Digital Realty Trust, Inc.
Form 10-Q
November 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From to .

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

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

Maryland (Digital Realty Trust, Inc.)	26-0081711
Maryland (Digital Realty Trust, L.P.)	20-2402955
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)
Four Embarcadero Center, Suite 3200 San Francisco, CA	94111
(Address of principal executive offices)	(Zip Code)

(415) 738-6500
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Digital Realty Trust, Inc. Yes x No ¨
Digital Realty Trust, L.P. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Digital Realty Trust, Inc. Yes x No ¨
Digital Realty Trust, L.P. Yes x No ¨

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

Digital Realty Trust, Inc.:

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

Digital Realty Trust, L.P.:

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

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

Digital Realty Trust, Inc. ¨
Digital Realty Trust, L.P. ¨

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

Digital Realty Trust, Inc. Yes ¨ No x
Digital Realty Trust, L.P. Yes ¨ No x

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

Digital Realty Trust, Inc.:

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

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2018 of Digital Realty Trust, Inc., a Maryland corporation, and Digital Realty Trust, L.P., a Maryland limited partnership, of which Digital Realty Trust, Inc. is the sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” “our Company” or “the Company” refer to Digital Realty Trust, Inc. together with its consolidated subsidiaries, including Digital Realty Trust, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to “our Operating Partnership” or “the Operating Partnership” refer to Digital Realty Trust, L.P. together with its consolidated subsidiaries.

Digital Realty Trust, Inc. is a real estate investment trust, or REIT, and the sole general partner of Digital Realty Trust, L.P. As of September 30, 2018, Digital Realty Trust, Inc. owned an approximate 96.1% common general partnership interest in Digital Realty Trust, L.P. The remaining approximate 3.9% of the common limited partnership interests of Digital Realty Trust, L.P. are owned by non-affiliated third parties and certain directors and officers of Digital Realty Trust, Inc. As of September 30, 2018, Digital Realty Trust, Inc. owned all of the preferred limited partnership interests of Digital Realty Trust, L.P. As the sole general partner of Digital Realty Trust, L.P., Digital Realty Trust, Inc. has the full, exclusive and complete responsibility for the Operating Partnership’s day-to-day management and control.

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

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

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

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

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To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Condensed consolidated financial statements;
- the following notes to the condensed consolidated financial statements:
- "Debt of the Company" and "Debt of the Operating Partnership";
- "Income per Share" and "Income per Unit"; and
- "Equity and Accumulated Other Comprehensive Loss, Net" and "Capital and Accumulated Other Comprehensive Loss";
- Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources of the Parent Company" and "—Liquidity and Capital Resources of the Operating Partnership"; and
- Part II, Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds".

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

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

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

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DIGITAL REALTY TRUST, INC. AND DIGITAL REALTY TRUST, L.P.
FORM 10-Q
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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

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

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

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating Revenues:				
Rental and other services	$603,833	$ 500,442	$1,792,457	$1,432,670
Tenant reimbursements	163,104	107,613	468,906	288,243
Fee income	1,469	1,662	4,945	4,986
Other	518	208	1,903	584
Total operating revenues	768,924	609,925	2,268,211	1,726,483
Operating Expenses:				
Rental property operating and maintenance	245,971	190,061	701,933	534,116
Property taxes	34,871	32,586	97,418	87,666
Insurance	2,653	2,590	8,990	7,758
Depreciation and amortization	293,957	199,914	887,534	554,491
General and administrative	41,642	43,765	124,264	115,921
Transactions and integration	9,626	42,809	19,410	60,367
Impairment of investments in real estate	—	28,992	—	28,992
Other	1,139	3,051	1,722	3,075
Total operating expenses	629,859	543,768	1,841,271	1,392,386
Operating income	139,065	66,157	426,940	334,097
Other Income (Expenses):				
Equity in earnings of unconsolidated joint ventures	8,886	5,880	23,734	19,592
Gain on sale of properties	26,577	9,750	80,042	9,608
Interest and other income (expense)	(981)	2,813	2,375	3,331
Interest expense	(80,851)	(71,621)	(236,646)	(184,653)
Tax expense	(2,432)	(2,494)	(7,927)	(7,356)
Gain from early extinguishment of debt	—	1,990	—	1,990
Net income	90,264	12,475	288,518	176,609
Net income attributable to noncontrolling interests	(2,667)	(40)	(8,831)	(1,985)
Net income attributable to Digital Realty Trust, Inc.	87,597	12,435	279,687	174,624
Preferred stock dividends, including undeclared dividends	(20,329)	(16,575)	(60,987)	(48,473)
Issuance costs associated with redeemed preferred stock	—	—	—	(6,309)
Net income (loss) available to common stockholders	$67,268	$ (4,140)	$218,700	$119,842
Net income (loss) per share available to common stockholders:				
Basic	$0.33	$ (0.02)	$1.06	$0.73
Diluted	$0.33	$ (0.02)	$1.06	$0.73
Weighted average common shares outstanding:				
Basic	206,118,472	170,194,254	205,931,031	163,481,306
Diluted	206,766,256	170,194,254	206,555,627	164,371,096

See accompanying notes to the condensed consolidated financial statements.

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

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

See accompanying notes to the condensed consolidated financial statements.

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

	Redeemable Noncontrolling Interests -- Operating Partnership	Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Dividends in Excess of Earnings	Accumulated Other Comprehensive Loss, Net	Total Stockholders' Equity	No Int in Op Pa
Balance as of December 31, 2017	$53,902	$1,249,560	205,470,300	$2,044	$11,261,461	$(2,055,552)	$(108,432)	$10,349,081	$6
Conversion of common units to common stock	—	—	567,792	6	49,690	—	—	49,696	(49
Issuance of unvested restricted stock, net of forfeitures	—	—	206,264	—	—	—	—	—	—
Issuance of common stock, net of offering costs	—	—	—	—	(1,292)	—	—	(1,292)	—
Shares issued under employee stock purchase plan	—	—	69,532	—	5,874	—	—	5,874	—
Shares repurchased and retired to satisfy tax withholding upon vesting	—	—	(46,833)	(1)	(4,951)	—	—	(4,952)	—
Amortization of share-based compensation	—	—	—	—	25,213	—	—	25,213	—
Reclassification of vested share-based awards	—	—	—	—	(3,631)	—	—	(3,631)	3,6
Adjustment to redeemable noncontrolling interests—operating partnership	(36,349)	—	—	—	671	—	—	671	35
Dividends declared on preferred stock	—	—	—	—	—	(60,987)	—	(60,987)	—
Dividends and distributions on common stock and common and incentive units	—	—	—	—	—	(624,252)	—	(624,252)	(25
	—	—	—	—	—	—	—	—	—

Contributions from noncontrolling interests in consolidated joint ventures, net of distributions									
Cumulative effect adjustment from adoption of new accounting standard	—	—	—	—	—	5,915	—	5,915	—
Net income	—	—	—	—	—	279,687	—	279,687	8,8
Other comprehensive loss—foreign currency translation adjustments	—	—	—	—	—	—	(8,272)	(8,272)	(33
Other comprehensive income—fair value of interest rate swaps	—	—	—	—	—	—	15,705	15,705	63
Other comprehensive loss—reclassification of accumulated other comprehensive income to interest expense	—	—	—	—	—	—	(2,202)	(2,202)	(87
Balance as of September 30, 2018	$17,553	$1,249,560	206,267,055	$2,049	$11,333,035	$(2,455,189)	$(103,201)	$10,026,254	$6

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$288,518	$176,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of properties	(80,042)	(9,608)
Unrealized gain on equity investment	(2,005)	—
Impairment of investments in real estate	—	28,992
Equity in earnings of unconsolidated joint ventures	(23,734)	(19,592)
Distributions from unconsolidated joint ventures	15,487	26,592
Write-off of net assets due to early lease terminations	1,723	3,075
Depreciation and amortization of buildings and improvements, tenant improvements and acquired ground leases	570,179	409,229
Amortization of acquired in-place lease value and deferred leasing costs	317,355	145,262
Amortization of share-based compensation	21,177	15,590
Non-cash amortization of terminated swaps	858	903
Allowance for (recovery of) doubtful accounts	2,594	(1,320)
Amortization of deferred financing costs	8,926	7,572
Gain on early extinguishment of debt	—	(1,990)
Amortization of debt discount/premium	2,590	2,156
Amortization of acquired above-market leases and acquired below-market leases, net	20,008	(4,857)
Changes in assets and liabilities:		
Accounts and other receivables	(37,498)	(41,713)
Deferred rent	(29,474)	(7,873)
Deferred leasing costs	(18,986)	(14,847)
Other assets	(20,794)	(1,635)
Accounts payable and other accrued liabilities	3,671	(52,597)
Security deposits and prepaid rents	(6,704)	21,603
Net cash provided by operating activities	1,033,849	681,551
Cash flows from investing activities:		
Acquisitions of real estate	(116,990)	(44,354)
Proceeds from sale of properties, net of sales costs	286,204	20,200
Excess proceeds from forward contracts	—	63,956
Investments in unconsolidated joint ventures	(463)	(7,614)
Prepaid construction costs and other investments	(13,514)	—
Improvements to investments in real estate	(946,118)	(763,877)
Improvement advances to tenants	(35,223)	(37,271)
Collection of improvement advances to tenants	32,328	30,340
Cash assumed in DFT merger	—	20,650
Net cash used in investing activities	(793,776)	(717,970)

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities:		
Borrowings on global revolving credit facility	$1,079,673	$1,499,691
Repayments on global revolving credit facility	(1,045,816)	(2,035,808)
Repayments on unsecured term loans	(39,095)	(354,000)
Borrowings on unsecured senior notes	649,038	2,265,060
Repayments on unsecured senior notes	—	(669,109)
Principal payments on mortgage loans	(440)	(105,406)
Borrowings on mortgage loans	—	104,000
Payment of loan fees and costs	(6,272)	(15,643)
Capital contributions from (distributions paid to) noncontrolling interests in consolidated joint ventures, net	63,745	(365)
Taxes paid related to net settlement of stock-based compensation awards	(4,952)	—
Proceeds from common and preferred stock offerings, net	(1,292)	405,237
Redemption of preferred stock	—	(182,500)
Proceeds from equity plans	5,874	5,872
Proceeds from forward swap contract	1,560	—
Payment of dividends to preferred stockholders	(60,987)	(46,268)
Payment of dividends to common stockholders and distributions to noncontrolling interests in operating partnership	(849,571)	(647,217)
Net cash (used in) provided by financing activities	(208,535)	223,544
Net increase in cash, cash equivalents and restricted cash	31,538	187,125
Effect of exchange rate changes on cash, cash equivalents and restricted cash	9,591	1,170
Cash, cash equivalents and restricted cash at beginning of period	13,181	22,036
Cash, cash equivalents and restricted cash at end of period	$54,310	$210,331

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2018	2017
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$247,652	$167,148
Cash paid for income taxes	7,861	8,454
Supplementary disclosure of noncash investing and financing activities:		
Change in net assets related to foreign currency translation adjustments	$(8,608)	$25,954
Increase (decrease) in accounts payable and other accrued liabilities related to change in fair value of interest rate swaps and foreign currency hedges	16,336	(8,926)
Acquisition measurement period adjustment to goodwill and accounts payable and other accrued liabilities	—	2,162
Noncontrolling interests in operating partnership converted to shares of common stock	49,696	6,915
Accrual for additions to investments in real estate and tenant improvement advances included in accounts payable and accrued expenses	193,615	232,459
Addition to leasehold improvements pursuant to capital lease obligation	73,873	—
Allocation of purchase price of real estate/investment in partnership to:		
Investments in real estate	$116,990	$43,585
Acquired below-market leases	—	(684)
Acquired in-place lease value and deferred leasing costs	—	1,453
Cash paid for acquisition of real estate	$116,990	$44,354
Assets and liabilities assumed in DFT merger:		
Cash assumed in merger	$—	$20,650
Land	—	312,579
Building and improvements	—	3,677,497
Accounts and other receivables	—	10,978
Acquired above-market leases	—	162,333
Intangibles	—	1,582,385
Goodwill	—	2,592,181
Revolving credit facility	—	(450,697)
Unsecured term loan	—	(250,000)
Unsecured notes	—	(884,841)
Mortgage notes payable and unsecured debt	—	(105,000)
Accounts payable and other accrued liabilities	—	(248,259)
Acquired below-market leases	—	(185,543)
Other working capital, net	—	(24,630)
Redeemable noncontrolling interests -- operating partnership	—	(66,259)
Common stock issued in connection with merger	—	(5,247,558)
Common units issued in connection with merger	—	(676,566)
Issuance of preferred stock in connection with merger	—	(219,250)

See accompanying notes to the condensed consolidated financial statements.

