

Edgar Filing: Physicians Realty Trust - Form 10-Q

Physicians Realty Trust
Form 10-Q
August 04, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-36007 (Physicians Realty Trust)

Commission file number: 333-205034-01 (Physicians Realty L.P.)

PHYSICIANS REALTY TRUST
PHYSICIANS REALTY L.P.

(Exact Name of Registrant as Specified in its Charter)

Maryland (Physicians Realty Trust) **46-2519850**
Delaware (Physicians Realty L.P.) **80-0941870**
(State of Organization) (IRS Employer Identification No.)

309 N. Water Street,
Suite 500 **53202**
Milwaukee, Wisconsin (Zip Code)
(Address of Principal Executive Offices)

(414) 367-5600
(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.

Physicians Realty Trust Yes ☒ No ☐ Physicians Realty L.P. Yes ☐ No ☒

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

Physicians Realty Trust Yes ☒ No ☐ Physicians Realty L.P. Yes ☐ No ☒

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

Physicians Realty Trust Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐ Emerging growth company ☐

Physicians Realty L.P. Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ (Do not check if a smaller reporting company) 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.

Physicians Realty Trust ☐ Physicians Realty L.P. ☐

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

Physicians Realty Trust Yes ☐ No ☒ Physicians Realty L.P. Yes ☐ No ☒

The number of the Registrant's common shares outstanding as of July 31, 2017 was 179,192,604.

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q combines the Quarterly Reports on Form 10-Q for the quarter ended June 30, 2017 of Physicians Realty Trust (the “Trust”), a Maryland real estate investment trust, and Physicians Realty L.P. (the “Operating Partnership”), a Delaware limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” “our company,” the “Company,” and “Physicians Realty” refer to the Trust, together with its consolidated subsidiaries, including the Operating Partnership. References to the “Operating Partnership” mean collectively the Operating Partnership together with its consolidated subsidiaries. In this report, all references to “common shares” refer to the common shares of the Trust and references to “our shareholders” refer to shareholders of the common shares of the Trust, the term “OP Units” refers to partnership interests of the Operating Partnership and the term “Series A Preferred Units” refers to Series A Participating Redeemable Preferred Units of the Operating Partnership. As of July 31, 2017, no Series A Preferred Units are outstanding.

The Trust is a self-managed real estate investment trust (“REIT”) formed primarily to acquire, selectively develop, own, and manage healthcare properties that are leased to physicians, hospitals, and healthcare delivery systems. The Trust’s operations are conducted through the Operating Partnership and wholly-owned and majority-owned subsidiaries of the Operating Partnership. The Trust, as the general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities, and results of operations of the Operating Partnership.

The Trust conducts substantially all of its operations through the Operating Partnership. As of June 30, 2017, the Trust held a 96.7% interest in the Operating Partnership and owns no Series A Preferred Units. Apart from this ownership interest, the Trust has no independent operations.

Noncontrolling interests in the Operating Partnership, shareholders’ equity of the Trust and partners’ capital of the Operating Partnership are the primary areas of difference between the consolidated financial statements of the Trust and those of the Operating Partnership. OP Units not owned by the Trust are accounted for as limited partners’ capital in the Operating Partnership’s consolidated financial statements and as noncontrolling interests in the Trust’s consolidated financial statements. The differences between the Trust’s shareholders’ equity and the Operating Partnership’s partners’ capital are due to the differences in the equity issued by the Trust and the Operating Partnership, respectively.

The Company believes combining the Quarterly Reports of the Trust and the Operating Partnership, including the notes to the consolidated financial statements, into this single report results in the following benefits:

- a combined report enhances investors’ understanding of the Trust 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;
- a combined report eliminates duplicative disclosure and provides a more streamlined and readable presentation, as a substantial portion of the Company’s disclosure applies to both the Trust and the Operating Partnership; and
- a combined report creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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

- the consolidated financial statements in Item 1 of this report;
- certain accompanying notes to the consolidated financial statements, including Note 3 (Acquisitions and Dispositions) and Note 14 (Earnings Per Share and Earnings Per Unit);
- controls and procedures in Item 4 of this report; and
- the certifications of the Chief Executive Officer and the Chief Financial Officer included as Exhibits 31 and 32 to this report.

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PHYSICIANS REALTY TRUST AND PHYSICIANS REALTY L.P.

**Quarterly Report on Form 10-Q
for the Quarter Ended June 30, 2017**

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, property performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as “believe,” “expect,” “outlook,” “continue,” “project,” “may,” “will,” “should,” “approximately,” “intend,” “plan,” “pro forma,” “estimate” or “anticipate” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, expectations or intentions.

These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. These forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- general economic conditions;
- adverse economic or real estate developments, either nationally or in the markets where our properties are located;
- our failure to generate sufficient cash flows to service our outstanding indebtedness, or our ability to pay down or refinance our indebtedness;
- fluctuations or increases in interest rates;
- fluctuations or increases in operating costs;
- the availability, terms and deployment of debt and equity capital, including our unsecured revolving credit facility;
- our ability to make distributions on our common shares;
- general volatility of the market price of our common shares;
- our increased vulnerability economically due to the concentration of our investments in healthcare properties;
- our geographic concentration in Texas causes us to be particularly exposed to downturns in the Texas economy or other changes in Texas market conditions;
- changes in our business or strategy;
- our dependence upon key personnel whose continued service is not guaranteed;

our ability to identify, hire and retain highly qualified personnel in the future;

the degree and nature of our competition;

changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs, and similar matters;

defaults on or non-renewal of leases by tenants;

decreased rental rates or increased vacancy rates;

difficulties in identifying healthcare properties to acquire and completing acquisitions;

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• competition for investment opportunities;

• any adverse effects to Catholic Health Initiatives' ("CHI") business, financial position or results of operations that impact the ability of affiliates of CHI to pay us rent;

• our failure to successfully develop, integrate and operate acquired properties and operations;

• the impact of our investments in joint ventures;

• the financial condition and liquidity of, or disputes with, any joint venture and development partners with whom we may make co-investments in the future;

• cybersecurity incidents could disrupt our business and result in the compromise of confidential information;

• our ability to operate as a public company;

• changes in accounting principles generally accepted in the United States (GAAP);

- lack of or insufficient amounts of insurance;

• other factors affecting the real estate industry generally;

• our failure to maintain our qualification as a REIT for U.S. federal income tax purposes;

• limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes; and

• various other factors that may materially adversely affect us, or the per share trading price of our common shares, including:

• the number of our common shares available for future issuance or sale;

• our issuance of equity securities or the perception that such issuance might occur;

• future debt;

• failure of securities analysts to publish research or reports about us or our industry; and

• securities analysts' downgrade of our common shares or the healthcare-related real estate sector.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes after the date of this report, except as required by applicable law. You should not place undue reliance on any forward-looking statements that are based on information currently available to us or the third parties making the forward-looking statements. For a further discussion of these and other factors that could impact our future results, performance or transactions, see Part II, Item 1A (Risk Factors) of this report, Part I, Item 1A (Risk Factors) of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "Annual Report"), and Part II, Item 1A (Risk Factors) of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (the "First Quarterly Report").

Table of Contents**PART I. Financial Information****Item 1. Financial Statements****Physicians Realty Trust****Consolidated Balance Sheets***(In thousands, except share and per share data)*

	June 30, 2017 (unaudited)	December 31, 2016
<u>ASSETS</u>		
Investment properties:		
Land and improvements	\$207,034	\$189,759
Building and improvements	3,117,371	2,402,643
Tenant improvements	18,561	14,133
Acquired lease intangibles	381,875	301,462
	3,724,841	2,907,997
Accumulated depreciation	(229,633)	(181,785)
Net real estate property	3,495,208	2,726,212
Real estate loans receivable	47,923	39,154
Investment in unconsolidated entity	2,232	2,258
Net real estate investments	3,545,363	2,767,624
Cash and cash equivalents	11,509	15,491
Tenant receivables, net	5,991	9,790
Other assets	103,028	95,187
Total assets	\$3,665,891	\$2,888,092
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Credit facility	\$603,585	\$643,742
Notes payable	619,675	224,330
Mortgage debt	173,958	123,083
Accounts payable	5,071	4,423
Dividends and distributions payable	38,381	32,179
Accrued expenses and other liabilities	51,042	42,287
Acquired lease intangibles, net	15,183	9,253
Total liabilities	1,506,895	1,079,297
Redeemable noncontrolling interest - Series A Preferred Units (2016) and partially owned properties	11,967	26,477
Equity:		
Common shares, \$0.01 par value, 500,000,000 common shares authorized, 157,677,566 and 135,966,013 common shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	1,576	1,360
Additional paid-in capital	2,313,443	1,920,644
Accumulated deficit	(252,647)	(197,261)
Accumulated other comprehensive income	12,928	13,708
Total shareholders' equity	2,075,300	1,738,451
Noncontrolling interests:		
Operating Partnership	71,091	43,142
Partially owned properties	638	725

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Total noncontrolling interests	71,729	43,867
Total equity	2,147,029	1,782,318
Total liabilities and equity	\$3,665,891	\$2,888,092

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

Table of Contents**Physicians Realty Trust****Consolidated Statements of Income***(In thousands, except share and per share data) (Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenues	\$58,015	\$ 42,196	\$117,107	\$ 77,051
Expense recoveries	16,108	9,552	32,462	17,455
Interest income on real estate loans and other	2,476	1,468	3,696	2,844
Total revenues	76,599	53,216	153,265	97,350
Expenses:				
Interest expense	11,472	4,279	21,287	8,476
General and administrative	6,249	4,926	10,985	9,047
Operating expenses	20,519	13,798	42,608	24,835
Depreciation and amortization	28,123	19,799	56,056	35,809
Acquisition expenses	5,242	3,256	10,647	6,633
Total expenses	71,605	46,058	141,583	84,800
Income before equity in income of unconsolidated entities and gain on sale of investment properties:	4,994	7,158	11,682	12,550
Equity in income of unconsolidated entities	29	26	57	58
Gain on sale of investment properties	5,308	—	5,308	—
Net income	10,331	7,184	17,047	12,608
Net income attributable to noncontrolling interests:				
Operating Partnership	(314	) (201	) (461	) (374
Partially owned properties (1)	(159	) (60	) (326	) (377
Net income attributable to controlling interest	9,858	6,923	16,260	11,857
Preferred distributions	(188	) (437	) (399	) (985
Net income attributable to common shareholders:	\$9,670	\$ 6,486	\$15,861	\$ 10,872
Net income per share:				
Basic	\$0.06	\$ 0.05	\$0.11	\$ 0.09
Diluted	\$0.06	\$ 0.05	\$0.11	\$ 0.09
Weighted average common shares:				
Basic	155,366,080	11,481,329	147,221,602	117,092,668
Diluted	161,012,360	12,944,722	151,912,432	121,575,247
Dividends and distributions declared per common share and OP Unit	\$0.230	\$ 0.225	\$0.455	\$ 0.450

(1) Includes amounts attributable to redeemable noncontrolling interests. No such adjustments are required for the three and six months ended June 30, 2016.

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

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Physicians Realty Trust
Consolidated Statements of Comprehensive Income
(In thousands) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$10,331	\$7,184	\$17,047	\$12,608
Other comprehensive income:				
Change in fair value of interest rate swap agreements	(2,367)	—	(780)	—
Total other comprehensive income	(2,367)	—	(780)	—
Comprehensive income	7,964	7,184	16,267	12,608
Comprehensive income attributable to noncontrolling interests - Operating Partnership	(234)	(201)	(435)	(374)
Comprehensive income attributable to noncontrolling interests - partially owned properties	(159)	(60)	(326)	(377)
Comprehensive income attributable to common shareholders	\$7,571	\$6,923	\$15,506	\$11,857

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

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Physicians Realty Trust
Consolidated Statement of Equity
(In thousands) (Unaudited)

	Par Value	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Operating Partnership Noncontrolling Interest	Partially Owned Properties Noncontrolling Interest	Total Noncontrolling Interests	Total Equity
Balance at January 1, 2017	\$ 1,360	\$ 1,920,644	\$ (197,261)	\$ 13,708	\$ 1,738,451	\$ 43,142	\$ 725	\$ 43,867	\$ 1,782,318
Net proceeds from sale of common shares	214	383,462	—	—	383,676	—	—	—	383,676
Restricted share award grants, net	2	805	(346)	—	461	—	—	—	461
Purchase of OP Units	—	—	—	—	—	(3,757)	—	(3,757)	(3,757)
Conversion of OP Units	—	392	—	—	392	(392)	—	(392)	—
Dividends/distributions declared	—	—	(70,901)	—	(70,901)	(2,401)	—	(2,401)	(73,302)
Preferred distributions	—	—	(399)	—	(399)	—	—	—	(399)
Issuance of OP Units in connection with acquisitions	—	—	—	—	—	44,259	—	44,259	44,259
Contributions	—	—	—	—	—	—	47	47	47
Distributions	—	—	—	—	—	—	(210)	(210)	(210)
Buyout of Noncontrolling Interests - partially owned properties	—	(2,800)	—	—	(2,800)	719	(24)	695	(2,105)
Change in fair value of interest rate cap agreements	—	—	—	(780)	(780)	—	—	—	(780)
Net income	—	—	16,260	—	16,260	461	100	561	16,821
Adjustment for Noncontrolling Interests ownership in Operating Partnership	—	10,940	—	—	10,940	(10,940)	—	(10,940)	—
Balance at June 30, 2017	\$ 1,576	\$ 2,313,443	\$ (252,647)	\$ 12,928	\$ 2,075,300	\$ 71,091	\$ 638	\$ 71,729	\$ 2,147,029

The accompanying notes are an integral part of this consolidated financial statement.

