,478
Greenville/Spartanburg, SC	March 30, 2018	222,710	1	13,773
Three months ended March 31, 2018		1,091,868	6	78,821
Chicago, IL	April 23, 2018	169,311	2	10,975
Milwaukee/Madison, WI	April 26, 2018	53,680	1	4,316
Pittsburgh, PA	April 30, 2018	175,000	1	15,380
Detroit, MI	May 9, 2018	274,500	1	19,328
Minneapolis/St Paul, MN	May 15, 2018	509,910	2	26,983
Cincinnati/Dayton, OH	May 23, 2018	158,500	1	7,317
Baton Rouge, LA	May 31, 2018	279,236	1	21,379
Las Vegas, NV	June 12, 2018	122,472	1	17,920
Greenville/Spartanburg, SC	June 15, 2018	131,805	1	5,621
Denver, CO	June 18, 2018	64,750	1	7,044
Cincinnati/Dayton, OH	June 25, 2018	465,136	1	16,421
Charlotte, NC	June 29, 2018	69,200	1	5,446
Houston, TX	June 29, 2018	252,662	1	27,170
Three months ended June 30, 2018		2,726,162	15	185,300
Knoxville, TN	July 10, 2018	106,000	1	6,477
Pittsburgh, PA	August 2, 2018	265,568	1	19,186
Raleigh/Durham, NC	August 2, 2018	365,000	1	21,067
Detroit, MI	August 6, 2018	439,150	1	21,077
Des Moines, IA	August 8, 2018	121,922	1	6,053
McAllen/Edinburg/Pharr, TX	August 9, 2018	270,084	1	18,523
Pittsburgh, PA	August 15, 2018	200,500	1	11,327
Minneapolis/St Paul, MN	August 24, 2018	120,606	1	8,422
Milwaukee/Madison, WI	September 28, 2018	100,800	1	7,484
Milwaukee/Madison, WI	September 28, 2018	174,633	2	13,288
Chicago, IL	September 28, 2018	105,637	1	6,368
Indianapolis, IN	September 28, 2018	478,721	1	29,085
Augusta/Richmond County, GA	September 28, 2018	203,726	1	9,379
Charlotte, NC	September 28, 2018	301,000	1	16,807
Three months ended September 30, 2018		3,253,347	15	194,543
Greensboro/Winston-Salem, NC	October 22, 2018	128,287	1	8,376
Minneapolis/St Paul, MN	October 22, 2018	109,444	1	8,064
Baltimore, MD	October 23, 2018	60,000	1	7,538
Greenville/Spartanburg, SC	November 7, 2018	210,891	1	11,289
Philadelphia, PA	November 19, 2018	101,869	1	7,074
Detroit, MI <sup>(2)</sup>	November 26, 2018	—	—	620
Milwaukee/Madison, WI	December 3, 2018	162,230	1	14,132
Pittsburgh, PA	December 11, 2018	119,161	1	15,502
Tucson, AZ	December 13, 2018	129,047	1	10,075
Detroit, MI	December 14, 2018	285,306	2	20,095

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Greenville/Spartanburg, SC	December 17, 2018	726,500	1	28,995
Milwaukee/Madison, WI	December 18, 2018	288,201	2	14,586
Milwaukee/Madison, WI	December 19, 2018	112,144	1	5,349
Chicago, IL	December 19, 2018	195,415	1	16,134
Indianapolis, IN	December 20, 2018	446,500	1	33,314
Pittsburgh, PA	December 20, 2018	179,394	1	16,725
Three months ended December 31, 2018		3,254,389	17	217,868
Year ended December 31, 2018		10,325,766	53	\$ 676,532

(1) As defined by CoStar Realty Information Inc. If the building is located outside of a CoStar defined market, the city and state is reflected.

(2) The Company acquired a vacant land parcel.

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Year ended December 31, 2017

Market <sup>(1)</sup>	Date Acquired	Square Feet	Buildings	Purchase Price (in thousands)
Jacksonville, FL	January 17, 2017	1,025,720	4	\$ 34,264
Reno/Sparks, NV	January 20, 2017	174,763	1	8,380
Charlotte, NC	January 26, 2017	288,000	1	8,250
Northern New Jersey, NJ	January 31, 2017	183,000	1	12,800
Westchester/So Connecticut, NY/CT	February 23, 2017	200,000	1	12,762
Cleveland, OH	March 10, 2017	173,034	1	7,622
Detroit, MI	March 20, 2017	290,105	2	15,709
Three months ended March 31, 2017		2,334,622	11	99,787
Chicago, IL	April 11, 2017	261,075	2	13,850
Greenville/Spartanburg, SC	April 20, 2017	226,968	1	7,200
Cincinnati/Dayton, OH	May 4, 2017	569,966	1	29,750
Chicago, IL	May 10, 2017	336,204	1	22,867
San Diego, CA	May 31, 2017	205,440	1	19,362
Kansas City, MO	June 1, 2017	270,869	1	16,270
Philadelphia, PA	June 6, 2017	245,749	1	16,000
Cincinnati/Dayton, OH	June 6, 2017	224,921	1	11,450
Charlotte, NC	June 8, 2017	275,000	1	6,675
Laredo, TX	June 13, 2017	206,810	1	13,500
Pittsburgh, PA	June 16, 2017	297,200	1	23,650
Chicago, IL	June 26, 2017	102,500	1	5,900
Westchester/So Connecticut, NY/CT	June 27, 2017	105,000	1	8,200
Dallas/Ft Worth, TX	June 28, 2017	389,546	1	28,600
Houston, TX	June 29, 2017	232,800	3	25,000
Philadelphia, PA	June 29, 2017	211,358	1	7,950
Minneapolis/St Paul, MN	June 29, 2017	108,628	1	10,031
Detroit, MI	June 30, 2017	303,760	1	19,351
Three months ended June 30, 2017		4,573,794	21	285,606
Atlanta, GA	August 2, 2017	78,000	1	4,175
Philadelphia, PA	September 6, 2017	382,886	1	18,981
Philadelphia, PA	September 7, 2017	437,446	1	23,950
St. Louis, MO	September 25, 2017	109,854	1	5,740
Detroit, MI	September 29, 2017	160,464	1	8,641
Columbus, OH	September 29, 2017	468,302	2	20,597
Las Vegas, NV	September 29, 2017	34,916	1	4,642
Charlotte, NC	September 29, 2017	499,200	1	25,750
Philadelphia, PA	September 29, 2017	123,962	1	7,250
Three months ended September 30, 2017		2,295,030	10	119,726
Omaha/Council Bluffs, NE-IA	October 23, 2017	90,000	1	6,600
Columbus, OH				