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

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Investments in real estate:		
Properties:		
Land	$1,226,729	$1,136,341
Acquired ground leases	10,762	11,150
Buildings and improvements	16,007,132	15,215,405
Tenant improvements	566,751	553,040
Total investments in properties	17,811,374	16,915,936
Accumulated depreciation and amortization	(3,755,596)	(3,238,227)
Net investments in properties	14,055,778	13,677,709
Investments in unconsolidated joint ventures	169,919	163,477
Net investments in real estate	14,225,697	13,841,186
Cash and cash equivalents	46,242	51
Accounts and other receivables, net of allowance for doubtful accounts of $9,060 and $6,737 as of September 30, 2018 and December 31, 2017, respectively	308,709	276,347
Deferred rent	454,412	430,026
Acquired above-market leases, net	135,127	184,375
Goodwill	3,373,342	3,389,595
Acquired in-place lease value, deferred leasing costs and intangibles, net	2,734,158	2,998,806
Restricted cash	8,068	13,130
Assets held for sale	—	139,538
Other assets	176,355	131,291
Total assets	$21,462,110	$21,404,345
LIABILITIES AND CAPITAL		
Global revolving credit facility, net	$590,289	$550,946
Unsecured term loans, net	1,352,969	1,420,333
Unsecured senior notes, net	7,130,541	6,570,757
Mortgage loans, including premiums, net	106,072	106,582
Accounts payable and other accrued liabilities	1,059,355	980,218
Accrued dividends and distributions	—	199,761
Acquired below-market leases, net	208,202	249,465
Security deposits and prepaid rents	233,667	217,898
Obligations associated with assets held for sale	—	5,033
Total liabilities	10,681,095	10,300,993
Redeemable limited partner common units	17,553	53,902
Commitments and contingencies		
Capital:		
Partners’ capital:		
General Partner:		
Preferred units, 50,650,000 and 50,650,000 units issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	1,249,560	1,249,560
	8,879,895	9,207,953

Common units, 206,267,055 and 205,470,300 units issued and outstanding as of September 30, 2018 and December 31, 2017, respectively		
Limited Partners, 8,340,587 and 8,489,095 units issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	675,514	702,579
Accumulated other comprehensive loss	(107,446)	(112,885)
Total partners' capital	10,697,523	11,047,207
Noncontrolling interests in consolidated joint ventures	65,939	2,243
Total capital	10,763,462	11,049,450
Total liabilities and capital	$21,462,110	$21,404,345

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating Revenues:				
Rental and other services	$603,833	$ 500,442	$1,792,457	$1,432,670
Tenant reimbursements	163,104	107,613	468,906	288,243
Fee income	1,469	1,662	4,945	4,986
Other	518	208	1,903	584
Total operating revenues	768,924	609,925	2,268,211	1,726,483
Operating Expenses:				
Rental property operating and maintenance	245,971	190,061	701,933	534,116
Property taxes	34,871	32,586	97,418	87,666
Insurance	2,653	2,590	8,990	7,758
Depreciation and amortization	293,957	199,914	887,534	554,491
General and administrative	41,642	43,765	124,264	115,921
Transactions and integration	9,626	42,809	19,410	60,367
Impairment of investments in real estate	—	28,992	—	28,992
Other	1,139	3,051	1,722	3,075
Total operating expenses	629,859	543,768	1,841,271	1,392,386
Operating income	139,065	66,157	426,940	334,097
Other Income (Expenses):				
Equity in earnings of unconsolidated joint ventures	8,886	5,880	23,734	19,592
Gain on sale of properties	26,577	9,750	80,042	9,608
Interest and other income (expense)	(981)	2,813	2,375	3,331
Interest expense	(80,851)	(71,621)	(236,646)	(184,653)
Tax expense	(2,432)	(2,494)	(7,927)	(7,356)
Gain from early extinguishment of debt	—	1,990	—	1,990
Net income	90,264	12,475	288,518	176,609
Net (loss) income attributable to noncontrolling interests in consolidated joint ventures	33	(119)	49	(353)
Net income attributable to Digital Realty Trust, L.P.	90,297	12,356	288,567	176,256
Preferred units distributions, including undeclared distributions	(20,329)	(16,575)	(60,987)	(48,473)
Issuance costs associated with redeemed preferred units	—	—	—	(6,309)
Net income (loss) available to common unitholders	$69,968	$ (4,219)	$227,580	$121,474
Net income (loss) per unit available to common unitholders:				
Basic	$0.33	$ (0.02)	$1.06	$0.73
Diluted	$0.33	$ (0.02)	$1.06	$0.73
Weighted average common units outstanding:				
Basic	214,289,384	173,460,704	214,199,414	166,048,072
Diluted	214,937,168	173,460,704	214,824,010	166,937,862

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$90,264	$12,475	$288,518	$176,609
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,368	(4,301)	(8,608)	25,954
(Decrease) increase in fair value of interest rate swaps and foreign currency hedges	2,925	(2,234)	16,336	(8,926)
Reclassification to interest expense from interest rate swaps	(1,271)	396	(2,289)	2,073
Comprehensive income	$94,286	$6,336	$293,957	$195,710
Comprehensive loss (income) attributable to noncontrolling interests in consolidated joint ventures	33	(119)	49	(353)
Comprehensive income attributable to Digital Realty Trust, L.P.	$94,319	$6,217	$294,006	$195,357

See accompanying notes to the condensed consolidated financial statements.

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

	Redeemable Limited Partner Common Units	General Partner Preferred Units		Common Units		Limited Partners Common Units		Accumulated Other Comprehensive Loss	Nonco Interes in Conso Ventu
		Units	Amount	Units	Amount	Units	Amount		
Balance as of December 31, 2017	$53,902	50,650,000	$1,249,560	205,470,300	$9,207,953	8,489,095	$702,579	$(112,885)	$2,24
Conversion of limited partner common units to general partner common units	—	—	—	567,792	49,696	(567,792)	(49,696)	—	—
Issuance of unvested restricted common units	—	—	—	206,264	—	—	—	—	—
Issuance of common units, net of offering costs	—	—	—	—	(1,292)	—	—	—	—
Issuance of common units, net of forfeitures	—	—	—	—	—	419,284	—	—	—
Units issued in connection with employee stock purchase plan	—	—	—	69,532	5,874	—	—	—	—
Units repurchased and retired to satisfy tax withholding upon vesting	—	—	—	(46,833)	(4,952)	—	—	—	—
Amortization of share-based compensation	—	—	—	—	25,213	—	—	—	—
Reclassification of vested share-based awards	—	—	—	—	(3,631)	—	3,631	—	—
Adjustment to redeemable partnership units	(36,349)	—	—	—	671	—	35,678	—	—
Distributions	—	—	(60,987)	—	(624,252)	—	(25,558)	—	—
Contributions from noncontrolling interests in consolidated joint ventures, net of distributions	—	—	—	—	—	—	—	—	63,74

Cumulative effect adjustment from adoption of new accounting standard	—	—	—	—	5,915	—	—	—	—
Net income	—	—	60,987	—	218,700	—	8,880	—	(49
Other comprehensive loss—foreign currency translation adjustments	—	—	—	—	—	—	—	(8,608)	—
Other comprehensive income—fair value of interest rate swaps	—	—	—	—	—	—	—	16,336	—
Other comprehensive loss—reclassification of accumulated other comprehensive income to interest expense	—	—	—	—	—	—	—	(2,289)	—
Balance as of September 30, 2018	$17,553	50,650,000	$1,249,560	206,267,055	$8,879,895	8,340,587	$675,514	$(107,446)	$65,9

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$288,518	$176,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of properties	(80,042)	(9,608)
Unrealized gain on equity investment	(2,005)	—
Impairment of investments in real estate	—	28,992
Equity in earnings of unconsolidated joint ventures	(23,734)	(19,592)
Distributions from unconsolidated joint ventures	15,487	26,592
Write-off of net assets due to early lease terminations	1,723	3,075
Depreciation and amortization of buildings and improvements, tenant improvements and acquired ground leases	570,179	409,229
Amortization of acquired in-place lease value and deferred leasing costs	317,355	145,262
Amortization of share-based compensation	21,177	15,590
Non-cash amortization of terminated swaps	858	903
Allowance for (recovery of) doubtful accounts	2,594	(1,320)
Amortization of deferred financing costs	8,926	7,572
Gain on early extinguishment of debt	—	(1,990)
Amortization of debt discount/premium	2,590	2,156
Amortization of acquired above-market leases and acquired below-market leases, net	20,008	(4,857)
Changes in assets and liabilities:		
Accounts and other receivables	(37,498)	(41,713)
Deferred rent	(29,474)	(7,873)
Deferred leasing costs	(18,986)	(14,847)
Other assets	(20,794)	(1,635)
Accounts payable and other accrued liabilities	3,671	(52,597)
Security deposits and prepaid rents	(6,704)	21,603
Net cash provided by operating activities	1,033,849	681,551
Cash flows from investing activities:		
Acquisitions of real estate	(116,990)	(44,354)
Proceeds from sale of properties, net of sales costs	286,204	20,200
Excess proceeds from forward contracts	—	63,956
Investments in unconsolidated joint ventures	(463)	(7,614)
Prepaid construction costs and other investments	(13,514)	—
Improvements to investments in real estate	(946,118)	(763,877)
Improvement advances to tenants	(35,223)	(37,271)
Collection of improvement advances to tenants	32,328	30,340
Cash assumed in DFT merger	—	20,650
Net cash used in investing activities	(793,776)	(717,970)

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2018	2017
Cash flows from financing activities:		
Borrowings on global revolving credit facility	$1,079,673	$1,499,691
Repayments on global revolving credit facility	(1,045,816)	(2,035,808)
Repayments on unsecured term loans	(39,095)	(354,000)
Borrowings on unsecured senior notes	649,038	2,265,060
Repayments on unsecured senior notes	—	(669,109)
Principal payments on mortgage loans	(440)	(105,406)
Borrowings on mortgage loans	—	104,000
Payment of loan fees and costs	(6,272)	(15,643)
Capital contributions from (distributions paid to) noncontrolling interests in consolidated joint ventures, net	63,745	(365)
Taxes paid related to net settlement of stock-based compensation awards	(4,952)	—
General partner contributions, net	4,582	228,609
Proceeds from forward swap contract	1,560	—
Payment of distributions to preferred unitholders	(60,987)	(46,268)
Payment of distributions to common unitholders	(849,571)	(647,217)
Net cash (used in) provided by financing activities	(208,535)	223,544
Net increase in cash, cash equivalents and restricted cash	31,538	187,125
Effect of exchange rate changes on cash, cash equivalents and restricted cash	9,591	1,170
Cash, cash equivalents and restricted cash at beginning of period	13,181	22,036
Cash, cash equivalents and restricted cash at end of period	$54,310	$210,331