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Physicians Realty Trust
Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	\$ 17,047	\$ 12,608
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	56,056	35,809
Amortization of deferred financing costs	1,128	947
Amortization of lease inducements and above/below market lease intangibles	2,550	1,989
Straight-line rental revenue/expense	(6,605)	(7,204)
Amortization of discount on unsecured senior notes	98	—
Amortization of above market assumed debt	(147)	(118)
Gain on sale of investment properties	(5,308)	—
Equity in income of unconsolidated entities	(57)	(58)
Distributions from unconsolidated entities	83	27
Change in fair value of derivatives	169	(67)
Provision for bad debts	(840)	104
Non-cash share compensation	807	2,599
Write-off of contingent consideration	(70)	—
Change in operating assets and liabilities:		
Tenant receivables	2,958	(1,001)
Other assets	3,293	(3,081)
Accounts payable	648	1,079
Accrued expenses and other liabilities	14,567	15,908
Net cash provided by operating activities	86,377	59,541
Cash Flows from Investing Activities:		
Proceeds on sales of investment properties	18,150	—
Acquisition of investment properties, net	(756,862)	(872,497)
Escrowed cash - acquisition / earnest deposits	(19,577)	—
Capital expenditures on existing investment properties	(8,343)	(6,980)
Real estate loans receivable	(8,594)	(3,478)
Repayment of note receivable	16,423	4,118
Repayment of real estate loan receivable	1,507	4,500
Leasing commissions	(1,209)	(116)
Lease inducements	(2,063)	(4,870)
Net cash used in investing activities	(760,568)	(879,323)
Cash Flows from Financing Activities:		
Net proceeds from sale of common shares	383,676	764,205
Proceeds from credit facility borrowings	488,000	528,000
Payment on credit facility borrowings	(529,000)	(545,000)
Proceeds from issuance of mortgage debt	61,000	21,500
Proceeds from issuance of senior unsecured notes	396,108	150,000
Principal payments on mortgage debt	(36,440)	(1,089)
Debt issuance costs	(1,065)	(4,313)
Dividends paid - shareholders	(65,529)	(44,151)
Distributions to noncontrolling interest - Operating Partnership	(1,917)	(1,616)
Preferred distributions paid - OP Unit holder	(519)	(704)

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Contributions from noncontrolling interest	47	—
Distributions to noncontrolling interest - partially owned properties	(434)	(363)
Purchase of Series A Preferred Units	(19,961)	(9,756)
Purchase of OP Units	(3,757)	(2,129)
Net cash provided by financing activities	670,209	854,584
Net increase (decrease) in cash and cash equivalents	(3,982)	34,802
Cash and cash equivalents, beginning of period	15,491	3,143
Cash and cash equivalents, end of period	\$ 11,509	\$ 37,945
Supplemental disclosure of cash flow information - interest paid during the period	\$ 14,876	\$ 4,300
Supplemental disclosure of noncash activity - change in fair value of interest rate swap agreements	\$(780)	\$—
Supplemental disclosure of noncash activity - assumed debt	\$26,379	\$—
Supplemental disclosure of noncash activity - issuance of OP Units in connection with acquisitions	\$44,978	\$6,869
Supplemental disclosure of noncash activity - contingent consideration	\$—	\$ 156

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

Table of Contents**Physicians Realty L.P.****Consolidated Balance Sheets***(in thousands, except share and per share data)*

	June 30, 2017 (unaudited)	December 31, 2016
<u>ASSETS</u>		
Investment properties:		
Land and improvements	\$207,034	\$189,759
Building and improvements	3,117,371	2,402,643
Tenant improvements	18,561	14,133
Acquired lease intangibles	381,875	301,462
	3,724,841	2,907,997
Accumulated depreciation	(229,633)	(181,785)
Net real estate property	3,495,208	2,726,212
Real estate loans receivable	47,923	39,154
Investment in unconsolidated entity	2,232	2,258
Net real estate investments	3,545,363	2,767,624
Cash and cash equivalents	11,509	15,491
Tenant receivables, net	5,991	9,790
Other assets	103,028	95,187
Total assets	\$3,665,891	\$2,888,092
<u>LIABILITIES AND CAPITAL</u>		
Liabilities:		
Credit facility	\$603,585	\$643,742
Notes payable	619,675	224,330
Mortgage debt	173,958	123,083
Accounts payable	5,071	4,423
Dividends and distributions payable	38,381	32,179
Accrued expenses and other liabilities	51,042	42,287
Acquired lease intangibles, net	15,183	9,253
Total liabilities	1,506,895	1,079,297
Redeemable noncontrolling interest - Series A Preferred Units (2016) and partially owned properties	11,967	26,477
Capital:		
Partners' capital:		
General partners' capital, 157,677,566 and 135,966,013 units issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	2,062,372	1,724,743
Limited partners' capital, 5,399,265 and 3,436,207 units issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	71,091	43,142
Accumulated other comprehensive income	12,928	13,708
Total partners' capital	2,146,391	1,781,593
Noncontrolling interest - partially owned properties	638	725
Total capital	2,147,029	1,782,318
Total liabilities and capital	\$3,665,891	\$2,888,092

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

Table of Contents**Physicians Realty L.P.****Consolidated Statements of Income***(in thousands, except unit and per unit data) (Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenues	\$58,015	\$ 42,196	\$117,107	\$ 77,051
Expense recoveries	16,108	9,552	32,462	17,455
Interest income on real estate loans and other	2,476	1,468	3,696	2,844
Total revenues	76,599	53,216	153,265	97,350
Expenses:				
Interest expense	11,472	4,279	21,287	8,476
General and administrative	6,249	4,926	10,985	9,047
Operating expenses	20,519	13,798	42,608	24,835
Depreciation and amortization	28,123	19,799	56,056	35,809
Acquisition expenses	5,242	3,256	10,647	6,633
Total expenses	71,605	46,058	141,583	84,800
Income before equity in income of unconsolidated entities and gain on sale of investment properties:	4,994	7,158	11,682	12,550
Equity in income of unconsolidated entities	29	26	57	58
Gain on sale of investment properties	5,308	—	5,308	—
Net income	10,331	7,184	17,047	12,608
Net income attributable to noncontrolling interests - partially owned properties (1)	(159)	(60)	(326)	(377)
Net income attributable to controlling interest	10,172	7,124	16,721	12,231
Preferred distributions	(188)	(437)	(399)	(985)
Net income attributable to common unitholders	\$9,984	\$ 6,687	\$16,322	\$ 11,246
Net income per common unit:				
Basic	\$0.06	\$ 0.05	\$0.11	\$ 0.09
Diluted	\$0.06	\$ 0.05	\$0.11	\$ 0.09
Weighted average common units:				
Basic	160,765,341	155,351,672	151,520,407	120,951,069
Diluted	161,012,360	155,944,722	151,912,432	121,575,247
Distributions declared per common unit	\$0.230	\$ 0.225	\$0.455	\$ 0.450

(1) Includes amounts attributable to redeemable noncontrolling interests. No such adjustments are required for the three and six months ended June 30, 2016.

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

Table of Contents**Physicians Realty L.P.****Consolidated Statements of Comprehensive Income***(in thousands) (Unaudited)*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$10,331	\$7,184	\$17,047	\$12,608
Other comprehensive income:				
Change in fair value of interest rate swap agreements	(2,367)	—	(780)	—
Total other comprehensive income	(2,367)	—	(780)	—
Comprehensive income	7,964	7,184	16,267	12,608
Comprehensive income attributable to noncontrolling interests - partially owned properties	(159)	(60)	(326)	(377)
Comprehensive income attributable to common unitholders	\$7,805	\$7,124	\$15,941	\$12,231

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

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Physicians Realty L.P.
Consolidated Statement of Changes in Capital
(in thousands) (Unaudited)

	General Partner	Limited Partner	Accumulated Other Comprehensive Income	Total Partners' Capital	Partially Owned Properties Noncontrolling Interest	Total Partners' Capital
Balance at January 1, 2017	1,724,743	43,142	13,708	1,781,593	725	1,782,318
Net proceeds from sale of common shares	383,676	—	—	383,676	—	383,676
Restricted share award grants, net	461	—	—	461	—	461
Purchase of OP Units	—	(3,757)	—	(3,757)	—	(3,757)
Conversion of OP Units	392	(392)	—	—	—	—
OP Units - distributions	(70,901)	(2,401)	—	(73,302)	—	(73,302)
Preferred distributions	(399)	—	—	(399)	—	(399)
Issuance of OP Units in connection with acquisitions	—	44,259	—	44,259	—	44,259
Contributions	—	—	—	—	47	47
Distributions	—	—	—	—	(210)	(210)
Buyout of Noncontrolling Interest - partially owned properties	(2,800)	719	—	(2,081)	(24)	(2,105)
Change in fair value of interest rate cap agreements	—	—	(780)	(780)	—	(780)
Net income	16,260	461	—	16,721	100	16,821
Adjustments for Limited Partners ownership in Operating Partnership	10,940	(10,940)	—	—	—	—
Balance at June 30, 2017	\$ 2,062,372	\$ 71,091	\$ 12,928	\$ 2,146,391	\$ 638	\$ 2,147,029

The accompanying notes are an integral part of this consolidated financial statement.

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Physicians Realty L.P.
Consolidated Statements of Cash Flows
(in thousands) (Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	\$ 17,047	\$ 12,608
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	56,056	35,809
Amortization of deferred financing costs	1,128	947
Amortization of lease inducements and above/below market lease intangibles	2,550	1,989
Straight-line rental revenue/expense	(6,605)	(7,204)
Amortization of discount on unsecured senior notes	98	—
Amortization of above market assumed debt	(147)	(118)
Gain on sale of investment properties	(5,308)	—
Equity in income of unconsolidated entities	(57)	(58)
Distributions from unconsolidated entities	83	27
Change in fair value of derivatives	169	(67)
Provision for bad debts	(840)	104
Non-cash share compensation	807	2,599
Write-off of contingent consideration	(70)	—
Change in operating assets and liabilities:		
Tenant receivables	2,958	(1,001)
Other assets	3,293	(3,081)
Accounts payable	648	1,079
Accrued expenses and other liabilities	14,567	15,908
Net cash provided by operating activities	86,377	59,541
Cash Flows from Investing Activities:		
Proceeds on sales of investment properties	18,150	—
Acquisition of investment properties, net	(756,862)	(872,497)
Escrowed cash - acquisition / earnest deposits	(19,577)	—
Capital expenditures on existing investment properties	(8,343)	(6,980)
Real estate loans receivable	(8,594)	(3,478)
Repayment of note receivable	16,423	4,118
Repayment of real estate loan receivable	1,507	4,500
Leasing commissions	(1,209)	(116)
Lease inducements	(2,063)	(4,870)
Net cash used in investing activities	(760,568)	(879,323)
Cash Flows from Financing Activities:		
Net proceeds from sale of common shares	383,676	764,205
Proceeds from credit facility borrowings	488,000	528,000
Payment on credit facility borrowings	(529,000)	(545,000)
Proceeds from issuance of mortgage debt	61,000	21,500
Proceeds from issuance of senior unsecured notes	396,108	150,000
Principal payments on mortgage debt	(36,440)	(1,089)
Debt issuance costs	(1,065)	(4,313)
OP Unit distributions - General Partner	(65,529)	(44,151)
OP Unit distributions - Limited Partner	(1,917)	(1,616)

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Preferred OP Units distributions - Limited Partner	(519)	(704)
Contributions from noncontrolling interest	47	—
Distributions to noncontrolling interest - partially owned properties	(434)	(363)
Purchase of Series A Preferred Units	(19,961)	(9,756)
Purchase of Limited Partner Units	(3,757)	(2,129)
Net cash provided by financing activities	670,209	854,584
Net increase (decrease) in cash and cash equivalents	(3,982)	34,802
Cash and cash equivalents, beginning of period	15,491	3,143
Cash and cash equivalents, end of period	\$11,509	\$37,945
Supplemental disclosure of cash flow information - interest paid during the period	\$14,876	\$4,300
Supplemental disclosure of noncash activity - change in fair value of interest rate swap agreements	\$(780)	\$—
Supplemental disclosure of noncash activity - assumed debt	\$26,379	\$—
Supplemental disclosure of noncash activity - issuance of OP Units in connection with acquisitions	\$44,978	\$6,869
Supplemental disclosure of noncash activity - contingent consideration	\$—	\$156

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

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**Physicians Realty Trust and Physicians Realty L.P.
Notes to Consolidated Financial Statements**

Unless otherwise indicated or unless the context requires otherwise the use of the words “we,” “us,” or “our” refers to Physicians Realty Trust and Physicians Realty L.P., collectively.

Note 1. Organization and Business

Physicians Realty Trust (the “Trust”) was organized in the state of Maryland on April 9, 2013. As of June 30, 2017, the Trust was authorized to issue up to 500,000,000 common shares of beneficial interest, par value \$0.01 per share (“common shares”). The Trust filed a Registration Statement on Form S-11 with the Securities and Exchange Commission (the “Commission”) with respect to a proposed underwritten initial public offering (the “IPO”) and completed the IPO of its common shares and commenced operations on July 24, 2013.

The Trust contributed the net proceeds from the IPO to Physicians Realty L.P. (the “Operating Partnership” and together with the Trust and its consolidated subsidiaries, including the Operating Partnership, the “Company”), a Delaware limited partnership, and is the sole general partner of the Operating Partnership. The Trust and the Operating Partnership are managed and operated as one entity. The Trust has no significant assets other than its investment in the Operating Partnership. The Trust’s operations are conducted through the Operating Partnership and wholly-owned and majority-owned subsidiaries of the Operating Partnership. The Trust, as the general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities, and results of operations of the Operating Partnership. Therefore, the assets and liabilities of the Trust and the Operating Partnership are the same.

The Trust is a self-managed real estate investment trust (“REIT”) formed primarily to acquire, selectively develop, own, and manage healthcare properties that are leased to physicians, hospitals, and healthcare delivery systems.

Equity Offerings

On March 17, 2017, the Trust completed a follow-on public offering of 17,250,000 common shares of beneficial interest, including 2,250,000 common shares issued upon exercise of the underwriters’ overallotment option, resulting in net proceeds to it of approximately \$300.8 million. The Trust contributed the net proceeds of this offering to the Operating Partnership in exchange for 17,250,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under its unsecured revolving credit facility and for general corporate purposes, including working capital and funding acquisitions.

ATM Program

On August 5, 2016, the Trust and the Operating Partnership entered into separate At Market Issuance Sales Agreements (the “Sales Agreements”) with each of KeyBanc Capital Markets Inc., Credit Agricole Securities (USA) Inc., JMP Securities LLC, Raymond James & Associates, Inc., and Stifel Nicolaus & Company, Incorporated (the “Agents”), pursuant to which the Trust may issue and sell, from time to time, its common shares having an aggregate offering price of up to \$300.0 million, through the Agents (the “ATM Program”). In accordance with the Sales Agreements, the Trust may offer and sell its common shares through any of the Agents, from time to time, by any method deemed to be an “at the market offering” as defined in Rule 415 under the Securities Act of 1933, as amended, which includes sales made directly on the New York Stock Exchange or other existing trading market, or sales made to or through a market maker. With the Trust’s express written consent, sales may also be made in negotiated transactions or any other method permitted by law.

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During the quarterly periods ended March 31, 2017 and June 30, 2017, the Trust's issuance and sale of common shares pursuant to the ATM Program is as follows (in thousands, except common shares and price):

	Common shares sold	Weighted average price	Net proceeds
Quarterly period ended March 31, 2017	—	\$—	\$—
Quarterly period ended June 30, 2017	4,150,000	20.07	82,440
Year to date	4,150,000	\$20.07	\$82,440

As of July 31, 2017, the Trust has \$216.7 million remaining available under the ATM Program.

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Note 2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods ended June 30, 2017 and 2016 pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited financial statements included in the Trust's and the Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Commission on February 24, 2017.

Principles of Consolidation

GAAP requires us to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of variable interest entities ("VIEs"). ASC 810 broadly defines a VIE as an entity in which either (i) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of such entity that most significantly impact such entity's economic performance or (ii) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support. We identify the primary beneficiary of a VIE as the enterprise that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (ii) the obligation to absorb losses or receive benefits of the VIE that could potentially be significant to the entity. We consolidate our investment in a VIE when we determine that we are the VIE's primary beneficiary. We may change our original assessment of a VIE upon subsequent events such as the modification of contractual arrangements that affect the characteristics or adequacy of the entity's equity investments at risk and the disposition of all or a portion of an interest held by the primary beneficiary. We perform this analysis on an ongoing basis.