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2018	2017
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$247,652	$167,148
Cash paid for income taxes	7,861	8,454
Supplementary disclosure of noncash investing and financing activities:		
Change in net assets related to foreign currency translation adjustments	$(8,608)	$25,954
Increase (decrease) in accounts payable and other accrued liabilities related to change in fair value of interest rate swaps and foreign currency hedges	16,336	(8,926)
Acquisition measurement period adjustment to goodwill and accounts payable and other accrued liabilities	—	2,162
Accrual for additions to investments in real estate and tenant improvement advances included in accounts payable and accrued expenses	193,615	232,459
Addition to leasehold improvements pursuant to capital lease obligation	73,873	—
Allocation of purchase price of real estate/investment in partnership to:		
Investments in real estate	$116,990	$43,585
Acquired below-market leases	—	(684)
Acquired in-place lease value and deferred leasing costs	—	1,453
Cash paid for acquisition of real estate	$116,990	$44,354
Assets and liabilities assumed in DFT merger:		
Cash assumed in merger	$—	$20,650
Land	—	312,579
Building and improvements	—	3,677,497
Accounts and other receivables	—	10,978
Acquired above-market leases	—	162,333
Intangibles	—	1,582,385
Goodwill	—	2,592,181
Revolving credit facility	—	(450,697)
Unsecured term loan	—	(250,000)
Unsecured notes	—	(884,841)
Mortgage notes payable and unsecured debt	—	(105,000)
Accounts payable and other accrued liabilities	—	(248,259)
Acquired below-market leases	—	(185,543)
Other working capital, net	—	(24,630)
Redeemable noncontrolling interests -- operating partnership	—	(66,259)
Common units issued to general partner in connection with merger	—	(5,247,558)
Common units issued to limited partners in connection with merger	—	(676,566)
Issuance of preferred units in connection with merger	—	(219,250)

See accompanying notes to the condensed consolidated financial statements.

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DIGITAL REALTY TRUST, INC. AND SUBSIDIARIES
DIGITAL REALTY TRUST, L.P. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017

1. Organization and Description of Business

Digital Realty Trust, Inc. through its controlling interest in Digital Realty Trust, L.P. (the Operating Partnership) and the subsidiaries of the Operating Partnership (collectively, we, our, us or the Company) is a leading global provider of data center, colocation and interconnection solutions for customers across a variety of industry verticals ranging from cloud and information technology services, communications and social networking to financial services, manufacturing, energy, healthcare, and consumer products. The Operating Partnership, a Maryland limited partnership, is the entity through which Digital Realty Trust, Inc., a Maryland corporation, conducts its business of owning, acquiring, developing and operating data centers. Digital Realty Trust, Inc. operates as a REIT for federal income tax purposes. A summary of our data center portfolio as of September 30, 2018 and December 31, 2017 is as follows:

	Data Centers							
	As of September 30, 2018				As of December 31, 2017			
Region	Operating	Held for Sale	Unconsolidated Joint Ventures	Total	Operating	Held for Sale	Unconsolidated Joint Ventures	Total
United States	131	—	14	145	131	7	14	152
Europe	38	—	—	38	38	—	—	38
Asia	3	—	4	7	3	—	4	7
Australia	5	—	—	5	5	—	—	5
Canada	3	—	—	3	3	—	—	3
Total	180	—	18	198	180	7	18	205

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

The Operating Partnership was formed on July 21, 2004 in anticipation of Digital Realty Trust, Inc.'s initial public offering (IPO) on November 3, 2004 and commenced operations on that date. As of September 30, 2018, Digital Realty Trust, Inc. owns a 96.1% common interest and a 100.0% preferred interest in the Operating Partnership. As of December 31, 2017, Digital Realty Trust, Inc. owned a 96.0% common interest and a 100.0% preferred interest in the Operating Partnership. As sole general partner of the Operating Partnership, Digital Realty Trust, Inc. has the full, exclusive and complete responsibility for the Operating Partnership's day-to-day management and control. The limited partners of the Operating Partnership do not have rights to replace Digital Realty Trust, Inc. as the general partner nor do they have participating rights, although they do have certain protective rights.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation and Basis of Presentation

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

The accompanying interim condensed consolidated financial statements are unaudited, but have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and in compliance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included. All such adjustments are considered to be of a normal recurring nature, except as otherwise indicated. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017.

The notes to the condensed consolidated financial statements of Digital Realty Trust, Inc. and the Operating Partnership have been combined to provide the following benefits:

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

There are a few differences between the Company and the Operating Partnership, which are reflected in these condensed consolidated financial statements. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how we operate as an interrelated consolidated company. Digital Realty Trust, Inc.'s only material asset is its ownership of partnership interests of the Operating Partnership. As a result, Digital Realty Trust, Inc. generally does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public securities from time to time and guaranteeing certain unsecured debt of the Operating Partnership and certain of its subsidiaries and affiliates. Digital Realty Trust, Inc. itself has not issued any indebtedness but guarantees the unsecured debt of the Operating Partnership and certain of its subsidiaries and affiliates, as disclosed in these notes.

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

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

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

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

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

(b) Cash Equivalents

For the purpose of the condensed consolidated statements of cash flows, we consider short-term investments with original maturities of 90 days or less to be cash equivalents. As of September 30, 2018, cash equivalents consist of investments in money market instruments.

(c) Investments in Unconsolidated Joint Ventures

The Company’s investments in unconsolidated joint ventures are accounted for using the equity method, whereby our investment is increased for capital contributed and our share of the joint venture's net income and decreased by distributions we receive and our share of any losses of the joint ventures. We do not record losses of the joint ventures in excess of our investment balances unless we are liable for the obligations of the joint venture or are otherwise committed to provide financial support to the joint venture. Likewise, and as long as we have no explicit or implicit obligations to the joint venture, we will suspend equity method accounting to the extent that cash distributions exceed our investment balances until those unrecorded earnings exceed the excess distributions previously recognized in income. In this case, we will apply cost accounting concepts which tie income recognition to the receipt of cash. Cost basis accounting concepts will apply until earnings exceed the excess distributions previously recognized in income. We amortize the difference between the cost of our investments in the joint ventures and the book value of the underlying equity into income on a straight-line basis consistent with the lives of the underlying assets. The amortization of this difference was immaterial for the three and nine months ended September 30, 2018 and 2017, respectively.

(d) Capitalization of Costs

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

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

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During the three months ended September 30, 2018 and 2017, we capitalized interest of approximately $9.7 million and $5.3 million, respectively. We capitalized interest of approximately $25.3 million and $13.7 million during the nine months ended September 30, 2018 and 2017, respectively. We capitalized amounts relating to compensation and other overhead expense of employees direct and incremental to construction and successful leasing activities of approximately $19.5 million and $20.8 million during the three months ended September 30, 2018 and 2017, respectively, and approximately $55.1 million and $58.4 million during the nine months ended September 30, 2018 and 2017, respectively. In addition to capitalized cash compensation, approximately $6.4 million and $11.1 million of capitalized costs primarily related to external leasing commissions are included in improvements to and advances for investments in real estate in cash flows from investing activities in the condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017, respectively.

(e) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired and tangible and intangible liabilities assumed in a business combination. Goodwill is not amortized. We perform an annual impairment test for goodwill and between annual tests, we evaluate goodwill for impairment whenever events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. In our impairment tests of goodwill, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If based on this assessment, we determine that the fair value of the reporting unit is not less than its carrying value, then performing the additional two-step impairment test is unnecessary. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets including goodwill to the fair value of the reporting unit. If the fair value is determined to be less than the book value of the net assets, including goodwill, a second step is performed to compute the amount of impairment as the difference between the implied fair value of goodwill and its carrying value. We estimate the fair value of the reporting units using discounted cash flows. If the carrying value of goodwill exceeds its implied fair value, an impairment charge is recognized. We have not recognized any goodwill impairments since our inception. Since some of the goodwill is denominated in foreign currencies, changes to the goodwill balance occur over time due to changes in foreign exchange rates.

The following is a summary of goodwill activity for the nine months ended September 30, 2018 (in thousands):

Merger / Portfolio Acquisition	Balance as of December 31, 2017	Impact of Change in Foreign Exchange Rates	Balance as of September 30, 2018
Telx Acquisition	$330,845	$—	$330,845
European Portfolio Acquisition	466,604	(16,253)	450,351
DuPont Fabros Technology Merger	2,592,146	—	2,592,146
Total	$3,389,595	$(16,253)	$3,373,342

(f) Share-Based Compensation

The Company measures all share-based compensation awards at fair value on the date they are granted to employees and directors, and recognizes compensation cost, net of forfeitures, over the requisite service period for awards with only a service condition. The estimated fair value of the long-term incentive units and Class D units (discussed in Note 13) granted by us is being amortized on a straight-line basis over the expected service period.

The fair value of share-based compensation awards that contain a market condition is measured using a Monte Carlo simulation method and not adjusted based on actual achievement of the market condition.

(g) Assets and Liabilities Measured at Fair Value

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

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

liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair-value measurement is based on inputs from different levels of the fair-value hierarchy, the lowest level input that is significant would be used to determine the fair-value measurement in its entirety. Our assessment of the significance of a particular input to the fair-value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

(h) Derivative Instruments

Derivative financial instruments are employed to manage risks, including foreign currency and interest rate exposures and are not used for trading or speculative purposes. As part of the Company's risk management program, a variety of financial instruments, such as interest rate swaps and foreign exchange contracts, may be used to mitigate interest rate exposure and foreign currency exposure. The Company recognizes all derivative instruments in the balance sheet at fair value.

Changes in the fair value of derivatives are recognized periodically either in earnings or in stockholders' equity as a component of accumulated other comprehensive income (loss), depending on whether the derivative financial instrument is undesignated or qualifies for hedge accounting, and if so, whether it represents a fair value, cash flow, or net investment hedge. Gains and losses on derivatives designated as cash flow hedges, to the extent they are included in the assessment of effectiveness, are recorded in other comprehensive income (loss) and subsequently reclassified to earnings to offset the impact of the hedged items when they occur. In the event it becomes probable the forecasted transaction to which a cash flow hedge relates will not occur, the derivative would be terminated and the amount in other comprehensive income (loss) would be recognized in earnings. Changes in the fair value of derivatives that are designated and qualify as a hedge of the net investment in foreign operations, to the extent they are included in the assessment of effectiveness, are reported in other comprehensive income (loss) and are deferred until disposal of the underlying assets. Gains and losses representing components excluded from the assessment of effectiveness for cash flow and fair value hedges are recognized in earnings on a straight-line basis in the same caption as the hedged item over the term of the hedge. Gains and losses representing components excluded from the assessment of effectiveness for net investment hedges are recognized in earnings on a straight-line basis over the term of the hedge.

The net interest paid or received on interest rate swaps is recognized as interest expense. Gains and losses resulting from the early termination of interest rate swap agreements are deferred and amortized as adjustments to interest expense over the remaining period of the debt originally covered by the terminated swap.

See Note 14 for further discussion on derivative instruments.

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(i) Income Taxes

Digital Realty Trust, Inc. has elected to be treated as a real estate investment trust (a "REIT") for federal income tax purposes. As a REIT, Digital Realty Trust, Inc. generally is not required to pay federal corporate income tax to the extent taxable income is currently distributed to its stockholders. If Digital Realty Trust, Inc. fails to qualify as a REIT in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax for taxable years prior to 2018) on its taxable income.

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

We assess our significant tax positions in accordance with U.S. GAAP for all open tax years and determine whether we have any material unrecognized liabilities from uncertain tax benefits. If a tax position is not considered "more-likely-than-not" to be sustained solely on its technical merits, no benefits of the tax position are to be recognized (for financial statement purposes). As of September 30, 2018 and December 31, 2017, we had no assets or liabilities for uncertain tax positions. We classify interest and penalties from significant uncertain tax positions as interest expense and operating expense, respectively, in our condensed consolidated income statements. For the three and nine months ended September 30, 2018 and 2017, we had no such interest or penalties. The tax year 2015 and thereafter remain open to examination by the major taxing jurisdictions with which the Company files tax returns.

See Note 10 for further discussion on income taxes.

(j) Presentation of Transactional-based Taxes

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

(k) Redeemable Noncontrolling Interests

Redeemable noncontrolling interests include amounts related to partnership units issued by consolidated subsidiaries of the Company in which redemption for equity is outside the control of the Company. Partnership units which are determined to be contingently redeemable for cash under the Financial Accounting Standards Board's "Distinguishing Liabilities from Equity" guidance are classified as redeemable noncontrolling interests and presented in the mezzanine section between total liabilities and stockholder's equity on the Company's condensed consolidated balance sheets. The amounts of consolidated net income attributable to the Company and to the noncontrolling interests are presented on the Company's condensed consolidated income statements.

(l) Revenue Recognition

The majority of our revenue is derived from lease arrangements, which we account for in accordance with "Leases (Topic 840)". We account for the non-lease components within our lease arrangements, as well as other sources of revenue, in accordance with "Revenue from Contracts with Customers (Topic 606)". Revenue recognized as a result of applying Topic 840 was 97% and Topic 606 was 3% of total operating revenue for the three and nine months ended September 30, 2018.

Our leases are classified as operating leases and minimum rents are recognized on a straight-line basis over the terms of the leases, which may span multiple years. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is included in deferred rent in the accompanying condensed consolidated balance sheets and contractually due but unpaid rents are included in accounts and other receivables.

Tenant reimbursements for real estate taxes, common area maintenance, and other recoverable costs under our leases are recognized in the period that the expenses are incurred. Lease termination fees are recognized over the remaining term of the lease, effective as of the date the lease modification is finalized, assuming collection is not considered doubtful. As discussed above, we recognize amortization of the value of acquired above or below-market tenant leases as a reduction of rental revenue in the case of above-market leases or an increase to rental revenue in the case of below-market leases.

Interconnection services are included in rental and other services on the condensed consolidated income statements and are generally provided on a month-to-month, one-year or multi-year term. Interconnection services include port and cross-connect services. Port services are typically sold on a one-year or multi-year term and revenue is recognized on a recurring monthly basis (straight-line). The Company bills customers on a monthly basis and recognizes the revenue over the period the service is provided. Revenue for cross-connect installations is generally recognized in the period the cross-connect is installed. Interconnection services that are not specific to a particular space are accounted for under Topic 606 and have terms that are generally one year or less.

Occasionally, customers engage the Company for certain services. The nature of these services historically involves property management and construction management. The proper revenue recognition of these services can be different, depending on whether the arrangements are service revenue or contractor type revenue.

Service revenues are typically recognized on an equal monthly basis based on the minimum fee to be earned. The monthly amounts could be adjusted depending on if certain performance milestones are met.

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

We make subjective estimates as to when our revenue is earned and the collectability of our accounts receivable related to minimum rent, deferred rent, expense reimbursements, lease termination fees and other income. We specifically analyze accounts receivable and historical bad debts, customer concentrations, customer creditworthiness and current economic trends when evaluating the adequacy of the allowance for bad debts. These estimates have a direct impact on our net revenue because a higher bad debt allowance would result in lower net revenue, and recognizing rental revenue as earned in one period versus another would result in higher or lower net revenue for a particular period.

(m) Transaction and Integration Expense

Transaction and integration expense includes business combination expenses, other business development expenses and other expenses to integrate newly acquired investments, which are expensed as incurred. Transaction expenses include closing costs, broker commissions and other professional fees, including legal and accounting fees related to business combinations or acquisitions that were not consummated. Integration costs include transition costs associated with organizational restructuring (such as severance and retention payments and recruiting expenses), third-party consulting expenses directly related to the integration of acquired companies (in areas such as cost savings and synergy realization, technology and systems work), and internal costs such as training, travel and labor, reflecting time spent by Company personnel on integration activities and projects. Recurring costs are recorded in general and administrative expense.

(n) Gains on Sale of Properties

As of January 1, 2018, we began accounting for the sale of real estate properties under Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), which provides for revenue recognition based on transfer of ownership. All properties were non-financial real estate assets and thus not businesses which were sold to noncustomers with no performance obligations subsequent to transfer of ownership. During the nine months ended September 30, 2018, the Company sold real estate properties for gross proceeds of $291.7 million, and a recorded net gain of $80.4 million.

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(o) Management's Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates made. On an on-going basis, we evaluate our estimates, including those related to the valuation of our real estate properties, tenant relationship value, goodwill, contingent consideration, accounts receivable and deferred rent receivable, performance-based equity compensation plans and the completeness of accrued liabilities. We base our estimates on historical experience, current market conditions, and various other assumptions that are believed to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could vary under different assumptions or conditions.
(p) Segment and Geographic Information
All of our properties generate similar revenues and expenses related to tenant rent and services and reimbursements and operating expenses. The sale and delivery of our products is consistent across all properties and although services are provided to a wide range of customers, the types of real estate services provided to them are standardized throughout the portfolio. As such, the properties in our portfolio have similar economic characteristics and the nature of the products and services provided to our customers and the method to distribute such services are consistent throughout the portfolio. In addition, the chief operating decision makers evaluate operating performance and make resource allocation decisions for the portfolio as a whole, rather than by property type or revenue stream. Consequently, our properties qualify for aggregation into one reporting segment.
Operating revenues from properties in the United States were $629.3 million and $478.2 million and outside the United States were $139.7 million and $131.7 million for the three months ended September 30, 2018 and 2017, respectively. Operating revenues from properties in the United States were $1.8 billion and $1.3 billion and outside the United States were $421.3 million and $380.0 million for the nine months ended September 30, 2018 and 2017, respectively. We had investments in real estate located in the United States of $10.8 billion and $10.5 billion, and outside the United States of $3.3 billion and $3.1 billion, as of September 30, 2018 and December 31, 2017, respectively.
Operating revenues from properties located in the United Kingdom were $72.6 million and $70.1 million, or 9.4% and 11.5% of total operating revenues, for the three months ended September 30, 2018 and 2017, respectively. Operating revenues from properties located in the United Kingdom were $221.9 million and $202.8 million, or 9.8% and 11.7% of total operating revenues, for the nine months ended September 30, 2018 and 2017, respectively. No other foreign country comprised more than 10% of total operating revenues for each of these periods. We had investments in real estate located in the United Kingdom of $1.6 billion and $1.7 billion, or 11.6% and 12.1% of total long-lived assets, as of September 30, 2018 and December 31, 2017, respectively. No other foreign country comprised more than 10% of total long-lived assets as of September 30, 2018 and December 31, 2017.

(q) New Accounting Pronouncements
New Accounting Standards Adopted

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". The new standard amends the hedge accounting recognition and presentation requirements in Accounting Standards Codification, or ASC, 815. As permitted by ASU No. 2017-12, the Company early adopted this standard in the first quarter of 2018 on a prospective basis. Refer to Note 2(h), Derivative Instruments, for our policy related to the adoption of this standard.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". The guidance requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and to record changes in instruments specific credit risk for financial liabilities measured under the fair value option in other comprehensive income. The principal effect of ASU No. 2016-01 on our condensed consolidated financial statements is that, prior to adoption of ASU No. 2016-01, changes in the fair values of investments in equity securities with readily determinable fair values or redemption values were recognized in other comprehensive income until realized, while under ASU No. 2016-01 all changes in the fair values of these equity securities are recognized in current earnings. The update is effective for fiscal years beginning after December 15, 2017, and for interim periods therein. We adopted this standard in the first quarter of 2018 and the adoption did not have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", and since that date has issued several additional ASUs intended to clarify certain aspects of ASU No. 2014-09 and to provide for certain practical expedients entities may elect upon adoption. Collectively, these ASUs outline a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. We adopted Topic 606 in the first quarter of 2018 using the modified retrospective transition method and applied Topic 606 to those contracts that were not completed as of January 1, 2018. The results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be presented under Topic 605. Our financial statements did not recognize a material effect from the cumulative impact of adopting Topic 606 as the new accounting standard does not impact lessor accounting. Refer to Note 2(l), Revenue Recognition, for the updated policy related to the adoption of this standard.

New Accounting Standards Issued but not yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", 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). 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. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Accounting for leases with a term of 12 months or less will be 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 No. 2016-02 is expected to impact the Company’s consolidated financial statements for leases where the Company is a lessee, primarily for the Company’s data center operating leases, ground leases and administrative office leases, and the Company will be required to record a lease liability and a right of use asset on its condensed consolidated balance sheet at fair value upon adoption. ASU No. 2016-02 also limits the capitalization of leasing costs to initial direct costs, which will likely result in a reduction to our capitalized leasing costs and an increase in expenses, though the amount of such change is highly dependent upon the leasing compensation structures in place at the time of adoption.

ASU No. 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective on January 1, 2019, with early adoption permitted. The new leasing standard requires modified retrospective transition. In March 2018, the FASB affirmed a proposed ASU that would allow entities to elect a simplified transition approach which would require applying the provisions of the new guidance at the effective date as opposed to the earliest period presented under the modified retrospective approach.

A set of practical expedients for implementation, which must be elected as a package and for all leases, may also be elected. These practical expedients include relief from re-assessing lease classification at the adoption date for expired or existing leases, although a right-of-use asset and lease liability would still be recorded for such leases. In March 2018, the FASB affirmed a proposed ASU that would include creating a practical expedient that would provide lessors an option not to separate lease and non-lease components when certain criteria are met and instead account for those components as a single component.

In July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements.” This ASU permits an entity to elect an additional transition method to the existing modified retrospective transition requirements. Under the new transition method, an entity could adopt the provisions of ASU No. 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with the previous lease guidance in Topic 840.

We are in the process of finalizing our review of our lease agreements in light of Topic 842 guidance, implementing a financial lease accounting system, evaluating internal control changes to support management in the accounting for and disclosure of leasing activities, and assessing available transition practical expedients. While we are still in the process of completing our implementation evaluation of ASU No. 2016-02, we currently believe the most significant changes to our financial statements relate to the recognition of a lease liability and offsetting right-of-use asset in our consolidated balance sheet for operating leases. ASU No. 2016-02 will be effective for us as of January 1, 2019.

In January 2017, the FASB issued guidance codified in ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". ASU No. 2017-04 simplifies the accounting for goodwill impairment by eliminating the process of measuring the implied value of goodwill, known as step two, from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The standard will be effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We do not expect the provisions of ASU No. 2017-04 to have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, “Improvements to Nonemployee Share-Based Payment Accounting,” which more closely aligns the accounting for employee and nonemployee share-based payments. The standard will be effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. We do not expect the provisions of ASU No. 2018-07 to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU amends existing fair value measurement disclosure requirements by adding, changing, or removing certain disclosures. ASU No. 2018-13 will be effective for us as of January 1, 2020, and earlier adoption is permitted. We are currently reviewing the impact this ASU will have on our financial statements.