For property holding entities not determined to be VIEs, we consolidate such entities in which the Operating Partnership owns 100% of the equity or has a controlling financial interest evidenced by ownership of a majority voting interest. All intercompany balances and transactions are eliminated in consolidation. For entities in which the Operating Partnership owns less than 100% of the equity interest, the Operating Partnership consolidates the property if it has the direct or indirect ability to control the entities' activities based upon the terms of the respective entities' ownership agreements. For these entities, the Operating Partnership records a noncontrolling interest representing equity held by noncontrolling interests.

Noncontrolling Interests

The Company presents the portion of any equity it does not own in entities that it controls (and thus consolidates) as noncontrolling interests and classifies such interests as a component of consolidated equity, separate from the Company's total shareholders' equity, on the consolidated balance sheets.

Operating Partnership: Net income or loss is allocated to noncontrolling interests (limited partners) based on their respective ownership percentage of the Operating Partnership. The ownership percentage is calculated by dividing the number of OP Units held by the noncontrolling interests by the total OP Units held by the noncontrolling interests and the Trust. Issuance of additional common shares and OP Units changes the ownership interests of both the noncontrolling interests and the Trust. Such transactions and the related proceeds are treated as capital transactions.

During the three months ended March 31, 2017, the Operating Partnership partially funded a property acquisition by issuing an aggregate of 2,247,817 OP Units valued at approximately \$44.3 million. The acquisition had a total purchase price of approximately \$78.6 million.

In addition, on January 31, 2017, the Operating Partnership redeemed the noncontrolling interest in a joint venture between the Operating Partnership and Medical Center of New Albany I, LLC, an Ohio limited liability company. As consideration, the Operating Partnership paid approximately \$2.1 million in cash and issued 38,641 OP Units, representing an aggregate \$2.8 million.

No acquisitions were funded through the issuance of OP units during the three months ended June 30, 2017.

Noncontrolling interests in the Company include OP Units held by other investors. As of June 30, 2017, the Trust held a 96.7% interest in the Operating Partnership. As the sole general partner and the majority interest holder, the Trust consolidates the financial position and results of operations of the Operating Partnership.

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Holders of OP Units may not transfer their OP Units without the Trust's prior written consent, as general partner of the Operating Partnership. Beginning on the first anniversary of the issuance of OP Units, OP Unit holders may tender their units for redemption by the Operating Partnership in exchange for cash equal to the market price of the Trust's common shares at the time of redemption or for unregistered common shares on a one-for-one basis. Such selection to pay cash or issue common shares to satisfy an OP Unit holder's redemption request is solely within the control of the Trust. Accordingly, the Trust presents the OP Units of the Operating Partnership held by investors other than the Trust as noncontrolling interests within equity in the consolidated balance sheets.

Partially Owned Properties: The Trust and Operating Partnership reflect noncontrolling interests in partially owned properties on the balance sheet for the portion of consolidated properties that are not wholly owned by the Company. The earnings or losses from those properties attributable to the noncontrolling interests are reflected as noncontrolling interests in partially owned properties in the consolidated statements of income.

Redeemable Noncontrolling Interests - Series A Preferred Units and Partially Owned Properties

On February 5, 2015, the Company entered into a Second Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement") which provides for the designation and issuance of the newly designated Series A Participating Redeemable Preferred Units of the Operating Partnership ("Series A Preferred Units"). Series A Preferred Units have priority over all other partnership interests of the Operating Partnership with respect to distributions and liquidation. Holders of Series A Preferred Units are entitled to a 5% cumulative return and upon redemption, the receipt of one common share and \$200. The holders of the Series A Preferred Units have agreed not to cause the Operating Partnership to redeem their Series A Preferred Units prior to one year from the issuance date. In addition, Series A Preferred Units are redeemable at the option of the holders which redemption obligation may be satisfied, at the Trust's option, in cash or registered common shares. Instruments that require settlement in registered common shares may not be classified in permanent equity as it is not always completely within an issuer's control to deliver registered common shares. Due to the redemption rights associated with the Series A Preferred Units, the Company classifies the Series A Preferred Units in the mezzanine section of the consolidated balance sheets.

The Series A Preferred Units were evaluated for embedded features that should be bifurcated and separately accounted for as a freestanding derivative. The Company determined that the Series A Preferred Units contained features that require bifurcation. The Company records the carrying amount of the redeemable noncontrolling interests, less the value of the embedded derivative, at the greater of the carrying value or redemption value in the consolidated balance sheets in accrued expenses and other liabilities.

On February 5, 2015, the acquisition of a medical office building located in Minnetonka, Minnesota (the "Minnetonka MOB") was partially funded with the issuance of 44,685 Series A Preferred Units which were valued at \$9.7 million. On December 17, 2015, the acquisition of a medical office building located in Nashville, Tennessee (the "Nashville MOB") was partially funded with the issuance of 91,236 Series A Preferred Units which were valued at \$19.7 million.

On April 1, 2016, the Series A Preferred Units issued in conjunction with the Minnetonka MOB acquisition were redeemed for a total value of \$9.8 million. The fair value of the embedded derivative associated with the previously outstanding Series A Preferred Units was \$2.7 million which was derecognized in the course of the redemption.

On January 12, 2017, the Series A Preferred Units issued in conjunction with the Nashville MOB acquisition were redeemed for a total value of \$20.0 million. The fair value of the embedded derivative associated with the previously outstanding Series A Preferred Units was \$5.6 million which was derecognized in the course of the redemption.

As of June 30, 2017, no Series A Preferred Units are outstanding.

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In connection with the acquisition of the Minnetonka MOB, the Trust received a \$5 million equity investment from a third party, effective March 1, 2015. This investment earns a 15% cumulative preferred return. At any point subsequent to the third anniversary of the investment, the holder can require the Trust to redeem the instrument at a price for which the investor will realize a 15% internal rate of return. Due to the redemption provision, which is outside of the control of the Trust, the Trust classifies the investment in the mezzanine section of its consolidated balance sheet. The Trust records the carrying amount of the redeemable noncontrolling interests at the greater of the carrying value or redemption value.

In connection with the acquisition on December 29, 2015 of a medical office building located on the campus of the Great Falls Clinic and Hospital in Great Falls, Montana (the "Great Falls Clinic"), physicians affiliated with the seller retained a non-controlling interest which may, at the holders option, be redeemed at any time. Due to the redemption provision, which is outside of the control of the Trust, the Trust classifies the investment in the mezzanine section of its consolidated balance

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sheet. The Trust records the carrying amount of the redeemable noncontrolling interests at the greater of the carrying value or redemption value.

Dividends and Distributions

On June 12, 2017, the Trust announced that its Board of Trustees authorized and the Trust declared a cash dividend of \$0.23 per common share for the quarterly period ended June 30, 2017, an increase of \$0.005 per common share and OP Unit over the previous quarter. The distribution was paid on July 18, 2017 to common shareholders and OP Unit holders of record as of the close of business on July 3, 2017.

All distributions paid by the Operating Partnership are declared and paid at the same time as dividends are distributed by the Trust to common shareholders. It has been the Operating Partnership's policy to declare quarterly distributions so as to allow the Trust to comply with applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), governing REITs. The declaration and payment of quarterly distributions remains subject to the review and approval of the Trust's Board of Trustees.

Our shareholders are entitled to reinvest all or a portion of any cash distribution on their shares of our common stock by participating in our Dividend Reinvestment and Share Purchase Plan ("DRIP"), subject to the terms of the plan.

Tax Status of Dividends and Distributions

Our distributions of current and accumulated earnings and profits for U.S. federal income tax purposes generally are taxable to shareholders as ordinary income. Distributions in excess of these earnings and profits generally are treated as a non-taxable reduction of the shareholders' basis in the shares to the extent thereof (non-dividend distributions) and thereafter as taxable gain.

Any cash distributions received by an OP Unit holder in respect of its OP Units generally will not be taxable to such OP Unit holder for U.S. federal income tax purposes, to the extent that such distribution does not exceed the OP Unit holder's basis in its OP Units. Any such distribution will instead reduce the OP Unit holder's basis in its OP Units (and OP Unit holders will be subject to tax on the taxable income allocated to them by the Operating Partnership in respect of their OP Units when such income is earned by the Operating Partnership, with such income allocation increasing the OP Unit holders' basis in their OP Units).

Purchases of Investment Properties

A property acquired not subject to an existing lease is treated as an asset acquisition and recorded at its purchase price, inclusive of acquisition costs, allocated between the acquired tangible and intangible assets and assumed liabilities based upon their relative fair values at the date of acquisition. A property acquired with an existing lease is accounted for as a business combination pursuant to the acquisition method in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"), and assets acquired and liabilities assumed, including identified intangible assets and liabilities, are recorded at fair value.

The determination of fair value involves the use of significant judgment and estimation. The Company makes estimates of the fair value of the tangible and intangible acquired assets and assumed liabilities using information obtained from multiple sources as a result of pre-acquisition due diligence and generally includes the assistance of a third party appraiser. The Company estimates the fair value of buildings acquired on an "as-if-vacant" basis and depreciates the building value over the estimated remaining life of the building. The Company determines the allocated value of other fixed assets, such as site improvements, based upon the replacement cost and depreciates such value over the assets' estimated remaining useful lives as determined at the applicable acquisition date. The fair value

of land is determined either by considering the sales prices of similar properties in recent transactions or based on internal analyses of recently acquired and existing comparable properties within the Company's portfolio.

In recognizing identified intangible assets and liabilities in connection with a business combination, the value of above or below-market leases is estimated based on the present value (using an interest rate which reflected the risks associated with the leases acquired) of the difference between contractual amounts to be received pursuant to the leases and management's estimate of market lease rates measured over a period equal to the estimated remaining term of the lease. The capitalized above-market or below-market lease intangibles are amortized as a reduction or addition to rental income over the estimated remaining term of the respective leases plus the term of any renewal options that the lessee would be economically compelled to exercise.

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In determining the value of in-place leases, management considers current market conditions and costs to execute similar leases in arriving at an estimate of the carrying costs during the expected lease-up period from vacant to existing occupancy. In estimating carrying costs, management includes real estate taxes, insurance, other operating expenses, estimates of lost rental revenue during the expected lease-up periods, and costs to execute similar leases, including leasing commissions, tenant improvements, legal, and other related costs based on current market demand. The values assigned to in-place leases are amortized to amortization expense over the estimated remaining term of the lease. If a lease terminates prior to its scheduled expiration, all unamortized costs related to that lease are written off, net of any required lease termination payments.

The Company calculates the fair value of any long-term debt assumed by discounting the remaining contractual cash flows on each instrument at the current market rate for those borrowings, which the Company approximates based on the rate it would expect to incur on a replacement instrument on the date of acquisition, and recognizes any fair value adjustments related to long-term debt as effective yield adjustments over the remaining term of the instrument.

Based on these estimates, the Company recognizes the acquired assets and assumed liabilities at their estimated fair values, which are generally determined using Level 3 inputs, such as market rental rates, capitalization rates, discount rates, or other available market data. Initial valuations are subject to change until the information is finalized, no later than 12 months from the acquisition date. The Company expenses transaction costs associated with acquisitions accounted for as business combinations in the period incurred.

Impairment of Intangible and Long-Lived Assets

The Company periodically evaluates its long-lived assets, primarily consisting of investments in real estate, for impairment indicators or whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate properties in relation to the undiscounted expected future cash flows of the underlying operations. In performing this evaluation, management considers market conditions and current intentions with respect to holding or disposing of the real estate property. The Company adjusts the net book value of real estate properties to fair value if the sum of the expected future undiscounted cash flows, including sales proceeds, is less than book value. The Company recognizes an impairment loss at the time it makes any such determination. If the Company determines that an asset is impaired, the impairment to be recognized is measured as the amount by which the recorded amount of the asset exceeds its fair value. Fair value is typically determined using a discounted future cash flow analysis or other acceptable valuation techniques, which are based, in turn, upon Level 3 inputs, such as revenue and expense growth rates, capitalization rates, discount rates, or other available market data.

The Company did not record impairment charges in the three and six month periods ended June 30, 2017 and 2016.

Assets Held for Sale and Discontinued Operations

The Company may sell properties from time to time for various reasons, including favorable market conditions. The Company classifies certain long-lived assets as held for sale once the criteria, as defined by GAAP, has been met. Long-lived assets to be disposed of are reported at the lower of their carrying amount or fair value minus cost to sell, and are no longer depreciated. No properties were classified as held for sale as of June 30, 2017.

Investments in Unconsolidated Entities

The Company reports investments in unconsolidated entities over whose operating and financial policies it has the ability to exercise significant influence under the equity method of accounting. Under this method of accounting, the Company's share of the investee's earnings or losses is included in its consolidated statements of income. The initial

carrying value of investments in unconsolidated entities is based on the amount paid to purchase the equity interest.

Real Estate Loans Receivable

Real estate loans receivable consists of nine mezzanine loans and two term loans as of June 30, 2017. Each mezzanine loan is collateralized by an ownership interest in the respective borrower, while the two term loans are secured by equity interests in two medical office building developments, respectively. Interest income on the loans is recognized as earned based on the terms of the loans, subject to evaluation of collectability risks, and is included in the Company's consolidated statements of income.

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Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term investments with maturities of three or fewer months from the date of purchase. The Company is subject to concentrations of credit risk as a result of its temporary cash investments. The Company places its temporary cash investments with high credit quality financial institutions in order to mitigate this risk.

Escrow Reserves

The Company is required to maintain various escrow reserves on certain notes payable to cover future property taxes and insurance and tenant improvements costs as defined in each loan agreement. The total reserves as of June 30, 2017 and December 31, 2016 are \$1.8 million and \$4.3 million, respectively, which are included in other assets in the consolidated balance sheets.

Deferred Costs

Deferred costs consist primarily of fees paid to obtain financing and costs associated with the origination of long-term leases on real estate properties. After the purchase of a property, lease commissions incurred to extend in-place leases or generate new leases are added to deferred lease costs. Deferred lease costs are included as a component of other assets and are amortized on a straight-line basis over the terms of their respective agreements. Deferred financing costs are shown as a direct reduction from the related debt liability. The Company amortizes deferred financing costs as a component of interest expense over the terms of the related borrowings using a method that approximates a level yield.

Rental Revenue

Rental revenue is recognized on a straight-line basis over the terms of the related leases when collectability is reasonably assured. Recognizing rental revenue on a straight-line basis for leases may result in recognizing revenue for amounts more or less than amounts currently due from tenants. Amounts recognized in excess of amounts currently due from tenants, net of related allowances, are included in other assets and were approximately \$37.9 million and \$32.0 million as of June 30, 2017 and December 31, 2016, respectively. If the Company determines that collectability of straight-line rents is not reasonably assured, the Company limits future recognition to amounts contractually owed and, where appropriate, establishes an allowance for estimated losses. Allowances recognized against straight line rent were approximately \$3.9 million and \$0.6 million as of June 30, 2017 and December 31, 2016, respectively. Rental revenue is adjusted by amortization of lease inducements and above or below market rents on certain leases. Lease inducements and above or below market rents are amortized over the remaining life of the lease.

Expense Recoveries

Expense recoveries relate to tenant reimbursement of real estate taxes, insurance, and other operating expenses that are recognized as expense recovery revenue in the period the applicable expenses are incurred. The reimbursements are recorded at gross, as the Company is generally the primary obligor with respect to real estate taxes and purchasing goods and services from third-party suppliers, has discretion in selecting the supplier, and bears the credit risk of tenant reimbursement.