3. Investments in Real Estate

Acquisitions

We acquired the following real estate during the nine months ended September 30, 2018:

Location	Market	Date Acquired	Amount (in millions)
10000-10006 Godwin Drive (1)	Northern Virginia	May 3, 2018	$ 16.5
2825-2845 Lafayette Street	Silicon Valley	Jun 19, 2018	55.5
9905 Godwin Drive (1)	Northern Virginia	Jul 11, 2018	5.8
Pacific Boulevard and S. Sterling Boulevard	Northern Virginia	Jul 17, 2018	26.8
160 Lockwood Road (1)(2)	Sydney	Sep 7, 2018	7.7
			$ 112.3

(1) Represents currently vacant land which is not included in our operating property count. Purchase price excludes capitalized closing costs.
(2) Purchase price in U.S. dollars.

Held for Sale

We sold the remaining four properties that met the criteria to be classified as held for sale as of March 31, 2018 during the three months ended June 30, 2018. As of December 31, 2017, we had identified eight properties that met the criteria to be classified as held for sale. As of December 31, 2017, the eight properties had an aggregate carrying value of $139.5 million within total assets and $5.0 million within total liabilities and are shown as assets held for sale and obligations associated with assets held for sale on the consolidated balance sheet, respectively. The properties are not representative of a significant component of our portfolio, nor do the potential sales represent a significant shift in our strategy.

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Dispositions

We sold the following real estate properties during the nine months ended September 30, 2018:

Location	Metro Area	Date Sold	Gross Proceeds (in millions)	Gain (loss) on sale (in millions)
200 Quannapowitt Parkway	Boston	Jan 25, 2018	$ 15.0	$ (0.4)
34551 Ardenwood Boulevard	Silicon Valley	Feb 9, 2018	73.3	25.3
3065 Gold Camp Drive	Sacramento	Mar 14, 2018	14.2	5.4
11085 Sun Center Drive	Sacramento	Mar 14, 2018	36.8	9.1
Austin Portfolio	Austin	Apr 19, 2018	47.6	12.0
2010 East Centennial Circle	Phoenix	May 22, 2018	5.5	(0.5)
1125 Energy Park Drive	Minneapolis	May 31, 2018	7.0	2.8
360 Spear Street	San Francisco	Sep 21, 2018	92.3	26.7
			$ 291.7	$ 80.4

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4. Investments in Unconsolidated Joint Ventures

As of September 30, 2018, our investments in unconsolidated joint ventures consist of effective 50% interests in four joint ventures that own data center buildings in Seattle, Hong Kong, Tokyo and Osaka, 20% interests in two joint ventures, one of which owns 10 data center properties with an investment fund managed by Prudential Real Estate Investors (PREI®) and the other which owns one data center property with an affiliate of Griffin Capital Essential Asset REIT, Inc. (GCEAR), and a 17% interest in a joint venture that owns a data center property in Silicon Valley. The Osaka/Tokyo joint venture was formed on November 1, 2017.

The following tables present summarized financial information for our material joint ventures as of September 30, 2018 and December 31, 2017 and for the nine months ended September 30, 2018 and 2017 (in thousands):

	As of September 30, 2018					Nine Months Ended September 30, 2018			
2018	Net Investment in Properties	Total Assets	Debt	Total Liabilities	Equity	Revenues	Property Operating Expense	Net Operating Income	Net Income
Total Unconsolidated Joint Ventures	$1,045,943	$1,338,295	$719,801	$847,814	$490,481	$159,336	$(56,603)	$102,733	$31,193
Our investment in and share of equity in earnings of unconsolidated joint ventures					$169,919				$23,734

	As of December 31, 2017					Nine Months Ended September 30, 2017			
2017	Net Investment in Properties	Total Assets	Debt	Total Liabilities	Equity	Revenues	Property Operating Expense	Net Operating Income	Net Income
Total Unconsolidated Joint Ventures	$1,061,950	$1,375,006	$712,690	$869,879	$505,127	$106,793	$(32,869)	$73,924	$32,545
Our investment in and share of equity in earnings of unconsolidated joint ventures					$163,477				$19,592

The amounts reflected in the tables above, except for our investment in and share of equity in earnings of unconsolidated joint ventures, are based on the historical financial information of the individual joint ventures. The debt of our unconsolidated joint ventures generally are non-recourse to us, except for customary exceptions pertaining to such matters as intentional misuse of funds, environmental conditions, and material misrepresentations.

Differences between the Company’s investment in the joint ventures and the amount of the underlying equity in net assets of the joint ventures are due to basis differences resulting from the Company’s equity investment recorded at its historical basis versus the fair value of the Company’s contributed interest in the joint ventures. Our proportionate share of the earnings or losses related to these unconsolidated joint ventures is reflected as equity in earnings of unconsolidated joint ventures on the accompanying condensed consolidated income statements.

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5. Acquired Intangible Assets and Liabilities

The following summarizes our acquired intangible assets (real estate intangibles, comprised of acquired in-place lease value and tenant relationship value along with acquired above-market lease value) and intangible liabilities (acquired below-market lease value) as of September 30, 2018 and December 31, 2017.

(Amounts in thousands)	Balance as of September 30, 2018	December 31, 2017
Real Estate Intangibles:		
Acquired in-place lease value:		
Gross amount	$1,452,050	$1,473,515
Accumulated amortization	(748,087)	(613,948)
Net	$703,963	$859,567
Tenant relationship value:		
Gross amount	$1,969,111	$1,978,277
Accumulated amortization	(261,618)	(169,919)
Net	$1,707,493	$1,808,358
Acquired above-market leases:		
Gross amount	$280,399	$294,514
Accumulated amortization	(145,272)	(110,139)
Net	$135,127	$184,375
Acquired below-market leases:		
Gross amount	$443,457	$469,119
Accumulated amortization	(235,255)	(219,654)
Net	$208,202	$249,465

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in a (decrease)/increase in rental revenues of $(6.8) million and $0.7 million for the three months ended September 30, 2018 and 2017, respectively, and $(20.6) million and $4.7 million for the nine months ended September 30, 2018 and 2017, respectively. The expected average remaining lives for acquired below-market leases and acquired above-market leases is 8.3 years and 3.0 years, respectively, as of September 30, 2018. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years and thereafter, commencing October 1, 2018 is as follows:

(Amounts in thousands)	
Remainder of 2018	$(6,690)
2019	(16,127)
2020	(3,902)
2021	899
2022	7,932
Thereafter	90,963
Total	$73,075

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Amortization of acquired in-place lease value (a component of depreciation and amortization expense) was $50.2 million and $20.1 million for the three months ended September 30, 2018 and 2017, respectively, and $162.3 million and $48.7 million for the nine months ended September 30, 2018 and 2017, respectively. The expected average amortization period for acquired in-place lease value is 6.2 years as of September 30, 2018. The weighted average remaining contractual life for acquired leases excluding renewals or extensions is 5.7 years as of September 30, 2018. Estimated annual amortization of acquired in-place lease value for each of the five succeeding years and thereafter, commencing October 1, 2018 is as follows:

(Amounts in thousands)	
Remainder of 2018	$47,782
2019	147,470
2020	111,611
2021	87,059
2022	65,179
Thereafter	244,862
Total	$703,963

Amortization of tenant relationship value (a component of depreciation and amortization expense) was approximately $30.8 million and $19.9 million for the three months ended September 30, 2018 and 2017, respectively, and $92.8 million and $55.0 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, the weighted average remaining contractual life for tenant relationship value was 14.5 years. Estimated annual amortization of tenant relationship value for each of the five succeeding years and thereafter, commencing October 1, 2018 is as follows:

(Amounts in thousands)	
Remainder of 2018	$30,808
2019	123,232
2020	123,232
2021	123,232
2022	123,232
Thereafter	1,183,757
Total	$1,707,493

6. Debt of the Company

In this Note 6, the “Company” refers only to Digital Realty Trust, Inc. and not to any of its subsidiaries.

The Company itself does not currently have any indebtedness. All debt is currently held directly or indirectly by the Operating Partnership.

Guarantee of Debt

The Company guarantees the Operating Partnership’s obligations with respect to its 5.875% notes due 2020 (5.875% 2020 Notes), 3.400% notes due 2020 (3.400% 2020 Notes), 5.250% notes due 2021 (2021 Notes), 3.950% notes due 2022 (3.950% 2022 Notes), 3.625% notes due 2022 (3.625% 2022 Notes), 2.750% notes due 2023 (2.750% 2023 Notes), 4.750% notes due 2025 (4.750% 2025 Notes), 3.700% notes due 2027 (2027 Notes) and 4.450% notes due 2028 (2028 Notes). The Company and the Operating Partnership guarantee the obligations of Digital Stout Holding, LLC, a wholly owned subsidiary of the Operating Partnership, with respect to its 4.750% notes due 2023 (4.750% 2023 Notes), 2.750% notes due 2024 (2.750% 2024 Notes), 4.250% notes due 2025 (4.250% 2025 Notes) and 3.300% notes due 2029 (2029 Notes) and the obligations of Digital Euro Finco, LLC, an indirect wholly owned subsidiary of the Operating Partnership, with respect to its 2.625% notes due 2024 (2.625% 2024 Notes) and Floating Rate Guaranteed Notes due 2019 (2019 Notes). The Company is also the guarantor of the Operating Partnership’s and its subsidiary borrowers’ obligations under the global revolving credit facility and unsecured term loans.

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7. Debt of the Operating Partnership

A summary of outstanding indebtedness of the Operating Partnership as of September 30, 2018 and December 31, 2017 is as follows (in thousands):

Indebtedness	Interest Rate at September 30, 2018		Maturity Date	Principal Outstanding at September 30, 2018		Principal Outstanding at December 31, 2017	
Global revolving credit facility	Various	(1)	Jan 15, 2020	$ 594,983	(2)	$ 558,191	(2)
Deferred financing costs, net				(4,694	)	(7,245	)
Global revolving credit facility, net				590,289		550,946	
Unsecured Term Loans							
Unsecured term loan — 5-year	Various	(3)(4)	Jan 15, 2021	1,056,702	(5)	1,125,117	(5)
Unsecured term loan — 7-year	Various	(3)(4)	Jan 15, 2023	300,000	(5)	300,000	(5)
Deferred financing costs, net				(3,733	)	(4,784	)
Unsecured term loan, net				1,352,969		1,420,333	
Floating rate notes due 2019	EURIBOR + 0.500%		May 22, 2019	145,050	(6)	150,063	(6)
5.875% notes due 2020	5.875%		Feb 1, 2020	500,000		500,000	
3.400% notes due 2020	3.400%		Oct 1, 2020	500,000		500,000	
5.250% notes due 2021	5.250%		Mar 15, 2021	400,000		400,000	
3.950% notes due 2022	3.950%		Jul 1, 2022	500,000		500,000	
3.625% notes due 2022	3.625%		Oct 1, 2022	300,000		300,000	
2.750% notes due 2023	2.750%		Feb 1, 2023	350,000		350,000	
4.750% notes due 2023	4.750%		Oct 13, 2023	390,930	(7)	405,390	(7)
2.625% notes due 2024	2.625%		Apr 15, 2024	696,240	(6)	720,300	(6)
2.750% notes due 2024	2.750%		Jul 19, 2024	325,775	(7)	337,825	(7)
4.250% notes due 2025	4.250%		Jan 17, 2025	521,240	(7)	540,520	(7)
4.750% notes due 2025	4.750%		Oct 1, 2025	450,000		450,000	
3.700% notes due 2027	3.700%		Aug 15, 2027	1,000,000		1,000,000	
4.450% notes due 2028	4.450%		Jul 15, 2028	650,000		—	
3.300% notes due 2029	3.300%		Jul 19, 2029	456,085	(7)	472,955	(7)
Unamortized discounts				(16,495	)	(18,508	)
Total senior notes, net of discount				7,168,825		6,608,545	
Deferred financing costs, net				(38,284	)	(37,788	)
Total unsecured senior notes, net of discount and deferred financing costs				7,130,541		6,570,757	

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Indebtedness	Interest Rate at September 30, 2018		Maturity Date	Principal Outstanding September 30, 2018	Principal Outstanding December 31, 2017
Mortgage loans:					
731 East Trade Street	8.22%		Jul 1, 2020	$ 1,930	$ 2,370
Secured note due 2023	LIBOR + 1.100%	(4)	Mar 1, 2023	104,000	104,000
Unamortized net premiums				171	241
Total mortgage loans, including premiums				106,101	106,611
Deferred financing costs, net				(29)	(29)
Total mortgage loans, including premiums and net of deferred financing costs				106,072	106,582
Total indebtedness				$ 9,179,871	$ 8,648,618

(1) The interest rate for borrowings under the global revolving credit facility equals the applicable index plus a margin of 100 basis points, which is based on the current credit ratings of our long-term debt. An annual facility fee of 20 basis points, which is based on the credit ratings of our long-term debt, is due and payable quarterly on the total commitment amount of the facility. Two six-month extensions are available, which we may exercise if certain conditions are met.