The Company has certain tenants with absolute net leases. Under these lease agreements, the tenant is responsible for operating and building expenses. For absolute net leases, the Company does not recognize expense recoveries.

Derivative Instruments

When the Company has derivative instruments embedded in other contracts, it records them either as an asset or a liability measured at their fair value unless they qualify for a normal purchase or normal sale exception. When specific hedge accounting criteria are not met, changes in the Company's derivative instruments' fair value are recognized currently in earnings. Changes in the fair market values of the Company's derivative instruments are recorded in the consolidated statements of income if the derivative instruments do not qualify for, or the Company does not elect to apply for, hedge accounting. If hedge accounting is applied to a derivative instrument, such changes are reported in accumulated other comprehensive income within the consolidated statement of equity, exclusive of ineffectiveness amounts, which are recognized as adjustments to net income.

To manage interest rate risk for certain of its variable-rate debt, the Company uses interest rate swaps as part of its risk management strategy. These derivatives are designed to mitigate the risk of future interest rate increases by providing a fixed

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interest rate for a limited, pre-determined period of time. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of June 30, 2017, the Company had five outstanding interest rate swap contracts that are designated as cash flow hedges of interest rate risk. For presentational purposes, they are shown as one derivative due to the identical nature of their economic terms. Further detail is provided in Note 7 (Derivatives).

The effective portion of the change in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income ("AOCI") on the consolidated balance sheets and is subsequently reclassified into earnings as interest expense for the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. For the six months ended June 30, 2017, the Company recognized a \$0.2 million loss as a result of hedge ineffectiveness. Hedge ineffectiveness was insignificant for the three months ended June 30, 2017 and for the three and six months ended June 30, 2016. The Company expects hedge ineffectiveness to be insignificant in the next 12 months.

Income Taxes

The Trust elected to be taxed as a REIT for federal tax purposes commencing with the filing of its tax return for the short taxable year ending December 31, 2013. The Trust had no taxable income prior to electing REIT status. To qualify as a REIT, the Trust must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its shareholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Trust generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its shareholders. If the Trust fails to qualify as a REIT in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the Internal Revenue Service grants the Trust relief under certain statutory provisions. Such an event could materially adversely affect the Trust's net income and net cash available for distribution to shareholders. However, the Trust intends to continue to operate in such a manner as to continue qualifying for treatment as a REIT. Although the Trust continues to qualify for taxation as a REIT, in various instances, the Trust is subject to state and local taxes on its income and property, and federal income and excise taxes on its undistributed income.

As discussed in Note 1 (Organization and Business), the Trust conducts substantially all of its operations through the Operating Partnership. As a partnership, the Operating Partnership generally is not liable for federal income taxes. The income and loss from the operations of the Operating Partnership is included in the tax returns of its partners, including the Trust, who are responsible for reporting their allocable share of the partnership income and loss. Accordingly, no provision for income taxes has been made on the accompanying consolidated financial statements.

Tenant Receivables, Net

Tenant accounts receivable are stated net of the applicable allowance. Rental payments under these contracts are primarily due monthly. The Company assesses the collectability of tenant receivables, including straight-line rent receivables, and defers recognition of revenue if collectability is not reasonably assured. The Company bases its assessment of the collectability of rent receivables on several factors, including, among other things, payment history, the financial strength of the tenant, and current economic conditions. If management's evaluation of these factors indicates it is probable that the Company will be unable to recover the full value of the receivable, the Company provides a reserve against the portion of the receivable that it estimates may not be recovered. At June 30, 2017 and December 31, 2016, the allowance for doubtful accounts was \$0.7 million and \$2.4 million, respectively.

Management Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the amounts of revenue and expenses reported in the period. Significant estimates are made for the fair value assessments with respect to purchase price allocations, impairment assessments, and the valuation of financial instruments. Actual results could differ from these estimates.

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Contingent Liabilities

The Company records liabilities for contingent consideration (included in accrued expenses and other liabilities on its consolidated balance sheets) at fair value as of the acquisition date and reassesses the fair value at the end of each reporting period, with any changes being recognized in earnings. Increases or decreases in the fair value of contingent consideration can result from changes in discount periods, discount rates, and probabilities that contingencies will be met.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on the previously reported consolidated balance sheets or consolidated statements of income.

Segment Reporting

Under the provision of Codification Topic 280, *Segment Reporting*, the Company has determined that it has one reportable segment with activities related to leasing and managing healthcare properties.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which creates a new Topic, Accounting Standards Codification Topic 606. The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard is effective for interim or annual periods beginning after December 15, 2017 and allows for either full retrospective or modified retrospective adoption. Early adoption of this standard is permitted for reporting periods beginning after December 15, 2016. The Company anticipates that adoption of ASU 2014-09 will take place on January 1, 2018 via the modified retrospective approach. Under the full retrospective method, the standard would be applied retrospectively to all reporting periods represented on the financial statements. The modified retrospective approach applies the standard in the year of initial application and presents the cumulative effect of prior periods with an adjustment to beginning retained earnings, with no restatement of comparative periods. As leasing arrangements (which are excluded from ASU 2014-09) represent the primary source of revenue for the Company, the impact of adoption will be limited to the Company's recognition and presentation of non-lease revenues. The Company continues to evaluate the impact of ASU 2014-09 to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. As a result of adopting ASU 2016-02, the Company will recognize all of its operating leases for which it is the lessee, including ground leases, on its consolidated balance sheets. The Company is evaluating the impact of the adoption of ASU 2016-02 on January 1, 2019 to its consolidated financial statements. We expect that certain executory and non-lease components, such as common area maintenance, will need to be accounted for separately from the lease component of the lease, with the lease component continuing to be recognized on a straight-line basis over the lease term. We intend to account for the executory and non-lease components under the new revenue recognition guidance in ASU 2014-09, upon our adoption of ASU 2016-02. When the revenue for such items is not separately stipulated in the lease, we will separate the lease components of revenue due under leases from the non-lease components.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This update simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statements of cash flows. ASU 2016-09 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. The Company adopted ASU 2016-09 on January 1, 2017, with no material effect on its consolidated financial statements with no adjustments made to prior periods.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business*, that clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of

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integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. ASU 2017-01 will be effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2017-01 on its consolidated financial statements. Upon adoption of ASU 2017-01, the Company will classify most prospective real estate acquisitions as asset acquisitions, rather than business combinations, and direct acquisitions costs associated with these acquisitions will be capitalized. This is due to the fact that substantially all of the fair value of the gross assets the Company acquires are concentrated in a single asset or group of similar identifiable assets.

Note 3. Acquisitions and Dispositions

During the six months ended June 30, 2017, the Company completed acquisitions of 20 operating healthcare properties, 2 condominium units, and one parking deck located in 13 states for an aggregate purchase price of approximately \$825.1 million. In addition, the Company completed \$8.6 million of loan transactions and \$2.8 million of noncontrolling interest buyouts, resulting in total investment activity of approximately \$836.5 million.

Investment activity for the three months ended June 30, 2017 is summarized below:

Property (1)	Location	Acquisition Date	Purchase Price (in thousands)
MedStar Stephen's Crossing	(2) Brandywine, MD	June 16, 2017	\$ 20,900
St. Vincent Portfolio (2 MOB's)	(2) Carmel & Fishers, IN	June 29, 2017	93,880
2017 CHI Portfolio - Tranche 1 (8 MOB's)	(2) NE, ND, MN, TN, AR, TX	June 29, 2017	124,181
Baylor Charles A. Sammons Cancer Center	(2) Dallas, TX	June 30, 2017	290,000
Orthopedic & Sports Institute of the Fox Valley	(2) Appleton, WI	June 30, 2017	27,900
Peachtree Dunwoody MOB - Parking Deck	(2) Atlanta, GA	June 30, 2017	25,000
Loan Investments	Various	Various	6,315
			\$ 588,176

(1) "MOB" means medical office building.

The Company accounted for six of these facilities as asset acquisitions and capitalized total acquisition costs of \$0.2 million. The remaining eight facilities were accounted for as business combinations pursuant to the acquisition method, with acquisition expense totaling \$5.2 million, which includes costs related to properties pursued but not acquired.

For the three months ended June 30, 2017, the Company recorded revenues and net income from its 2017 acquisitions of \$5.5 million and \$1.1 million, respectively. For the six months ended June 30, 2017, the Company recorded revenues from its 2017 acquisitions of \$7.3 million. Net loss attributable to acquisitions completed during the six months ended June 30, 2017 was \$1.7 million primarily as a result of related closing expenses totaling \$4.4 million.

The following table summarizes the acquisition date fair values of the assets acquired and the liabilities assumed, which the Company determined using Level 2 and Level 3 inputs (in thousands):

	1st Quarter	2nd Quarter	Total
Land	\$ 14,190	\$ 5,662	\$ 19,852
Building and improvements	187,239	537,952	725,191

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In-place lease intangible	27,670	38,766	66,436
Above market in-place lease intangible	13,406	2,815	16,221
Below market in-place lease intangible	(757)	(2,097)	(2,854)
Above market in-place ground lease	—	(4,172)	(4,172)
Below market in-place ground lease	1,042	3,245	4,287
Receivables	480	(46)	434
Debt assumed	(26,379)	—	(26,379)
Issuance of OP Units	(44,978)	—	(44,978)
Net assets acquired	\$171,913	\$582,125	\$754,038

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These preliminary allocations are subject to revision within the measurement period, not to exceed one year from the date of the acquisitions.

Disposition

On February 23, 2017, the Company executed an agreement to sell a portfolio of four medical office buildings located in Georgia (the "Georgia Portfolio"), representing an aggregate 80,292 square feet, for approximately \$18.2 million. On April 7, 2017, the Company closed on the sale of the Georgia Portfolio for a gain of \$5.3 million.

The following table summarizes revenues and net income related to the Georgia Portfolio for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	19	417	438	833
Income before gain on sale of investment properties:	(53)	109	87	196
Gain on sale of investment properties	5,303	—	5,303	—
Net income (loss)	5,250	109	5,390	196

Unaudited Pro Forma Financial Information

Physicians Realty Trust

The following table illustrates the pro forma consolidated revenue, net income, and earnings per share as if the Company had acquired the 2017 acquisitions as of January 1, 2016 (in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$87,755	\$ 69,579	\$179,092	\$ 130,423
Net income	11,251	7,933	19,409	12,286
Net income available to common shareholders	10,559	7,210	18,146	10,560
Earnings per share - basic	\$0.07	\$ 0.05	\$0.12	\$ 0.07
Earnings per share - diluted	\$0.07	\$ 0.05	\$0.12	\$ 0.07
Weighted average number of shares outstanding - basic	155,366,085	155,366,080	147,221,602	147,221,602
Weighted average number of shares outstanding - diluted	161,012,360	161,012,360	151,912,432	151,912,432

Physicians Realty L.P.

The following table illustrates the pro forma consolidated revenue, net income, and earnings per share as if the Company had acquired the 2017 acquisitions as of January 1, 2016 (in thousands, except unit and per unit amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$87,755	\$ 69,579	\$179,092	\$ 130,423
Net income	11,251	7,933	19,409	12,286
Net income available to common unitholders	10,904	7,436	18,684	10,924
Earnings per unit - basic	\$0.07	\$ 0.05	\$0.12	\$ 0.07

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Earnings per unit - diluted	\$0.07	\$ 0.05	\$0.12	\$ 0.07
Weighted average number of units outstanding - basic	160,765,345	160,765,345	151,520,407	151,520,407
Weighted average number of units outstanding - diluted	161,012,360	161,012,360	151,912,432	151,912,432

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Note 4. Intangibles

The following is a summary of the carrying amount of intangible assets and liabilities as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017			December 31, 2016		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Assets						
In-place leases	\$282,468	\$(66,309)	\$216,159	\$222,394	\$(55,605)	\$166,789
Above market leases	51,530	(9,392)	42,138	35,478	(6,909)	28,569
Leasehold interest	712	(153)	559	712	(124)	588
Below market ground leases	47,165	(912)	46,253	42,878	(539)	42,339
Total	\$381,875	\$(76,766)	\$305,109	\$301,462	\$(63,177)	\$238,285
Liabilities						
Below market lease	\$13,098	\$(3,372)	\$9,726	\$10,297	\$(2,345)	\$7,952
Above market ground leases	5,516	(59)	5,457	1,345	(44)	1,301
Total	\$18,614	\$(3,431)	\$15,183	\$11,642	\$(2,389)	\$9,253

The following is a summary of the acquired lease intangible amortization for the three and six month periods ended June 30, 2017 and 2016, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Amortization expense related to in-place leases	\$8,327	\$6,746	\$17,066	\$12,435
Decrease of rental income related to above-market leases	1,263	1,059	2,652	2,046
Decrease of rental income related to leasehold interest	15	15	29	30
Increase of rental income related to below-market leases	511	322	1,080	548
Decrease of operating expense related to above market ground leases	7	5	15	9
Increase in operating expense related to below market ground leases	188	94	373	141

For the three months ended June 30, 2017, the Company wrote-off in-place lease intangible assets of approximately \$2.0 million with accumulated amortization of \$1.8 million, for a net loss of approximately \$0.2 million to rental income from intangible amortization.

For the six months ended June 30, 2017, the Company wrote-off in-place lease intangible assets of approximately \$2.6 million with accumulated amortization of \$1.9 million, as well as certain above market lease intangible assets and below market lease intangible liabilities. Intangible write-offs for the six months ended June 30, 2017 resulted in an aggregate net loss of approximately \$0.9 million to rental income from intangible amortization.

Future aggregate net amortization of the acquired lease intangibles as of June 30, 2017, is as follows (in thousands):

	Net Decrease in Revenue	Net Increase in Expenses
2017	\$(1,496)	\$19,513
2018	(2,899)	34,967
2019	(3,021)	30,833
2020	(3,159)	28,356
2021	(3,258)	24,256
Thereafter	(19,138)	119,030

Total \$ (32,971) \$ 256,955

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As of June 30, 2017, the weighted average amortization period for asset lease intangibles and liability lease intangibles are 17 and 20 years, respectively.

Note 5. Other Assets

Other assets consisted of the following as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Straight line rent receivable	\$37,899	\$ 32,018
Note receivable	—	16,618
Interest rate swap	13,679	13,881
Lease inducements, net	14,806	13,255
Prepaid expenses	9,481	8,928
Escrows	1,772	4,334
Leasing commissions, net	2,971	1,858
Earnest deposits	19,577	1,500
Other	2,843	2,795
Total	\$103,028	\$ 95,187

Note 6. Debt

The following is a summary of debt as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016	
Fixed interest mortgage notes	\$141,370	(1)\$90,185	(2)
Variable interest mortgage notes	32,763	(3)33,009	(4)
Total mortgage debt	174,133	123,194	
\$850 million unsecured revolving credit facility bearing variable interest of LIBOR plus 1.20%, due September 2020	360,000	401,000	
\$400 million senior unsecured notes bearing fixed interest of 4.30%, due March 2027	400,000	—	
\$250 million unsecured term borrowing bearing fixed interest of 2.87%, due June 2023	250,000	250,000	
(5)			
\$150 million senior unsecured notes bearing fixed interest of 4.03% to 4.74%, due January 2023 to 2031	150,000	150,000	
\$75 million senior unsecured notes bearing fixed interest of 4.09% to 4.24%, due August 2025 to 2027	75,000	75,000	
Total principal	1,409,133	999,194	
Unamortized deferred financing cost	(8,412)	(8,477)	
Unamortized discount	(3,794)	—	
Unamortized fair value adjustment	291	438	
Total debt	\$1,397,218	\$991,155	

Fixed interest mortgage notes, bearing interest from 3.00% to 5.50%, with a weighted average interest rate (1)of 4.41%, and due in 2018, 2019, 2020, 2021, 2022, and 2024 collateralized by 8 properties with a net book value of \$220.3 million.

Fixed interest mortgage notes, bearing interest from 4.71% to 6.58%, with a weighted average interest rate (2)of 5.44%, and due in 2017, 2018, 2019, 2020, 2021, 2022, and 2032 collateralized by 11 properties with a net book value of \$156.7 million.

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Variable interest mortgage notes, bearing variable interest of LIBOR plus 2.25% to 3.25%, with a weighted (3) average interest rate of 4.14% and due in 2017 and 2018, collateralized by four properties with a net book value of \$45.7 million.

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Variable interest mortgage notes, bearing variable interest of LIBOR plus 2.25% to 3.25%, with a weighted (4) average interest rate of 3.68% and due in 2017 and 2018, collateralized by four properties with a net book value of \$45.6 million.

The Trust's borrowings under the term loan feature of the Credit Agreement bear interest at a rate which is (5) determined by the Trust's credit rating, currently equal to LIBOR + 1.80%. The Trust has entered into a pay-fixed receive-variable interest rate swap, fixing the LIBOR component of this rate at 1.07%.

On June 10, 2016, the Operating Partnership, as borrower, and the Trust entered into an amended and restated Credit Agreement with KeyBank National Association, as administrative agent, KeyBanc Capital Markets Inc., BMO Capital Markets, and Citizens Bank N.A., as joint lead arrangers and co-book runners, BMO Capital Markets and Citizens Bank N.A., as co-syndication agents, and the lenders party thereto (the "Credit Agreement") which increased the maximum principal amount available under an unsecured revolving credit facility from \$750 million to \$850 million. The Credit Agreement contains a 7-year term loan feature allowing the Operating Partnership to borrow in a single drawing up to \$250 million, increasing the borrowing capacity to an aggregate \$1.1 billion. The Credit Agreement also includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing the Trust to increase borrowing capacity by up to an additional \$500 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of \$1.6 billion.

On July 7, 2016, the Operating Partnership borrowed \$250.0 million under the 7-year term loan feature of the Credit Agreement. Borrowings under the term loan feature of the Credit Agreement bear interest on the outstanding principal amount at a rate which is determined by the Trust's credit rating, currently equal to LIBOR + 1.80%. The Trust simultaneously entered into a pay-fixed receive-variable rate swap for the full borrowing amount, fixing the LIBOR component of the borrowing rate to 1.07%, for an all-in fixed rate of 2.87%. Both the borrowing and pay-fixed receive-variable swap have a maturity date of June 10, 2023.

The Credit Agreement has a maturity date of September 18, 2020 and includes a one year extension option. Borrowings under the Credit Agreement bear interest on the outstanding principal amount at an adjusted LIBOR rate, which is based on the Trust's investment grade rating under the Credit Agreement. As of June 30, 2017, the Trust had an investment grade rating from Moody's of Baa3 and as such, borrowings under the revolving credit facility of the Credit Agreement accrued interest on the outstanding principal at a rate of LIBOR plus 1.20%. The Credit Agreement includes a facility fee equal to 0.25% per annum, which is also determined by the Trust's investment grade rating.

The Credit Agreement contains financial covenants that, among other things, require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as covenants that may limit the Trust's and the Operating Partnership's ability to incur additional debt or make distributions. The Company may, at any time, voluntarily prepay any revolving or swingline loan under the Credit Agreement in whole or in part without premium or penalty. Prepayments of term borrowings require payment of premiums of up to 2.0% of the amount of prepayment, dependent on the date of such prepayment. As of June 30, 2017, the Company was in compliance with all financial covenants.

The Credit Agreement includes customary representations and warranties by the Trust and the Operating Partnership, and imposes customary covenants on the Operating Partnership and the Trust. The Credit Agreement also contains customary events of default, and if an event of default occurs and continues, the Operating Partnership is subject to certain actions by the administrative agent, including without limitation, the acceleration of repayment of all amounts outstanding under the Credit Agreement.

The Credit Agreement provides for revolving credit and term loans to the Trust and the Operating Partnership. Base Rate Loans, Adjusted LIBOR Rate Loans, and Letters of Credit (each, as defined in the Credit Agreement) will be subject to interest rates, based upon the Trust's investment grade rating as follows:

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Credit Rating	Margin for Revolving Loans: Adjusted LIBOR Rate Loans and Letter of Credit Fee	Margin for Revolving Loans: Base Rate Loans	Margin for Term Loans: Adjusted LIBOR Rate Loans and Letter of Credit Fee	Margin for Term Loans: Base Rate Loans
At Least A- or A3	LIBOR + 0.85%	— %	LIBOR + 1.40%	0.40 %
At Least BBB+ or BAA1	LIBOR + 0.90%	— %	LIBOR + 1.45%	0.45 %
At Least BBB or BAA2	LIBOR + 1.00%	0.10 %	LIBOR + 1.55%	0.55 %
At Least BBB- or BAA3	LIBOR + 1.20%	0.20 %	LIBOR + 1.80%	0.80 %
Below BBB- or BAA3	LIBOR + 1.55%	0.60 %	LIBOR + 2.25%	1.25 %

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As of June 30, 2017, the company had \$360.0 million of borrowings outstanding under its unsecured revolving credit facility and \$472.9 million available to borrow without adding additional properties to the unencumbered borrowing base of assets, as defined by the Credit Agreement. As of June 30, 2017, the Company had \$250.0 million of borrowings outstanding under the term loan feature of the Credit Agreement.

On January 7, 2016, the Operating Partnership issued and sold \$150.0 million aggregate principal amount of senior notes, comprised of (i) \$15.0 million aggregate principal amount of 4.03% Senior Notes, Series A, due January 7, 2023, (ii) \$45.0 million aggregate principal amount of 4.43% Senior Notes, Series B, due January 7, 2026, (iii) \$45.0 million aggregate principal amount of 4.57% Senior Notes, Series C, due January 7, 2028, and (iv) \$45.0 million aggregate principal amount of 4.74% Senior Notes, Series D, due January 7, 2031. On August 11, 2016, the note agreement for these notes was amended to make certain changes to its terms, including certain changes to affirmative covenants, negative covenants and definitions contained therein. Interest on each respective series of the January 2016 Senior Notes is payable semi-annually.

On August 11, 2016, the Operating Partnership issued and sold \$75.0 million aggregate principal amount of senior notes, comprised of (i) \$25.0 million aggregate principal amount of 4.09% Senior Notes, Series A, due August 11, 2025, (ii) \$25.0 million aggregate principal amount of 4.18% Senior Notes, Series B, due August 11, 2026, and (iii) \$25.0 million aggregate principal amount of 4.24% Senior Notes, Series C, due August 11, 2027. Interest on each respective series of the August 2016 Senior Notes is payable semi-annually.

On March 7, 2017, the Operating Partnership issued and sold \$400.0 million aggregate principal amount of 4.30% Senior Notes which will mature on March 15, 2027. The Senior Notes began accruing interest on March 7, 2017 and will pay interest semi-annually beginning September 15, 2017. The Senior Notes were sold at an issue price of 99.68% of their face value, before the underwriters' discount. Our net proceeds from the offering, after deducting underwriting discounts and expenses, were approximately \$396.1 million.

Certain properties have mortgage debt that contains financial covenants. As of June 30, 2017, the Trust was in compliance with all mortgage debt financial covenants.

Scheduled principal payments due on debt as of June 30, 2017, are as follows (in thousands):

2017	\$5,063
2018	54,195
2019	44,022
2020	389,482
2021	8,048
Thereafter	908,323
Total Payments	\$1,409,133

As of June 30, 2017, the Company had total consolidated indebtedness of approximately \$1.4 billion. The weighted average interest rate on consolidated indebtedness was 3.58% (based on the 30-day LIBOR rate as of June 30, 2017, of 1.17%).

For the three month periods ended June 30, 2017 and 2016, the Company incurred interest expense on its debt, exclusive of deferred financing cost amortization, of \$10.9 million and \$3.8 million, respectively. For the six month periods ended June 30, 2017 and 2016, the Company incurred interest expense on its debt, exclusive of deferred financing cost amortization, of \$20.2 million and \$7.5 million, respectively.

Note 7. Derivatives

In the normal course of business, a variety of financial instruments are used to manage or hedge interest rate risk. The Company has implemented ASC 815, *Derivatives and Hedging* (ASC 815), which establishes accounting and reporting standards requiring that all derivatives, including certain derivative instruments embedded in other contracts, be recorded as either an asset or a liability measured at their fair value unless they qualify for a normal purchase or normal sales exception.

When specific hedge accounting criteria are not met, ASC 815 requires that changes in a derivative's fair value be recognized currently in earnings. Changes in the fair market values of the Company's derivative instruments are recorded in the consolidated statements of income if such derivatives do not qualify for, or the Company does not elect to apply for, hedge accounting. If hedge accounting is applied to a derivative instrument, such changes are reported in accumulated other

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comprehensive income within the consolidated statement of equity, exclusive of ineffectiveness amounts, which are recognized as adjustments to net income.

To manage interest rate risk for certain of its variable-rate debt, the Company uses interest rate swaps as part of its risk management strategy. These derivatives are designed to mitigate the risk of future interest rate increases by providing a fixed interest rate for a limited, pre-determined period of time. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of June 30, 2017, the Company had five outstanding interest rate swap contracts that are designated as cash flow hedges of interest rate risk. For presentational purposes, they are shown as one derivative due to the identical nature of their economic terms.

The effective portion of the change in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income ("AOCI") on the consolidated balance sheets and is subsequently reclassified into earnings as interest expense for the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. For the six months ended June 30, 2017, the Company recognized a \$0.2 million loss as a result of hedge ineffectiveness. Hedge ineffectiveness was insignificant for the three months ended June 30, 2017 and for the three and six months ended June 30, 2016. The Company expects hedge ineffectiveness to be insignificant in the next 12 months.

The following table summarizes the location and aggregate fair value of the interest rate swaps on the Company's consolidated balance sheets (in thousands):

Total notional amount	\$250,000
Effective fixed interest rate	(1)2.87 %
Effective date	7/7/2016
Maturity date	6/10/2023
Asset balance at June 30, 2017 (included in Other assets)	\$13,679
Asset balance at December 31, 2016 (included in Other assets)	\$13,881
(1) 1.07% effective swap rate plus 1.80% spread per Credit Agreement.	

On January 26, 2017, the Company entered into a \$300.0 million notional amount forward starting swap to reduce our exposure to fluctuations in interest rates related to the forecasted issuance of the 4.30% senior notes due in 2027. Upon the issuance of the senior notes on March 7, 2017, the forward starting swap was terminated and we realized a \$0.8 million loss which will be recognized over the life of the notes utilizing the effective interest method.

Note 8. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Real estate taxes payable	\$12,865	\$9,300
Prepaid rent	14,244	5,834
Embedded derivative	—	5,571
Tenant improvement allowance	3,481	5,315
Accrued interest	10,335	4,905
Security deposits	2,652	4,506
Accrued incentive compensation	1,847	1,405
Contingent consideration	1,322	1,392
Accrued expenses and other	4,296	4,059

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Total	\$51,042	\$ 42,287
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The Company follows ASC 718, *Compensation - Stock Compensation* (“ASC 718”), in accounting for its share-based payments. This guidance requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. This cost is recognized as compensation expense ratably over the employee’s requisite service period. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred. Share-based payments classified as liability awards are marked to fair value at each reporting period. Any common shares issued pursuant to the Company’s incentive equity compensation and employee stock purchase plans will result in the Operating Partnership issuing OP Units to the Trust on a one-for-one basis, with the Operating Partnership receiving the net cash proceeds of such issuances.

Certain of the Company’s employee stock awards vest only upon the achievement of performance targets. ASC 718 requires recognition of compensation cost only when achievement of performance conditions is considered probable. Consequently, the Company’s determination of the amount of stock compensation expense requires a significant level of judgment in estimating the probability of achievement of these performance targets. Subsequent changes in actual experience are monitored and estimates are updated as information is available.

In connection with the IPO, the Trust adopted the 2013 Equity Incentive Plan (“2013 Plan”), which made available 600,000 common shares to be administered by the Compensation and Nominating Governance Committee of the Board of Trustees. On August 7, 2014, at the Annual Meeting of Shareholders of Physicians Realty Trust, the Trust’s shareholders approved an amendment to the 2013 Plan to increase the number of common shares authorized for issuance under the 2013 Plan by 1,850,000 common shares, for a total of 2,450,000 common shares authorized for issuance.

Restricted Common Shares:

Restricted common shares granted under the 2013 Plan are eligible for dividends as well as the right to vote. In the six month period ended June 30, 2017, the Trust granted a total of 143,593 restricted common shares with a total value of \$2.8 million to its officers and certain of its employees, which have vesting periods ranging from one to three years.

A summary of the status of the Trust’s non-vested restricted common shares as of June 30, 2017 and changes during the six month period then ended follow:

	Common Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2016	296,785	\$ 16.16
Granted	143,593	19.74
Vested	(239,587)	16.11
Forfeited	(550)	18.78
Non-vested at June 30, 2017	200,241	\$ 18.77

For all service awards, the Company records compensation expense for the entire award on a straight-line basis over the requisite service period. For the three month periods ended June 30, 2017 and 2016, the Company recognized non-cash share compensation of \$0.8 million and \$1.1 million, respectively. For the six month periods ended June 30, 2017 and 2016, the Company recognized non-cash share compensation of \$1.6 million and \$1.9 million, respectively. Unrecognized compensation expense at June 30, 2017 was \$2.5 million.

Restricted Share Units:

In March 2017, under the 2013 Plan, the Trust granted restricted share units at a target level of 174,320 to its officers and certain employees and 32,831 to its trustees, which are subject to certain performance, timing, and market conditions and a three-year and two-year service period for officers/employees and trustees, respectively. In addition, each restricted share unit contains one dividend equivalent. The recipient will accrue dividend equivalents on awarded share units equal to the cash dividend that would have been paid on the awarded share unit had the awarded share unit been an issued and outstanding common share on the record date for the dividend.

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Approximately 70% of the restricted share units issued to officers and certain employees vest based on certain market conditions. The market conditions were valued with the assistance of independent valuation specialists. The Company utilized a Monte Carlo simulation to calculate the weighted average grant date fair value of \$33.43 per unit for the March 2017 grant using the following assumptions:

Volatility	21.5	%
Dividend assumption	reinvested	
Expected term in years	2.8	
Risk-free rate	1.68	%
Share price (per share)	\$ 19.80	

The remaining 30% of the restricted share units issued to officers and certain employees, and 100% of restricted share units issued to trustees, vest based upon certain performance or timing conditions. With respect to the performance conditions of the March 2017 grant, the grant date fair value of \$19.80 per unit was based on the share price at the date of grant. The combined weighted average grant date fair value of the March 2017 restricted share units issued to officers and certain employees is \$29.34 per unit.