(2) Balances as of September 30, 2018 and December 31, 2017 are as follows (balances, in thousands):

Denomination of Draw	Balance as of September 30, 2018		Weighted-average interest rate		Balance as of December 31, 2017		Weighted-average interest rate	
Floating Rate Borrowing (a)								
U.S. dollar ($)	$ 240,000		3.23	%	$ 400,000		2.48	%
British pound sterling (£)	—		—	%	18,918	(d)	1.50	%
Euro (€)	74,846	(c)	0.62	%	31,213	(d)	0.62	%
Australian dollar (AUD)	58,659	(c)	2.85	%	—		—	%
Hong Kong dollar (HKD)	7,779	(c)	2.91	%	4,100	(d)	2.20	%
Japanese yen (JPY)	116,195	(c)	0.90	%	65,890	(d)	0.96	%
Singapore dollar (SGD)	25,114	(c)	2.61	%	—		—	%
Canadian dollar (CAD)	67,390	(c)	2.82	%	23,070	(d)	2.36	%
Total	$ 589,983		2.32	%	$ 543,191		2.15	%
Base Rate Borrowing (b)								
U.S. dollar ($)	$ 5,000		5.25	%	$ 15,000		4.50	%
Total borrowings	$ 594,983		2.35	%	$ 558,191		2.21	%

(a) The interest rates for floating rate borrowings under the global revolving credit facility equal the applicable index plus a margin of 100 basis points, which is based on the credit ratings of our long-term debt.
(b) The interest rates for base rate borrowings under the global revolving credit facility equal the U.S. Prime Rate.
(c) Based on exchange rates of $1.16 to €1.00, $0.72 to 1.00 AUD, $0.13 to 1.00 HKD, $0.01 to 1.00 JPY, $0.73 to 1.00 SGD and $0.77 to 1.00 CAD, respectively, as of September 30, 2018.

(d) Based on exchange rates of \$1.35 to £1.00, \$1.20 to €1.00, \$0.13 to 1.00 HKD, \$0.01 to 1.00 JPY and \$0.80 to 1.00 CAD, respectively, as of December 31, 2017.

(3) Interest rates are based on our current senior unsecured debt ratings and are 110 basis points and 155 basis points over the applicable index for floating rate advances for the 5-Year Term Loan and the 7-Year Term Loan, respectively.

(4) We have entered into interest rate swap agreements as a cash flow hedge for interest generated by the U.S. dollar, British pound sterling and Canadian dollar tranches of the unsecured term loans and the secured note due 2023. See Note 14 "Derivative Instruments" for further information.

(5) Balances as of September 30, 2018 and December 31, 2017 are as follows (balances, in thousands):

Denomination of Draw	Balance as of September 30, 2018		Weighted-average interest rate			Balance as of December 31, 2017		Weighted-average interest rate		
U.S. dollar ($)	$606,911		3.47	%	(b)	$606,911		2.78	%	(d)
British pound sterling (£)	220,843	(a)	1.82	%	(b)	229,011	(c)	1.59	%	(d)
Singapore dollar (SGD)	189,713	(a)	2.68	%		233,788	(c)	2.17	%	
Australian dollar (AUD)	166,369	(a)	2.94	%		179,841	(c)	2.79	%	
Hong Kong dollar (HKD)	85,221	(a)	2.80	%		85,762	(c)	2.20	%	
Canadian dollar (CAD)	76,298	(a)	2.93	%	(b)	78,357	(c)	2.44	%	(d)
Japanese yen (JPY)	11,347	(a)	1.01	%		11,447	(c)	1.05	%	
Total	$1,356,702		2.94	%	(b)	$1,425,117		2.42	%	(d)

(a) Based on exchange rates of $1.30 to £1.00, $0.73 to 1.00 SGD, $0.72 to 1.00 AUD, $0.13 to 1.00 HKD, $0.77 to 1.00 CAD and $0.01 to 1.00 JPY, respectively, as of September 30, 2018.

(b) As of September 30, 2018, the weighted-average interest rate reflecting interest rate swaps was 2.72% (U.S. dollar), 1.89% (British pound sterling), 1.88% (Canadian dollar) and 2.55% (Total). See Note 14 "Derivative Instruments" for further discussion on interest rate swaps.

(c) Based on exchange rates of $1.35 to £1.00, $0.75 to 1.00 SGD, $0.78 to 1.00 AUD,$0.13 to 1.00 HKD, $0.80 to 1.00 CAD and $0.01 to 1.00 JPY, respectively, as of December 31, 2017.

(d) As of December 31, 2017, the weighted-average interest rate reflecting interest rate swaps was 2.72% (U.S. dollar), 1.89% (British pound sterling), 1.88% (Canadian dollar) and 2.41% (Total).

(6) Based on exchange rates of $1.16 to €1.00 as of September 30, 2018 and $1.20 to €1.00 as of December 31, 2017.

(7) Based on exchange rates of $1.30 to £1.00 as of September 30, 2018 and $1.35 to £1.00 as of December 31, 2017.

Global Revolving Credit Facility

On January 15, 2016, we refinanced our global revolving credit facility and entered into a global senior credit agreement for a $2.0 billion senior unsecured revolving credit facility, which we refer to as the global revolving credit facility, that replaced the $2.0 billion revolving credit facility executed on August 15, 2013, as amended. The global revolving credit facility has an accordion feature that enables us to increase the borrowing capacity of the credit facility to up to $2.5 billion, subject to the receipt of lender commitments and other conditions precedent. The refinanced facility matures on January 15, 2020, with two six-month extension options available. The interest rate for borrowings under the global revolving credit facility equals the applicable index plus a margin which is based on the credit ratings of our long-term debt and is currently 100 basis points. An annual facility fee on the total commitment amount of the facility, based on the credit ratings of our long-term debt, currently 20 basis points, is payable quarterly. Funds may be drawn in U.S., Canadian, Singapore, Australian and Hong Kong dollars, as well as Euro, British pound sterling and Japanese yen. As of September 30, 2018, interest rates are based on 1-month LIBOR, 1-month EURIBOR, 1-month BBR, 1-month HIBOR, 1-month JPY LIBOR, 1-month SOR and 1-month CDOR, plus a margin of 1.00%. We have used and intend to use available borrowings under the global revolving credit facility to acquire additional properties, fund development opportunities and for general working capital and other corporate purposes, including potentially for the repurchase, redemption or retirement of outstanding debt or equity securities. As of September 30, 2018, approximately $44.6 million of letters of credit were issued.

The global revolving credit facility contains various restrictive covenants, including limitations on our ability to incur additional indebtedness, make certain investments or merge with another company, and requirements to maintain financial coverage ratios, including with respect to unencumbered assets. In addition, the global revolving credit facility restricts Digital Realty Trust, Inc. from making distributions to its stockholders, or redeeming or otherwise repurchasing shares of its capital stock, after the occurrence and during the continuance of an event of default, except in limited circumstances including as necessary to enable Digital Realty Trust, Inc. to maintain its qualification as a REIT and to minimize the payment of income or excise tax. As of September 30, 2018, we were in compliance with all of such covenants.

Unsecured Term Loans

On January 15, 2016, we refinanced our senior unsecured multi-currency term loan facility and entered into a term loan agreement, which governs (i) a $1.25 billion 5-year senior unsecured term loan, which we refer to as the 5-Year Term Loan, and (ii) a $300 million 7-year senior unsecured term loan, which we refer to as the 7-Year Term Loan. The 2016 term loan agreement replaced the $1.0 billion term loan agreement executed on April 16, 2012, as amended. The 5-Year Term Loan matures on January 15, 2021 and the 7-Year Term Loan matures on January 15, 2023. In addition, we have the ability from time to time to increase the aggregate size of lending under the 2016 term loan agreement from $1.55 billion to up to $1.8 billion, subject to receipt of lender commitments and other conditions precedent. Interest rates are based on our senior unsecured debt ratings and are currently 110 basis points and 155 basis points over the applicable index for floating rate advances for the 5-Year Term Loan and the 7-Year Term Loan, respectively. Funds may be drawn in U.S., Canadian, Singapore, Australian and Hong Kong dollars, as well as Euro, British pound sterling and Japanese yen. Based on exchange rates in effect at September 30, 2018, the balance outstanding is approximately $1.4 billion, excluding deferred financing costs. We have used borrowings under the term loans for acquisitions, repayment of indebtedness, development, working capital and general corporate purposes. The covenants under the term loans are consistent with our global revolving credit facility and, as of September 30, 2018, we were in compliance with all of such covenants.

3.750% Notes due 2030

On October 17, 2018, Digital Stout Holding, LLC, a wholly owned subsidiary of Digital Realty Trust, L.P., issued and sold £400.0 million (approximately $524.6 million based on the exchange rate on October 17, 2018) aggregate principal amount of 3.750% Guaranteed Notes due 2030, or the 2030 Notes. The 2030 Notes are senior unsecured obligations of Digital Stout Holding, LLC and are fully and unconditionally guaranteed by Digital Realty Trust, Inc. and Digital Realty Trust, L.P. Net proceeds from the offering were approximately £393.5 million (approximately $516.1 million based on the exchange rate on October 17, 2018) after deducting managers' discounts and estimated offering expenses. We intend to use the net proceeds from the offering of the 2030 Notes to repay borrowings outstanding under the operating partnership's global credit facilities, acquire additional properties or businesses, fund development opportunities, and to provide for working capital and other general corporate purposes, including potentially for the repayment of other debt or the repurchase, redemption, or retirement of outstanding debt securities, or a combination of the foregoing. The indenture governing the 2030 Notes contains certain covenants, including (1) a leverage ratio not to exceed 60%, (2) a secured debt leverage ratio not to exceed 40% and (3) an interest coverage ratio of greater than 1.50, and also requires us to maintain total unencumbered assets of not less than 150% of the aggregate principal amount of unsecured debt.