The following is a summary of the activity in the Trust's restricted share units during the six months ended June 30, 2017:

	Executive Awards		Trustee Awards	
	Restricted Share Units	Weighted Average Grant Date Fair Value	Restricted Share Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2016	235,483	\$ 21.84	57,260	\$ 17.03
Granted	174,320	29.34	32,831	19.80
Vested	(55,680)	(1) 16.94	(38,871)	16.72
Non-vested at June 30, 2017	354,123	\$ 26.30	51,220	\$ 19.04

Restricted units vested by Company executives in 2017 resulted in the issuance of 105,792 shares of common (1) stock, less 50,112 shares of common stock withheld to cover minimum withholding tax obligations, for multiple employees.

For the three month periods ending June 30, 2017 and 2016, the Trust recognized non-cash share unit compensation expense of \$1.0 million and \$0.5 million, respectively. For the six month periods ended June 30, 2017 and 2016, the Trust recognized non-cash share unit compensation expense of \$1.7 million and \$0.9 million, respectively. Unrecognized compensation expense at June 30, 2017 was \$7.0 million.

Note 10. Fair Value Measurements

ASC Topic 820, *Fair Value Measurement* ("ASC 820"), requires certain assets and liabilities be reported and/or disclosed at fair value in the financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Company's derivative instruments as of June 30, 2017 consist of five interest rate swaps. For presentational purposes, the Company's interest rate swaps are shown as a single derivative due to the identical nature of their economic

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terms, as detailed in the Derivative Instruments section of Note 2 (Summary of Significant Accounting Policies) and Note 7 (Derivatives).

The Company's interest rate swaps are not traded on an exchange. The Company's derivative assets and liabilities are recorded at fair value based on a variety of observable inputs including contractual terms, interest rate curves, yield curves, measure of volatility, and correlations of such inputs. The Company measures its derivatives at fair value on a recurring basis. The fair values are based on Level 2 inputs described above. The Company considers its own credit risk, as well as the credit risk of its counterparties, when evaluating the fair value of its derivatives.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. This generally includes assets subject to impairment. There were no such assets measured at fair value as of June 30, 2017.

The carrying amounts of cash and cash equivalents, tenant receivables, payables, and accrued interest are reasonable estimates of fair value because of the short term maturities of these instruments. Fair values for real estate loans receivable and mortgage debt are estimated based on rates currently prevailing for similar instruments of similar maturities and are based primarily on Level 2 inputs.

The following table presents the fair value of the Company's financial instruments (in thousands):

	June 30, 2017	Fair Value	December 31, 2016	Fair Value
	Carrying Amount		Carrying Amount	
Assets:				
Real estate loans receivable	\$47,923	\$47,464	\$39,154	\$39,154
Notes receivable	\$—	\$—	\$16,618	\$16,618
Derivative assets	\$13,679	\$13,679	\$13,881	\$13,881
Liabilities:				
Credit facility	\$(610,000)	\$(610,000)	\$(651,000)	\$(651,000)
Notes payable	\$(625,000)	\$(626,223)	\$(225,000)	\$(214,584)
Mortgage debt	\$(174,424)	\$(176,493)	\$(123,632)	\$(125,420)
Derivative liabilities	\$—	\$—	\$(5,571)	\$(5,571)

Note 11. Tenant Operating Leases

The Company is lessor of medical office buildings and other healthcare facilities. Leases have expirations from 2017 through 2045. As of June 30, 2017, the future minimum rental payments on non-cancelable leases, exclusive of expense recoveries, were as follows (in thousands):

2017	\$129,925
2018	257,218
2019	253,094
2020	248,116
2021	242,976
Thereafter	1,462,848
Total	\$2,594,177

Note 12. Rent Expense

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The Company leases the rights to parking structures at two of its properties, the air space above one property, and the land upon which 70 of its properties are located from third party land owners pursuant to separate leases. In addition, the Company leases four individual office spaces.

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The Company's leases require fixed rental payments and may also include escalation clauses and renewal options. These leases have terms of up to 98 years remaining, excluding extension options.

As of June 30, 2017, the future minimum lease obligations under non-cancelable parking, air, ground, and office leases were as follows (in thousands):

2017	\$1,134
2018	2,261
2019	2,184
2020	2,126
2021	2,139
Thereafter	98,307
Total	\$108,151

Rent expense for the parking, air, and ground leases of \$0.6 million and \$0.4 million for the three month periods ended June 30, 2017 and 2016, respectively, and \$1.2 million and \$0.8 million for the six month periods ended June 30, 2017 and 2016, respectively, are reported in operating expenses in the consolidated statements of income. Rent expense for office leases was insignificant for the three and six month periods ended June 30, 2017 and 2016, and is reported within general and administrative expenses in the consolidated statements of operations.

Note 13. Credit Concentration

The Company uses annualized base rent ("ABR") as its credit concentration metric. Annualized base rent is calculated by multiplying contractual base rent for the month ended June 30, 2017 by 12, excluding the impact of concessions and straight-line rent. The following table summarizes certain information about the Company's top five tenant credit concentrations as of June 30, 2017 (in thousands):

Tenant	Total ABR	Percent of ABR
CHI - Nebraska	\$14,829	5.7 %
CHI - KentuckyOne Health	13,120	5.1 %
Baylor Scott and White Health	6,730	2.6 %
US Oncology	6,573	2.5 %
CHI - St. Alexius (North Dakota)	6,235	2.4 %
Remaining portfolio	212,078	81.7 %
Total	\$259,565	100.0 %

Annualized base rent collected from the Company's top five tenant relationships comprises 18.3% of its total annualized base rent for the period ending June 30, 2017. Total annualized base rent from CHI affiliated tenants totals 19.2%, including the affiliates disclosed above. Consolidated financial statements of CHI, the parent of the subsidiaries and affiliates of the entities party to master lease agreements, are publicly available on the Catholic Health Initiatives website (www.catholichealthinitiatvies.org/). Information included on the CHI website is not incorporated by reference within this Quarterly Report on Form 10-Q.

The following table summarizes certain information about the Company's top five geographic concentrations as of June 30, 2017 (in thousands):

State	Total ABR	Percent of ABR
Texas	\$43,544	16.8 %
Indiana	16,587	6.4 %

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Nebraska	16,293	6.3	%
Kentucky	15,969	6.2	%
Arizona	14,203	5.5	%
Other	152,969	58.8	%
Total	\$259,565	100.0	%

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Table of Contents**Note 14. Earnings Per Share and Earnings Per Unit**

The following table shows the amounts used in computing the Trust's basic and diluted earnings per share (in thousands, except share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator for earnings per share - basic:				
Net income	\$10,331	\$ 7,184	\$17,047	\$ 12,608
Net income attributable to noncontrolling interests:				
Operating Partnership	(314)	(201)	(461)	(374)
Partially owned properties	(159)	(60)	(326)	(377)
Preferred distributions	(188)	(437)	(399)	(985)
Numerator for earnings per share - basic	\$9,670	\$ 6,486	\$15,861	\$ 10,872
Numerator for earnings per share - diluted:				
Numerator for earnings per share - basic	\$9,670	\$ 6,486	\$15,861	\$ 10,872
Operating Partnership net income	314	201	461	374
Numerator for earnings per share - diluted	\$9,984	\$ 6,687	\$16,322	\$ 11,246
Denominator for earnings per share - basic and diluted:				
Weighted average number of shares outstanding - basic	155,366,080	148,132,914	147,221,602	147,092,668
Effect of dilutive securities:				
Noncontrolling interest - Operating Partnership units	5,399,265	3,870,343	4,298,805	3,858,401
Restricted common shares	57,366	199,698	86,814	193,084
Restricted share units	189,649	393,352	305,211	431,094
Denominator for earnings per share - diluted:	161,012,365	152,403,305	151,912,433	151,575,247
Earnings per share - basic	\$0.06	\$ 0.05	\$0.11	\$ 0.09
Earnings per share - diluted	\$0.06	\$ 0.05	\$0.11	\$ 0.09

The following table shows the amounts used in computing the Operating Partnership's basic and diluted earnings per unit (in thousands, except unit and per unit data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator for earnings per unit - basic and diluted:				
Net income	10,331	7,184	17,047	12,608
Net income attributable to noncontrolling interests - partially owned properties	(159)	(60)	(326)	(377)
Preferred distributions	(188)	(437)	(399)	(985)
Numerator for earnings per unit - basic and diluted	\$9,984	\$ 6,687	\$16,322	\$ 11,246
Denominator for earnings per unit - basic and diluted:				
Weighted average number of units outstanding - basic	160,765,345	145,351,672	151,520,407	147,091,069
Effect of dilutive securities:				
Restricted common shares	57,366	199,698	86,814	193,084
Restricted share units	189,649	393,352	305,211	431,094
Denominator for earnings per unit - diluted	161,012,365	145,944,722	151,912,433	147,715,247
Earnings per unit - basic	\$0.06	\$ 0.05	\$0.11	\$ 0.09
Earnings per unit - diluted	\$0.06	\$ 0.05	\$0.11	\$ 0.09

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Note 15. Subsequent Events

In July 2017, the Trust completed a follow-on public offering of 21,500,000 common shares, including 1,500,000 common shares issued upon partial exercise of the underwriters' option to purchase additional shares, resulting in net proceeds to it of approximately \$420.3 million. The Trust contributed the net proceeds of this offering to the Operating Partnership in exchange for 21,500,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under its unsecured revolving credit facility and for general corporate purposes, including working capital and funding acquisitions.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our unaudited consolidated financial statements, including the notes to those statements, included in Part I, Item 1 of this report, and the Section entitled "Cautionary Statement Regarding Forward-Looking Statements" in this report. As discussed in more detail in the Section entitled "Cautionary Statement Regarding Forward-Looking Statements," this discussion contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause those differences include those discussed in Part II, Item 1A (Risk Factors) of this report, and Part I, Item 1A (Risk Factors) of our Annual Report, and Part II, Item 1A (Risk Factors) of our First Quarterly Report.

Overview

We are a self-managed healthcare real estate company organized in April 2013 to acquire, selectively develop, own, and manage healthcare properties that are leased to physicians, hospitals, and healthcare delivery systems. We invest in real estate that is integral to providing high quality healthcare services. Our properties are typically located on a campus with a hospital or other healthcare facilities or strategically located and affiliated with a hospital or other healthcare facilities. We believe the impact of government programs and continuing trends in the healthcare industry create attractive opportunities for us to invest in healthcare related real estate. In particular, we believe the demand for healthcare will continue to increase as a result of the aging population as older persons generally utilize healthcare services at a rate well in excess of younger people. Our management team has significant public healthcare REIT experience and has long established relationships with physicians, hospitals, and healthcare delivery system decision makers that we believe will provide quality investment and growth opportunities. Our principal investments include medical office buildings, outpatient treatment facilities, acute and post-acute care hospitals, as well as other real estate integral to health care providers. We seek to invest in stabilized medical facility assets with initial cash yields of 5.0% to 9.0%, although we may invest in other medical facility assets with initial cash yields outside of this range. We seek to generate attractive risk-adjusted returns for our shareholders through a combination of stable and increasing dividends and potential long-term appreciation in the value of our properties and our common shares.

We have grown our portfolio of gross real estate investments from approximately \$124 million at the time of our IPO in July 2013 to approximately \$3.8 billion as of June 30, 2017. Since the date of our IPO through to June 30, 2017, our compounded annual growth rate was 140%. While we expect to continue to grow through property acquisitions and investments as our asset base continues to increase, we expect our annual growth rate to decelerate in the future.

As of June 30, 2017, our portfolio consisted of 262 properties located in 30 states with approximately 12,596,009 net leasable square feet, which were approximately 96.3% leased with a weighted average remaining lease term of approximately 8.5 years. As of June 30, 2017, approximately 80.2% of the net leasable square footage of our portfolio was affiliated with a healthcare delivery system or located within approximately 1/4 mile of a hospital campus. We expect to acquire between \$1.2 billion and \$1.4 billion of real estate during 2017, including the 2017 acquisitions described in this report, subject to favorable capital market conditions.

We receive a cash rental stream from these healthcare providers under our leases. Approximately 90.8% of the annualized base rent payments from our properties as of June 30, 2017 are from triple-net leases, pursuant to which the tenants are responsible for all operating expenses relating to the property, including but not limited to real estate taxes, utilities, property insurance, routine maintenance and repairs, and property management. This structure helps insulate us from increases in certain operating expenses and provides more predictable cash flow. Approximately 6.9% of the annualized base rent payments from our properties as of June 30, 2017 are from modified gross base stop leases which allow us to pass through certain increases in future operating expenses (e.g., property tax and insurance) to tenants for reimbursement, thus protecting us from increases in such operating expenses.

We seek to structure our triple-net leases to generate attractive returns on a long-term basis. Our leases typically have initial terms of 5 to 15 years and include annual rent escalators of approximately 1.5% to 3.0%. Our operating results depend significantly upon the ability of our tenants to make required rental payments. We believe that our portfolio of medical office buildings and other healthcare facilities will enable us to generate stable cash flows over time because of the diversity of our tenants, staggered lease expiration schedule, long-term leases, and low historical occurrence of tenants defaulting under their leases. As of June 30, 2017, leases representing 1.2%, 3.8%, and 4.3% of leasable square feet in our portfolio will expire in 2017, 2018, and 2019, respectively.

We intend to grow our portfolio of high-quality healthcare properties leased to physicians, hospitals, healthcare delivery systems and other healthcare providers primarily through acquisitions of existing healthcare facilities that provide

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stable revenue growth and predictable long-term cash flows. We may also selectively finance the development of new healthcare facilities through joint venture or fee arrangements with premier healthcare real estate developers. Generally, we only expect to make investments in new development properties when approximately 70% or more of the development property has been pre-leased before construction commences. We seek to invest in properties where we can develop strategic alliances with financially sound healthcare providers and healthcare delivery systems that offer need-based healthcare services in sustainable healthcare markets. We focus our investment activity on the following types of healthcare properties:

- medical office buildings;
 - outpatient treatment and diagnostic facilities;
- physician group practice clinics;
- ambulatory surgery centers; and
- specialty hospitals and treatment centers.

We believe that shifting consumer preferences, limited space in hospitals, the desire of patients and healthcare providers to limit non-essential services provided in a hospital setting, and cost considerations, among other trends, continue to drive the industry trend of performing procedures in outpatient facilities that have traditionally been performed in hospitals, such as surgeries and other invasive medical procedures. As these trends continue, we believe that demand for medical office buildings and similar healthcare properties will continue to rise, and that our investment strategy accounts for these trends.

We may invest opportunistically in life science facilities, assisted living, and independent senior living facilities and in the longer term, senior housing properties, including skilled nursing. Consistent with our qualification as a REIT, we may also opportunistically invest in companies that provide healthcare services, and in joint venture entities with operating partners, structured to comply with the REIT Investment Diversification Act of 2007 (“RIDEA”).

In each of December 2015, December 2016, March 2017 and June 2017, the U.S. Federal Reserve raised its benchmark interest rate by a quarter of a percentage point, and we expect interest rates to continue to rise at a measured pace. In addition, in the latter part of 2016, U.S. government bond prices fell significantly, which is generally inversely correlated with rising interest rates. An increase in interest rates will affect our cost of borrowing (including with respect to our currently outstanding debt not subject to a fixed interest rate) and could adversely affect our business, our financial results and our ability to complete property acquisitions.

The Trust is a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes. We conduct our business through an UPREIT structure in which our properties are owned by our Operating Partnership directly or through limited partnerships, limited liability companies or other subsidiaries. The Trust is the sole general partner of our Operating Partnership and, as of June 30, 2017, owned approximately 96.7% of the OP Units. As of July 31, 2017, we have 179,192,604 common shares outstanding.

Key Transactions in Second Quarter 2017

Investment Activity

During the three months ended June 30, 2017, we completed acquisitions of 13 operating healthcare properties located in 9 states for an aggregate purchase price of approximately \$581.9 million (which includes our investments in the Baylor Charles A. Sammons Cancer Center, the St. Vincent MOBs and Tranche 1 of the 2017 CHI Portfolio). In addition, we completed \$6.3 million of loan transactions, resulting in total investment activity of approximately \$588.2 million. Acquisitions are detailed in Note 3 (Acquisitions and Dispositions) to our consolidated financial

statements included in Item 1 of this report, and the 2017 CHI Portfolio is discussed below.

On April 7, 2017, we sold four medical office buildings, representing an aggregate 80,292 square feet, in Georgia for approximately \$18.2 million and recognized a gain on the sale of approximately \$5.3 million. Due to our adoption of Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (“ASU 2014-08”), which raises the threshold for disposals to qualify as discontinued operations, we did not report this disposition as a discontinued operation.

Pending Acquisitions

We have entered into definitive agreements, made directly or indirectly through subsidiaries of our Operating Partnership, to acquire 8 healthcare properties in 6 states, comprising approximately 763,554 net leasable square feet, for an aggregate purchase price of approximately \$280.2 million. Each pending acquisition is subject to customary closing conditions

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and there can be no assurance we will complete any of these transactions or acquire any of these buildings. Certain of the pending healthcare properties acquisitions are discussed below.

Northside MOBs

Certain subsidiaries of our Operating Partnership entered into three separate purchase and sale agreements (the “Northside Agreements”), with Northside Hospital, Inc. (“Northside”), each dated June 15, 2017. Two of the Northside Agreements are for the purchase of one medical office building (the “Towne Lake MOB”) and a property that includes two medical office towers (the “Center Pointe Towers” and together with the Towne Lake MOB, the “Northside MOBs”). The third Northside Agreement is for the sale and lease-back of certain land that comprises the Peachtree Dunwoody Medical Center (the “Peachtree Land”), located in Atlanta, Georgia.

The Northside MOBs comprise approximately 466,151 net leasable square feet for an aggregate purchase price of approximately \$194.0 million, subject to closing prorations and other adjustments. The Northside MOBs are 99.6% leased and the weighted average lease term, including new extensions negotiated directly with Northside, is 8.3 years, with 302,204 square feet leased to Northside. Upon closing of the Northside MOBs, the first year unlevered cash yield is expected to be 4.7%.

Northside has certain rights of first refusal to acquire the Northside MOBs pursuant to the terms and conditions of the leases with the current owners of each Northside MOB. Such rights of first refusal have been triggered under the leases.

The Northside Agreements contain customary representations, warranties and covenants of the parties. The closing of each of the transactions described above are subject to certain conditions to closing, including that Northside has exercised its right of first refusal and acquired the Northside MOBs and each of the transactions must occur simultaneously pursuant to the terms of the Northside Agreements. Assuming the satisfaction or waiver of all other outstanding contingencies, the acquisition is anticipated to occur in the third quarter of 2017. There can be no assurance that any or all of the conditions to closing will be satisfied or, if satisfied, that we will complete the acquisition of one or more of the Northside MOBs, or the timing of any such closings.

2017 CHI Portfolio

Our Operating Partnership entered into two separate purchase and sale agreements (the “CHI Purchase Agreements”), each dated May 8, 2017 and subsequently amended on June 26, 2017, with certain subsidiaries and affiliates of Catholic Health Initiatives (“CHI”), to acquire 13 medical office facilities located in six states, comprising approximately 676,745 net leasable square feet for an aggregate purchase price of approximately \$157.1 million, subject to closing prorations and other adjustments (the “2017 CHI Portfolio”). The 2017 CHI Portfolio is 98.8% leased and the weighted average lease term remaining is 9.3 years. Approximately \$9.9 million, or 92.8%, of the first year in place net operating income of \$10.7 million will be represented by new 10-year leases with certain subsidiaries and affiliates of CHI as described in more detail below.

Upon closing of both tranches of the 2017 CHI Portfolio, the first year unlevered cash yield is expected to be 6.8% prior to anticipated expenses incurred for future capital improvements. An additional \$5.7 million in capital improvements is expected to be funded over the next five years for these facilities.

On June 29, 2017, we completed the acquisition of eight properties located in Arkansas, Minnesota, Nebraska, North Dakota, Tennessee, and Texas, comprising approximately 492,338 net leasable square feet, for an aggregate purchase price of approximately \$124.2 million (“Tranche 1”).

The CHI Purchase Agreements contain customary representations, warranties and covenants of the parties. The acquisition of five of the 13 properties included in the 2017 CHI Portfolio located in Arkansas, Minnesota, Nebraska, and Texas, comprising approximately 184,407 net leasable square feet, for an aggregate purchase price of approximately \$32.9 million (“Tranche 2”) are subject to the satisfaction of certain conditions to closing, including receipt of approval of the Catholic Health Care Federation (“CHCF”). If CHCF does not approve of the sale of the Tranche 2 properties, the applicable CHI Purchase Agreement will terminate with respect to those properties and the Operating Partnership will receive a refund of amounts previously deposited. Assuming the satisfaction or waiver of all other outstanding contingencies, the closing of the Tranche 2 properties is anticipated to occur promptly following the date on which approval of CHCF is obtained, or at such other times as the parties may agree, which is anticipated to occur in the third quarter of 2017. While the Company expects that it will be successful in obtaining CHCF approval, no assurances can be provided as to the certainty or timing of such approval.

At closing of the Tranche 2 properties, we expect to enter into new ground leases with affiliates of CHI with respect to 4 of the Tranche 2 properties in the 2017 CHI Portfolio. Each of the new ground leases with CHI affiliates will have an initial

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49-year term with three 10-year extension options. Certain subsidiaries and affiliates of CHI currently occupy a substantial portion of the 2017 CHI Portfolio space and, upon closing of the entire 2017 CHI Portfolio, we expect to enter into a total of 12 new leases with CHI affiliates, each with an initial 10-year term and 2.5% annual rent increases, and one new lease with a CHI affiliate for a 5-year term and 2.5% annual rent increases. In addition, each new lease grants the applicable tenant a right of first offer, exercisable within 30 days of receipt of notice from us, to lease any newly-vacated space in the applicable building, or to purchase any interest in the property that we may seek to sell, as applicable. In aggregate, subsidiaries and affiliates of CHI will occupy approximately 628,280 square feet, or approximately 92.8% of the total square footage in the 2017 CHI Portfolio, with 411,090 square feet of this space represented by single-tenant properties leased to CHI affiliates.

There can be no assurance that any or all of the conditions to closing, including CHCF approval, will be satisfied or, if satisfied, that the Company will complete the acquisition of one or more of the Tranche 2 properties comprising the 2017 CHI Portfolio, or the timing of any such closings.

Assets Slated for Disposition

We consider six properties, representing 260,131 square feet of gross leasable area, to be slated for disposition as of June 30, 2017. These assets consist of five assets affiliated with Foundation Healthcare, Inc. (OTC: FDNH) ("Foundation Healthcare") and one medical office building in Michigan from our legacy portfolio which is currently subject to an executed purchase and sale agreement.

Each of the five Foundation Healthcare assets has operated continuously during 2017, resulting in the successful collection of rent on a monthly basis from various tenants and subtenants at each respective property. These collections include the collection of full contractual rent for four consecutive months at a surgical hospital located in El Paso, Texas and the agreement to repay the majority of past-due rent and expenses at two San Antonio, Texas properties, which have paid rent for every month of 2017. While the Foundation Healthcare medical office building located in Oklahoma City, Oklahoma is no longer subject to an executed purchase and sale agreement, we have entered into a ten year, absolute net lease for this facility, and the asset remains slated for disposition as of June 30, 2017.

While we cannot make any assurance that any or all of the Foundation Healthcare assets will be sold, we continue to receive interest from various parties in acquiring each respective asset, and have determined that no further reserves for prior uncollected revenue are required at this time, nor are any impairments to the book value of these assets required as of June 30, 2017.

Other Recent Developments

Quarterly Distribution

On June 12, 2017, we announced that our Board of Trustees authorized and declared a cash distribution of \$0.230 per common share for the quarterly period ended June 30, 2017, an increase of \$0.005 per common share and OP Unit over the previous quarter. The distribution was paid on July 18, 2017 to common shareholders and OP Unit holders of record as of the close of business on July 3, 2017.

Follow-on Public Offering

In July 2017, the Trust completed a follow-on public offering of 21,500,000 common shares, including 1,500,000 common shares issued upon partial exercise of the underwriters' option to purchase additional shares, resulting in net proceeds to it of approximately \$420.3 million. The Trust contributed the net proceeds of this offering to the

Operating Partnership in exchange for 21,500,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under its unsecured revolving credit facility and for general corporate purposes, including working capital and funding acquisitions.

Components of Our Revenues, Expenses, and Cash Flow

Revenues

Revenues consist primarily of the rental revenues and property operating expense recoveries we collect from tenants pursuant to our leases. Additionally, we recognize certain cash and non-cash revenues. These cash and non-cash revenues are highlighted below.

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Rental revenues. Rental revenues represent rent under existing leases that is paid by our tenants, straight-lining of contractual rents and below-market lease amortization reduced by lease inducements and above-market lease amortization.

Expense recoveries. Certain of our leases require our tenants to make estimated payments to us to cover their proportional share of operating expenses, including but not limited to real estate taxes, property insurance, routine maintenance and repairs, utilities, and property management expenses. We collect these estimated expenses and are reimbursed by our tenants for any actual expenses in excess of our estimates or reimburse tenants if our collected estimates exceed our actual operating expenses. The net reimbursed operating expenses are included in revenues as expense recoveries.

We have certain tenants with absolute net leases. Under these lease agreements, the tenant is responsible for operating and building expenses. For absolute net leases, we do not recognize operating expense or expense recoveries.

Interest income on real estate loans and other. Represents interest income on mezzanine loans, term loans, notes receivable, income generated on tenant improvements, changes in the fair value of derivative instruments, and other. Interest income on the loans are recognized as earned based on the terms of the loans subject to evaluation of collectability risks.

Expenses

Expenses consist primarily of interest expense, general and administrative costs associated with operating our properties, operating expenses of our properties, depreciation and amortization, and costs we incur to acquire properties.

Interest expense. We recognize the interest expense we incur on our borrowings as interest expense. Additionally, we incur amortization expense for charges such as legal fees, commitment fees, and arrangement fees that reflect costs incurred with arranging certain debt financings. We generally recognize these costs over the term of the respective debt instrument for which the costs were incurred as a component of interest expense.

General and administrative. General and administrative expenses include certain expenses such as compensation, accounting, legal, and other professional fees as well as certain other administrative and travel costs, and expenses related to bank charges, franchise taxes, corporate filing fees, exchange listing fees, officer and trustee insurance costs, and other costs associated with being a public company.

Operating Expenses. Operating expenses include property operating expenses such as real estate taxes, property insurance, routine maintenance and repairs, utilities, and third party property management expenses, some of which are reimbursed to us by tenants under the terms of triple net and modified gross base stop leases.

Depreciation and amortization. We incur depreciation and amortization expense on all of our long-lived assets. This non-cash expense is designed under generally accepted accounting principles, or GAAP, to reflect the economic useful lives of our assets.

Acquisition expenses. Acquisition costs are costs we incur in pursuing and closing property acquisitions accounted for as business combinations. These costs include legal, accounting, valuation, other professional or consulting fees, and the compensation of certain employees who dedicate substantially all of their time to acquisition related job functions. We account for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received.

Equity in income of unconsolidated entities. We recognize our share of earnings and losses from unconsolidated joint venture investments in Arizona and Louisiana.

Cash Flow

Cash flows from operating activities. Cash flows from operating activities are derived largely from net income by adjusting our revenues for those amounts not collected in cash during the period in which the revenue is recognized and for cash collected that was billed in prior periods or will be billed in future periods. Net income is further adjusted by adding back expenses charged in the period that is not paid for in cash during the same period. We expect to make our distributions based largely from cash provided by operations.

Cash flows from investing activities. Cash flows from investing activities consist of cash that is used during a period for making new investments and capital expenditures, offset by cash provided from sales of real estate investments.

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Cash flows from financing activities. Cash flows from financing activities consist of cash we receive from debt and equity financings. This cash provides the primary basis for investments in new properties and capital expenditures. While we may invest a portion of our cash from operations into new investments, as a result of the distribution requirements to maintain our REIT status, it is likely that additional debt or equity financings will finance the majority of our investment activity. Cash used in financing activities consists of repayment of debt and distributions paid to shareholders and OP Unit holders.

Results of Operations***Three Months Ended June 30, 2017 compared to the three months ended June 30, 2016.***

The following table summarizes our results of operations for the three months ended June 30, 2017 and the three months ended June 30, 2016 (in thousands):

	2017	2016	Change	%
Revenues:				
Rental revenues	\$58,015	\$42,196	\$15,819	37.5 %
Expense recoveries	16,108	9,552	6,556	68.6 %
Interest income on real estate loans and other	2,476	1,468	1,008	68.7 %
Total revenues	76,599	53,216	23,383	43.9 %
Expenses:				
Interest expense	11,472	4,279	7,193	168.1 %
General and administrative	6,249	4,926	1,323	26.9 %
Operating expenses	20,519	13,798	6,721	48.7 %
Depreciation and amortization	28,123	19,799	8,324	42.0 %
Acquisition expenses	5,242	3,256	1,986	61.0 %
Total expenses	71,605	46,058	25,547	55.5 %
Income before equity in income of unconsolidated entities and gain on sale of investment properties:	4,994	7,158	(2,164)	(30.2)%
Equity in income of unconsolidated entities	29	26	3	11.5 %
Gain on sale of investment properties	5,308	—	5,308	NM
Net income	\$10,331	\$7,184	\$3,147	43.8 %

NM = Not Meaningful

Revenues

Total revenues increased \$23.4 million, or 43.9%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. An analysis of selected revenues follows.

Rental revenues. Rental revenues increased \$15.8 million, or 37.5%, from \$42.2 million for the three months ended June 30, 2016 to \$58.0 million for the three months ended June 30, 2017. The increase in rental revenues primarily resulted from our 2017 and 2016 acquisitions in the last twelve months which resulted in additional rental revenue of \$4.0 million and \$16.9 million, respectively. Revenues during the three months ended June 30, 2017 were partially offset by declines in rental income recognized at the Kennewick medical office building located in Kennewick, Washington (the “Kennewick MOB”) of \$4.0 million (including the write-off of previously recognized straight line rent revenue totaling \$2.8 million during the second quarter of 2017) and at certain of our Foundation Healthcare buildings of \$1.0 million.