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The table below summarizes our debt maturities and principal payments as of September 30, 2018 (in thousands):

	Global Revolving Credit Facility[1]	Unsecured Term Loans	Unsecured Senior Notes	Mortgage Loans	Total Debt
Remainder of 2018	$ —	$—	$—	$153	$153
2019	—	—	145,050	644	145,694
2020	594,983	—	1,000,000	1,133	1,596,116
2021	—	1,056,702	400,000	—	1,456,702
2022	—	—	800,000	—	800,000
Thereafter	—	300,000	4,840,270	104,000	5,244,270
Subtotal	$ 594,983	$1,356,702	$7,185,320	$105,930	$9,242,935
Unamortized discount	—	—	(16,495)	—	(16,495)
Unamortized premium	—	—	—	171	171
Total	$ 594,983	$1,356,702	$7,168,825	$106,101	$9,226,611

(1) Subject to two six-month extension options exercisable by us. The bank group is obligated to grant the extension options provided we give proper notice, we make certain representations and warranties and no default exists under the global revolving credit facility.

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8. Income per Share

The following is a summary of basic and diluted income per share (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) available to common stockholders	$67,268	$ (4,140)	$218,700	$ 119,842
Weighted average shares outstanding—basic	206,118,472	170,194,254	205,931,031	163,481,306
Potentially dilutive common shares:				
Unvested incentive units	169,100	—	160,117	150,369
Forward equity offering	37,884	—	1,847	166,493
Market performance-based awards	440,800	—	462,632	572,928
Weighted average shares outstanding—diluted	206,766,256	170,194,254	206,555,627	164,371,096
Income (loss) per share:				
Basic	$0.33	$ (0.02)	$1.06	$ 0.73
Diluted	$0.33	$ (0.02)	$1.06	$ 0.73

We have excluded the following potentially dilutive securities in the calculations above as they would be antidilutive or not dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average of Operating Partnership common units not owned by Digital Realty Trust, Inc.	8,170,912	3,266,451	8,268,382	2,566,766
Potentially dilutive Series C Cumulative Redeemable Perpetual Preferred Stock	1,727,724	329,709	1,864,489	109,903
Potentially dilutive Series F Cumulative Redeemable Preferred Stock	—	—	—	617,734
Potentially dilutive Series G Cumulative Redeemable Preferred Stock	2,142,282	2,193,331	2,311,864	2,262,875
Potentially dilutive Series H Cumulative Redeemable Preferred Stock	3,139,291	3,214,098	3,387,795	3,316,008
Potentially dilutive Series I Cumulative Redeemable Preferred Stock	2,144,789	2,195,898	2,314,569	2,265,524
Potentially dilutive Series J Cumulative Redeemable Preferred Stock	1,711,186	1,045,730	1,846,643	348,577
Total	19,036,184	12,245,217	19,993,742	11,487,387

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9. Income per Unit

The following is a summary of basic and diluted income per unit (in thousands, except unit and per unit amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) available to common unitholders	$69,968	$ (4,219)	$227,580	$ 121,474
Weighted average units outstanding—basic	214,289,384	173,460,704	214,199,414	166,048,072
Potentially dilutive common units:				
Unvested incentive units	169,100	—	160,117	166,493
Forward equity offering	37,884	—	1,847	150,369
Market performance-based awards	440,800	—	462,632	572,928
Weighted average units outstanding—diluted	214,937,168	173,460,704	214,824,010	166,937,862
Income (loss) per unit:				
Basic	$0.33	$ (0.02)	$1.06	$ 0.73
Diluted	$0.33	$ (0.02)	$1.06	$ 0.73

We have excluded the following potentially dilutive securities in the calculations above as they would be antidilutive or not dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Potentially dilutive Series C Cumulative Redeemable Perpetual Preferred Units	1,727,724	329,709	1,864,489	109,903
Potentially dilutive Series F Cumulative Redeemable Preferred Units	—	—	—	617,734
Potentially dilutive Series G Cumulative Redeemable Preferred Units	2,142,282	2,193,331	2,311,864	2,262,875
Potentially dilutive Series H Cumulative Redeemable Preferred Units	3,139,291	3,214,098	3,387,795	3,316,008
Potentially dilutive Series I Cumulative Redeemable Preferred Units	2,144,789	2,195,898	2,314,569	2,265,524
Potentially dilutive Series J Cumulative Redeemable Preferred Units	1,711,186	1,045,730	1,846,643	348,577
Total	10,865,272	8,978,766	11,725,360	8,920,621

10. Income Taxes

Digital Realty Trust, Inc. has elected to be treated and believes that it has been organized and has operated in a manner that has enabled it to qualify as a REIT for federal income tax purposes. As a REIT, Digital Realty Trust, Inc. is generally not subject to corporate level federal income taxes on taxable income distributed currently to its stockholders. Since inception, Digital Realty Trust, Inc. has distributed at least 100% of its taxable income annually and intends to do so for the tax year ending December 31, 2018. As such, no provision for federal income taxes has been included in the Company's accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2018 and 2017.

The Operating Partnership is a partnership and is not required to pay federal income tax. Instead, taxable income is allocated to its partners, who include such amounts on their federal income tax returns. As such, no provision for federal income taxes has been included in the Operating Partnership’s accompanying condensed consolidated financial statements.

We have elected taxable REIT subsidiary (“TRS”) status for some of our consolidated subsidiaries. In general, a TRS may provide services that would otherwise be considered impermissible for REITs to provide and may hold assets that REITs cannot hold directly. Income taxes for TRS entities were accrued, as necessary, for the three and nine months ended September 30, 2018 and 2017.

For our TRS entities and foreign subsidiaries that are subject to U.S. federal, state and foreign income taxes, deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the temporary differences reverse. A valuation allowance for deferred tax assets is provided if we believe it is more likely than not that the deferred tax asset may not be realized, based on available evidence at the time the determination is made. An increase or decrease in the valuation allowance that results from the change in circumstances that causes a change in our judgment about the realizability of the related deferred tax asset is included in the income statement. Deferred tax assets (net of valuation allowance) and liabilities for our TRS entities and foreign subsidiaries were accrued, as necessary, for the three and nine months ended September 30, 2018 and 2017. As of September 30, 2018 and December 31, 2017, we had deferred tax liabilities net of deferred tax assets of approximately $158.3 million and $167.0 million, respectively, primarily related to our foreign properties, classified in accounts payable and other accrued expenses in the condensed consolidated balance sheet. The majority of our net deferred tax liability relates to differences between tax basis and book basis of the assets acquired in the Sentrum portfolio acquisition during 2012 and the European portfolio acquisition in July 2016. The valuation allowance against the deferred tax assets at September 30, 2018 and December 31, 2017 relate primarily to net operating loss carryforwards attributable to certain foreign jurisdictions and from the acquisition of Telx, that we do not expect to utilize, and deferred tax assets resulting from certain foreign real estate acquisition costs, which are not depreciated for tax purposes, but are deductible upon ultimate sale of the property. Given the indefinite holding period associated with these assets, realization of these deferred tax assets is not more-likely-than-not as of September 30, 2018 and December 31, 2017.

The federal tax legislation enacted on December 22, 2017, commonly known as the Tax Cuts and Jobs Act (the “2017 Tax Legislation”), reduced the corporate federal tax rate in the U.S. to 21%, effective upon January 1, 2018. As such, deferred tax assets and liabilities are remeasured using the lower corporate federal tax rate at December 31, 2017. While we do not expect other material impacts, the new tax rules are complex and lack developed administrative guidance. We continue to work with our tax advisors to analyze and determine the full impact that the 2017 Tax Legislation as a whole will have on us.

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11. Equity and Accumulated Other Comprehensive Loss, Net

(a) Forward Equity Sale

On September 27, 2018, Digital Realty Trust, Inc. completed an underwritten public offering of 9,775,000 shares of its common stock (including 1,275,000 shares from the exercise in full of the underwriters' option to purchase additional shares), all of which were offered in connection with forward sale agreements it entered into with certain financial institutions acting as forward purchasers. The forward purchasers borrowed and sold an aggregate of 9,775,000 shares of Digital Realty Trust, Inc.'s common stock in the public offering. Digital Realty Trust, Inc. did not receive any proceeds from the sale of our common stock by the forward purchasers in the public offering. The Company expects to receive net proceeds of approximately $1.1 billion (net of fees and estimated expenses) upon full physical settlement of the forward sale agreements, which is anticipated to be no later than September 27, 2019.

(b) Noncontrolling Interests in Operating Partnership
Noncontrolling interests in the Operating Partnership relate to the interests that are not owned by Digital Realty Trust, Inc. The following table shows the ownership interests in the Operating Partnership as of September 30, 2018 and December 31, 2017:

	September 30, 2018			December 31, 2017		
	Number of units	Percentage of total		Number of units	Percentage of total	
Digital Realty Trust, Inc.	206,267,055	96.1	%	205,470,300	96.0	%
Noncontrolling interests consist of:						
Common units held by third parties	6,411,484	3.0	%	6,899,094	3.2	%
Incentive units held by employees and directors (see Note 14)	1,929,103	0.9	%	1,590,001	0.8	%
	214,607,642	100.0	%	213,959,395	100.0	%

Limited partners have the right to require the Operating Partnership to redeem part or all of their common units for cash based on the fair market value of an equivalent number of shares of Digital Realty Trust, Inc. common stock at the time of redemption. Alternatively, Digital Realty Trust, Inc. may elect to acquire those common units in exchange for shares of Digital Realty Trust, Inc. common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of stock rights, specified extraordinary distributions and similar events. Pursuant to authoritative accounting guidance, Digital Realty Trust, Inc. evaluated whether it controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under the share settlement of the noncontrolling Operating Partnership common and incentive units. Based on the results of this analysis, we concluded that the common units and incentive units of the Operating Partnership met the criteria to be classified within equity, except for certain common units issued to certain former unitholders in DuPont Fabros Technology, L.P. ("DFT Operating Partnership") in the DuPont Fabros Technology merger ("DFT Merger"), which are subject to certain restrictions and, accordingly, are not presented as permanent equity in the condensed consolidated balance sheet.

In connection with the initial public offering of DuPont Fabros Technology, Inc. ("DFT") in 2007, DFT, the DFT Operating Partnership and certain DFT Operating Partnership unitholders entered into a tax protection agreement to assist such unitholders in deferring certain U.S. federal income tax liabilities that may have otherwise resulted from the contribution transactions undertaken in connection with the initial public offering and the ownership of interests in the DFT Operating Partnership and to set forth certain agreements with respect to other tax matters. In connection with the DFT Merger, certain DFT Operating Partnership unitholders entered into a new tax protection agreement with Digital Realty Trust, Inc. and the Operating Partnership that replaced and superseded the DFT tax protection agreement, effective as of the closing

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of the DFT Merger. Pursuant to the new tax protection agreement, such DFT Operating Partnership unitholders entered into a guarantee of certain debt of a subsidiary of the Operating Partnership. The Operating Partnership must offer such DFT Operating Partnership unitholders a new guarantee opportunity in the event any guaranteed debt is repaid prior to March 1, 2023. If the Operating Partnership fails to offer the guarantee opportunity or to allocate guaranteed debt to any such DFT Operating Partnership unitholder as required under the new tax protection agreement, the Operating Partnership generally would be required to indemnify each such DFT Operating Partnership unitholder for the tax liability resulting from such failure, as determined under the new tax protection agreement.

The redemption value of the noncontrolling Operating Partnership common units and the vested incentive units was approximately $891.0 million and $887.0 million based on the closing market price of Digital Realty Trust, Inc. common stock on September 30, 2018 and December 31, 2017, respectively.

The following table shows activity for the noncontrolling interests in the Operating Partnership for the nine months ended September 30, 2018:

	Common Units	Incentive Units	Total
As of December 31, 2017	6,899,094	1,590,001	8,489,095
Redemption of common units for shares of Digital Realty Trust, Inc. common stock (1)	(487,610)	—	(487,610)
Conversion of incentive units held by employees and directors for shares of Digital Realty Trust, Inc. common stock (1)	—	(80,182)	(80,182)
Incentive units issued upon achievement of market performance condition	—	326,947	326,947
Grant of incentive units to employees and directors	—	114,472	114,472
Cancellation / forfeitures of incentive units held by employees and directors	—	(22,135)	(22,135)
As of September 30, 2018	6,411,484	1,929,103	8,340,587

(1) Redemption of common units were recorded as a reduction to noncontrolling interests in the Operating Partnership and an increase to common stock and additional paid in capital based on the book value per unit in the accompanying condensed consolidated balance sheet of Digital Realty Trust, Inc.

(c) Dividends

We have declared and paid the following dividends on our common and preferred stock for the nine months ended September 30, 2018 (in thousands, except per share data):

Date dividend declared	Dividend payment date	Series C Preferred Stock	Series G Preferred Stock	Series H Preferred Stock	Series I Preferred Stock	Series J Preferred Stock	Common Stock
March 1, 2018	March 30, 2018	$3,333	$3,672	$6,730	$3,969	$2,625	$208,015
May 8, 2018	June 29, 2018	3,333	3,672	6,730	3,969	2,625	208,071
August 14, 2018	September 28, 2018	3,333	3,672	6,730	3,969	2,625	208,166
		$9,999	$11,016	$20,190	$11,907	$7,875	$624,252
Annual rate of dividend per share		$1.65625	$1.46875	$1.84375	$1.58750	$1.31250	$4.04000

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Distributions out of Digital Realty Trust, Inc.'s current or accumulated earnings and profits are generally classified as dividends whereas distributions in excess of its current and accumulated earnings and profits, to the extent of a stockholder's U.S. federal income tax basis in Digital Realty Trust, Inc.'s stock, are generally classified as a return of capital. Distributions in excess of a stockholder's U.S. federal income tax basis in Digital Realty Trust, Inc.'s stock are generally characterized as capital gain. Cash provided by operating activities has generally been sufficient to fund all distributions, however, in the future we may also need to utilize borrowings under the global revolving credit facility to fund all or a portion of distributions.

(d) Accumulated Other Comprehensive Loss, Net

The accumulated balances for each item within other comprehensive income (loss), net are as follows (in thousands):

	Foreign currency translation adjustments	Cash flow hedge adjustments	Foreign currency net investment hedge adjustments	Accumulated other comprehensive income (loss), net
Balance as of December 31, 2017	$ (147,370)	$ 13,200	$ 25,738	$ (108,432)
Net current period change	(8,272)	15,705	—	7,433
Reclassification to interest expense from interest rate swaps	—	(2,202)	—	(2,202)
Balance as of September 30, 2018	$ (155,642)	$ 26,703	$ 25,738	$ (103,201)

12. Capital and Accumulated Other Comprehensive Loss

(a) Allocations of Net Income and Net Losses to Partners

Except for special allocations to holders of profits interest units described below in Note 13(a) under the heading "Incentive Plan—Long-Term Incentive Units," the Operating Partnership's net income will generally be allocated to Digital Realty Trust, Inc. (the General Partner) to the extent of the accrued preferred return on its preferred units, and then to the General Partner and the Operating Partnership's limited partners in accordance with the respective percentage interests in the common units issued by the Operating Partnership. Net loss will generally be allocated to the General Partner and the Operating Partnership's limited partners in accordance with the respective common percentage interests in the Operating Partnership until the limited partner's capital is reduced to zero and any remaining net loss would be allocated to the General Partner. However, in some cases, losses may be disproportionately allocated to partners who have guaranteed our debt. The allocations described above are subject to special allocations relating to depreciation deductions and to compliance with the provisions of Sections 704(b) and 704(c) of the Code, and the associated Treasury Regulations.

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(b) Forward Equity Sale

On September 27, 2018, Digital Realty Trust, Inc. completed an underwritten public offering of 9,775,000 shares of its common stock (including 1,275,000 shares from the exercise in full of the underwriters' option to purchase additional shares), all of which were offered in connection with forward sale agreements it entered into with certain financial institutions acting as forward purchasers. The forward purchasers borrowed and sold an aggregate of 9,775,000 shares of Digital Realty Trust, Inc.’s common stock in the public offering. Digital Realty Trust, Inc. did not receive any proceeds from the sale of our common stock by the forward purchasers in the public offering. The Company expects to receive net proceeds of approximately $1.1 billion (net of fees and estimated expenses) upon full physical settlement of the forward sale agreements, which is anticipated to be no later than September 27, 2019. Upon physical settlement of the forward sale agreements, the Operating Partnership is expected to issue partnership units to Digital Realty Trust, Inc. in exchange for contribution of the net proceeds.

(c) Partnership Units

Limited partners have the right to require the Operating Partnership to redeem part or all of their common units for cash based on the fair market value of an equivalent number of shares of the General Partner’s common stock at the time of redemption. Alternatively, the General Partner may elect to acquire those common units in exchange for shares of the General Partner’s common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of stock rights, specified extraordinary distributions and similar events. Pursuant to authoritative accounting guidance, Digital Realty Trust, Inc. evaluated whether it controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under the share settlement of the noncontrolling Operating Partnership common and incentive units. Based on the results of this analysis, we concluded that the common units and incentive units of the Operating Partnership met the criteria to be classified within capital, except for certain common units issued to certain former DFT Operating Partnership unitholders in the DFT Merger, which are subject to certain restrictions and, accordingly, are not presented as permanent capital in the condensed consolidated balance sheet.

In connection with the initial public offering of DFT in 2007, DFT, the DFT Operating Partnership and certain DFT Operating Partnership unitholders entered into a tax protection agreement to assist such unitholders in deferring certain U.S. federal income tax liabilities that may have otherwise resulted from the contribution transactions undertaken in connection with the initial public offering and the ownership of interests in the DFT Operating Partnership and to set forth certain agreements with respect to other tax matters. In connection with the DFT Merger, certain DFT Operating Partnership unitholders entered into a new tax protection agreement with Digital Realty Trust, Inc. and the Operating Partnership that replaced and superseded the DFT tax protection agreement, effective as of the closing of the DFT Merger. Pursuant to the new tax protection agreement, such DFT Operating Partnership unitholders entered into a guarantee of certain debt of a subsidiary of the Operating Partnership. The Operating Partnership must offer such DFT Operating Partnership unitholders a new guarantee opportunity in the event any guaranteed debt is repaid prior to March 1, 2023. If the Operating Partnership fails to offer the guarantee opportunity or to allocate guaranteed debt to any such DFT Operating Partnership unitholder as required under the new tax protection agreement, the Operating Partnership generally would be required to indemnify each such DFT Operating Partnership unitholder for the tax liability resulting from such failure, as determined under the new tax protection agreement.

The redemption value of the limited partners’ common units and the vested incentive units was approximately $891.0 million and $887.0 million based on the closing market price of Digital Realty Trust, Inc.’s common stock on

September 30, 2018 and December 31, 2017, respectively.

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(d) Distributions
All distributions on the Operating Partnership's units are at the discretion of Digital Realty Trust, Inc.'s board of directors. The Operating Partnership has declared and paid the following distributions on its common and preferred units for the nine months ended September 30, 2018 (in thousands, except for per unit data):

Date distribution declared	Distribution payment date	Series C Preferred Units	Series G Preferred Units	Series H Preferred Units	Series I Preferred Units	Series J Preferred Units	Common Units
March 1, 2018	March 30, 2018	$3,333	$3,672	$6,730	$3,969	$2,625	$216,953
May 8, 2018	June 29, 2018	3,333	3,672	6,730	3,969	2,625	216,789
August 14, 2018	September 28, 2018	3,333	3,672	6,730	3,969	2,625	216,825
		$9,999	$11,016	$20,190	$11,907	$7,875	$650,567
Annual rate of distribution per unit		$1.65625	$1.46875	$1.84375	$1.58750	$1.31250	$4.04000

(e) Accumulated Other Comprehensive Loss
The accumulated balances for each item within other comprehensive income are as follows (in thousands):

	Foreign currency translation adjustments	Cash flow hedge adjustments	Foreign currency net investment hedge adjustments	Accumulated other comprehensive loss
Balance as of December 31, 2017	$ (151,795)	$ 12,758	$ 26,152	$ (112,885)
Net current period change	(8,608)	16,336	—	7,728
Reclassification to interest expense from interest rate swaps	—	(2,289)	—	(2,289)
Balance as of September 30, 2018	$ (160,403)	$ 26,805	$ 26,152	$ (107,446)

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13. Incentive Plan

On April 28, 2014, our stockholders approved the Digital Realty Trust, Inc., Digital Services, Inc., and Digital Realty Trust, L.P. 2014 Incentive Award Plan (as amended, the 2014 Incentive Award Plan). The 2014 Incentive Award Plan became effective and replaced the Amended and Restated 2004 Incentive Award Plan, as amended, as of the date of such stockholder approval. The material features of the 2014 Incentive Award Plan are described in our definitive Proxy Statement filed on March 19, 2014 in connection with the 2014 Annual Meeting, which description is incorporated herein by reference. Effective as of September 14, 2017, the 2014 Incentive Award Plan was amended to provide that shares which remained available for issuance under DFT's Amended and Restated 2011 Equity Incentive Plan immediately prior to the closing of the DFT Merger (as adjusted and converted into shares of Digital Realty Trust, Inc.'s common stock) may be used for awards under the 2014 Incentive Award Plan and will not reduce the shares authorized for grant under the 2014 Incentive Award Plan, to the extent that using such shares is permitted without stockholder approval under applicable stock exchange rules. In connection with the amendment to the 2014 Incentive Award Plan, on September 22, 2017, Digital Realty Trust, Inc. registered an additional 3.7 million shares that may be issued pursuant to the 2014 Incentive Award Plan.

As of September 30, 2018, approximately 7.1 million shares of common stock, including awards convertible into or exchangeable for shares of common stock, remained available for future issuance under the 2014 Incentive Award Plan. Each long-term incentive unit and each Class D unit issued under the 2014 Incentive Award Plan counts as one share of common stock for purposes of calculating the limit on shares that may be issued under the 2014 Incentive Award Plan and the individual award limits set forth therein.

Below is a summary of our compensation expense for the three and nine months ended September 30, 2018 and 2017 and our unearned compensation as of September 30, 2018 and December 31, 2017 (in millions):

	Deferred Compensation				Unearned Compensation		
	Expensed		Capitalized		As of September 30,	As of December 31, 2017	Expected period to recognize unearned compensation (in years)
	Three Months Ended September 30,						
Type of incentive award	2018	2017	2018	2017	2018		
Long-term incentive units	$1.2	$0.8	$0.1	$0.6	$ 11.0	$ 6.9	3.0
Market performance-based awards	3.1	2.7	0.3	0.6	28.4	24.7	2.1
Restricted stock	1.5	1.1	1.1	0.8	23.4	17.5	2.8
	Nine Months Ended September 30,						
	2018	2017	2018	2017			
Long-term incentive units	$5.2	$3.4	$0.2	$1.4			
Market performance-based awards	10.0	7.3	0.7	1.9			
Restricted stock	4.7	3.3	3.2				