Expense recoveries. Expense recoveries increased \$6.6 million, or 68.6%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The increase in expense recoveries primarily resulted from our

2017 and 2016 acquisitions which resulted in additional expense recoveries of \$1.3 million and \$5.1 million, respectively.

Interest income on real estate loans and other. Interest income on real estate loans and other increased \$1.0 million, or 68.7%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The increase is attributable to interest earned on the Company's outstanding real estate loans receivable as a result of loan transactions completed during the prior twelve months, as well as interest attributable to mezzanine loan amendments, extensions, and penalties.

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Expenses

Total expenses increased by \$25.5 million, or 55.5%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. An analysis of selected expenses follows.

Interest expense. Interest expense for the three months ended June 30, 2017 was \$11.5 million compared to \$4.3 million for the three months ended June 30, 2016, representing an increase of \$7.2 million, or 168.1%. An increase of \$4.4 million resulted from the issuance of our senior unsecured notes in March. An additional increase of \$1.8 million resulted from our borrowings under the term loan provision of our unsecured credit facility.

General and administrative. General and administrative expenses increased \$1.3 million or 26.9%, from \$4.9 million during the three months ended June 30, 2016 to \$6.2 million during the three months ended June 30, 2017. An increase of \$0.5 million resulted from additional office expenses and an increase of \$0.4 million resulted from additional professional fees.

Operating expenses. Operating expenses increased \$6.7 million or 48.7%, from \$13.8 million during the three months ended June 30, 2016 to \$20.5 million during the three months ended June 30, 2017. The increase is primarily due to our 2016 property acquisitions which resulted in additional operating expenses of \$6.5 million, respectively.

Depreciation and amortization. Depreciation and amortization increased \$8.3 million, or 42.0%, from \$19.8 million during the three months ended June 30, 2016 to \$28.1 million during the three months ended June 30, 2017. The increase is primarily due to our 2017 and 2016 property acquisitions which resulted in additional depreciation and amortization of \$1.8 million and \$6.9 million, respectively, partially offset by reduced depreciation and amortization from prior period acquisitions.

Acquisition expenses. Acquisition expenses increased \$2.0 million, or 61.0%, from \$3.3 million during the three months ended June 30, 2016 to \$5.2 million during the three months ended June 30, 2017. During the three months ended June 30, 2017 and 2016, we acquired \$457.7 million and \$281.7 million, respectively, of real estate that were considered business combinations and as such, the related acquisition costs were expensed, including costs related to properties pursued but not acquired.

Equity in income of unconsolidated entity. The change in equity income from unconsolidated entity for the three months ended June 30, 2017 compared to the three months ended June 30, 2016 is not significant.

Gain on sale of properties. On April 7, 2017, the Trust sold four properties with 80,292 net leasable square feet located in Georgia for approximately \$18.2 million, realizing a gain of \$5.3 million. We did not dispose of any properties during the three months ended June 30, 2016.

Table of Contents***Six months ended June 30, 2017 compared to the six months ended June 30, 2016.***

The following table summarizes our results of operations for the six months ended June 30, 2017 and the six months ended June 30, 2016 (in thousands):

	2017	2016	Change	%
Revenues:				
Rental revenues	\$ 117,107	\$77,051	\$40,056	52.0 %
Expense recoveries	32,462	17,455	15,007	86.0 %
Interest income on real estate loans and other	3,696	2,844	852	30.0 %
Total revenues	153,265	97,350	55,915	57.4 %
Expenses:				
Interest expense	21,287	8,476	12,811	151.1 %
General and administrative	10,985	9,047	1,938	21.4 %
Operating expenses	42,608	24,835	17,773	71.6 %
Depreciation and amortization	56,056	35,809	20,247	56.5 %
Acquisition expenses	10,647	6,633	4,014	60.5 %
Total expenses	141,583	84,800	56,783	67.0 %
Income before equity in income of unconsolidated entities and gain on sale of investment properties:	11,682	12,550	(868)	(6.9)%
Equity in income of unconsolidated entities	57	58	(1)	(1.7)%
Gain on sale of investment properties	5,308	—	5,308	NM
Net income	\$ 17,047	\$ 12,608	\$ 4,439	35.2 %

NM = Not Meaningful

Revenues

Total revenues increased \$55.9 million, or 57.4%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. An analysis of selected revenues follows.

Rental revenues. Rental revenues increased \$40.1 million, or 52.0%, from \$77.1 million for the six months ended June 30, 2016 to \$117.1 million for the six months ended June 30, 2017. The increase in rental revenues primarily resulted from our 2017 and 2016 acquisitions which resulted in additional revenue of \$5.3 million and \$40.9 million, respectively. Revenues during the six months ended June 30, 2017 were partially offset by declines in rental income recognized at the Kennewick MOB of \$4.2 million (including the write-off of previously recognized straight line rent revenue totaling \$2.8 million during the second quarter of 2017) and at certain of our Foundation Healthcare buildings of \$2.5 million.

Expense recoveries. Expense recoveries increased \$15.0 million, or 86.0%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The increase in expense recoveries primarily resulted from our 2017 and 2016 acquisitions which resulted in additional expense recoveries of \$1.6 million and \$12.3 million, respectively.

Interest income on real estate loans and other. Interest income on real estate loans and other increased \$0.9 million, or 30.0%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The increase is attributable to interest earned on the Company's outstanding real estate loans receivable as a result of loan transactions completed during the prior twelve months, as well as interest attributable to mezzanine loan amendments, extensions, and penalties.

Expenses

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Total expenses increased by \$56.8 million, or 67.0%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. An analysis of selected expenses follows.

Interest expense. Interest expense for the six months ended June 30, 2017 was \$21.3 million compared to \$8.5 million for the six months ended June 30, 2016, representing an increase of \$12.8 million, or 151.1%. An increase of \$5.5 million resulted from the issuance of our public senior notes in March 2017, \$3.6 million resulted from borrowings under the term loan provision of our unsecured credit facility, an increase of \$1.7 million resulted from the public senior notes issued in 2016, \$1.2

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million resulted from borrowings under our line of credit from our unsecured credit facility, and an increase of \$0.8 million was the result of an increase in interest on new mortgage debt.

General and administrative. General and administrative expenses increased \$1.9 million or 21.4%, from \$9.0 million during the six months ended June 30, 2016 to \$11.0 million during the six months ended June 30, 2017. An increase of \$0.7 million was from additional office expenses, an additional increase \$0.5 million was from professional fees, and an increase of salaries and benefits was from non-cash share compensation of \$0.4 million.

Operating expenses. Operating expenses increased \$17.8 million or 71.6%, from \$24.8 million during the six months ended June 30, 2016 to \$42.6 million during the six months ended June 30, 2017. The increase is primarily due to our 2016 property acquisitions which resulted in additional operating expenses of \$16.7 million.

Depreciation and amortization. Depreciation and amortization increased \$20.2 million, or 56.5%, from \$35.8 million during the six months ended June 30, 2016 to \$56.1 million during the six months ended June 30, 2017. The increase is due to our 2017 and 2016 property acquisitions which resulted in additional depreciation and amortization of \$2.5 million and \$18.4 million, respectively, partially offset by reduced depreciation and amortization from prior period acquisitions.

Acquisition expenses. Acquisition expenses increased \$4.0 million, or 60.5%, from \$6.6 million during the six months ended June 30, 2016 to \$10.6 million during the six months ended June 30, 2017. During the six month periods ending June 30, 2017 and 2016, we acquired \$667.4 million and \$452.8 million, respectively, of real estate that were considered business combinations and as such, the related acquisition costs were expensed, including costs related to properties pursued but not acquired.

Equity in income of unconsolidated entities. The change in equity income from unconsolidated entities for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 is not significant.

Gain on sale of properties. On April 7, 2017, the Trust sold four properties with 80,292 net leasable square feet located in Georgia for approximately \$18.2 million, realizing a gain of \$5.3 million. We did not dispose of any properties during the six months ended June 30, 2016.

Cash Flows***Six months ended June 30, 2017 compared to the six months ended June 30, 2016.***

	2017	2016
Cash provided by operating activities	\$86,377	\$59,541
Cash used in investing activities	(760,568)	(879,323)
Cash provided by financing activities	670,209	854,584
Increase (decrease) in cash and cash equivalents	\$(3,982)	\$34,802

Cash flows from operating activities. Cash flows provided by operating activities was \$86.4 million during the six months ended June 30, 2017 compared to \$59.5 million during the six months ended June 30, 2016, representing an increase of \$26.9 million. This change is attributable to the increased operating cash flows resulting from our 2017 and 2016 acquisitions.

Cash flows from investing activities. Cash flows used in investing activities was \$760.6 million during the six months ended June 30, 2017 compared to cash flows used in investing activities of \$879.3 million during the six months ended June 30, 2016, representing a change of \$118.8 million. The decrease in cash flows used in investing activities was primarily attributable to our \$115.6 million decrease in cash spent on acquisitions over the prior year.

Cash flows from financing activities. Cash flows provided by financing activities was \$670.2 million during the six months ended June 30, 2017 compared to cash flows provided by financing activities of \$854.6 million during the six months ended June 30, 2016, representing an decrease of \$184.4 million. The 2017 activity was primarily attributable to sales of our common shares, resulting in net proceeds of \$383.7 million, \$488.0 million of proceeds from the credit facility, and \$396.1 million from our issuance of public senior notes. These were partially offset by the \$529.0 million payoff of our revolving credit facility and \$65.5 million of dividends paid.

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Non-GAAP Financial Measures

This report includes Funds From Operations (FFO), Normalized FFO, Normalized Funds Available For Distribution (FAD), Net Operating Income (NOI), Cash NOI, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Adjusted EBITDA, which are non-GAAP financial measures. For purposes of Item 10(e) of Regulation S-K promulgated under the Securities Act, a non-GAAP financial measure is a numerical measure of a company's historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable financial measure calculated and presented in accordance with GAAP in the statement of operations, balance sheet or statement of cash flows (or equivalent statements) of the company, or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable financial measure so calculated and presented. As used in this report, GAAP refers to generally accepted accounting principles in the United States of America. Pursuant to the requirements of Item 10(e) of Regulation S-K promulgated under the Securities Act, we have provided reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

Funds From Operations (FFO) and Normalized FFO

We believe that information regarding FFO is helpful to shareholders and potential investors because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes ratably over time. We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as net income or loss (computed in accordance with GAAP) before noncontrolling interests of holders of OP units, excluding preferred distributions, gains (or losses) on sales of depreciable operating property, impairment write-downs on depreciable assets, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs). Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with NAREIT definition or that interpret the NAREIT definition differently than we do. The GAAP measure that we believe to be most directly comparable to FFO, net income, includes depreciation and amortization expenses, gains or losses on property sales, impairments and noncontrolling interests. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from the operations of our properties. To facilitate a clear understanding of our historical operating results, FFO should be examined in conjunction with net income (determined in accordance with GAAP) as presented in our financial statements. FFO does not represent cash generated from operating activities in accordance with GAAP, should not be considered to be an alternative to net income or loss (determined in accordance with GAAP) as a measure of our liquidity and is not indicative of funds available for our cash needs, including our ability to make cash distributions to shareholders.

We use Normalized FFO, which excludes from FFO net change in fair value of derivative financial instruments, acquisition expenses, acceleration of deferred financing costs, write off contingent consideration, and other normalizing items. However, our use of the term Normalized FFO may not be comparable to that of other real estate companies as they may have different methodologies for computing this amount. Normalized FFO should not be considered as an alternative to net income or loss (computed in accordance with GAAP), as an indicator of our financial performance or of cash flow from operating activities (computed in accordance with GAAP), or as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including its ability to make distributions. Normalized FFO should be reviewed in connection with other GAAP measurements.

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The following is a reconciliation from net income, the most direct financial measure calculated and presented in accordance with GAAP, to FFO and Normalized FFO (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$10,331	\$ 7,184	\$17,047	\$ 12,608
Earnings per share - diluted	\$0.06	\$ 0.05	\$0.11	\$ 0.09
Net income	\$10,331	\$ 7,184	\$17,047	\$ 12,608
Net income attributable to noncontrolling interests - partially owned properties	(159)	(60)	(326)	(377)
Preferred distributions	(188)	(437)	(399)	(985)
Depreciation and amortization expense	28,098	19,778	56,009	35,767
Depreciation and amortization expense - partially owned properties	(129)	(157)	(281)	(352)
Gain on the sale of investment property	(5,308)	—	(5,308)	—
FFO applicable to common shares and OP Units	\$32,645	\$ 26,308	\$66,742	\$ 46,661
FFO per common share and OP Unit	\$0.20	\$ 0.19	\$0.44	\$ 0.38
Net change in fair value of derivative	4	(27)	169	(67)
Acquisition expenses	5,242	3,256	10,647	6,633
Write-off of contingent consideration	—	—	(70)	—
Normalized FFO applicable to common shares and OP Units	\$37,891	\$ 29,537	\$77,488	\$ 53,227
Normalized FFO per common share and OP Unit	\$0.24	\$ 0.22	\$0.51	\$ 0.44

Weighted average number of common shares and OP Units outstanding 161,012,360 155,944,722 151,912,432 151,575,247

Normalized Funds Available for Distribution (FAD)

We define Normalized FAD, a non-GAAP measure, which excludes from Normalized FFO non-cash share compensation expense, straight-line rent adjustments, amortization of acquired above or below market leases and assumed debt, amortization of lease inducements, amortization of deferred financing costs, and recurring capital expenditures related to tenant improvements and leasing commissions, and includes cash payments from seller master leases and rent abatement payments. Other REITs or real estate companies may use different methodologies for calculating Normalized FAD, and accordingly, our computation may not be comparable to those reported by other REITs. Although our computation of Normalized FAD may not be comparable to that of other REITs, we believe Normalized FAD provides a meaningful supplemental measure of our performance due to its frequency of use by analysts, investors, and other interested parties in the evaluation of our performance as a REIT. Normalized FAD should not be considered as an alternative to net income or loss attributable to controlling interest (computed in accordance with GAAP) or as an indicator of our financial performance. Normalized FAD should be reviewed in connection with other GAAP measurements.

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The following is a reconciliation from Normalized FFO to Normalized FAD (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$10,331	\$7,184	\$17,047	\$12,608
Normalized FFO applicable to common shares and OP Units	\$37,891	\$29,537	\$77,488	\$53,227
Normalized FFO applicable to common shares and OP Units	\$37,891	\$29,537	\$77,488	\$53,227
Non-cash share compensation expense	1,324	1,156	2,390	1,971
Straight-line rent adjustments	(2,097)	(4,019)	(6,605)	(7,204)
Amortization of acquired above/below market leases/assumed debt	844	767	1,782	1,512
Amortization of lease inducements	311	201	621	359
Amortization of deferred financing costs	579	499	1,128	947
TI/LC and recurring capital expenditures	(4,865)	(1,423)	(8,078)	(3,301)
Seller master lease and rent abatement payments	244	253	498	523
Normalized FAD applicable to common shares and OP Units	\$34,231	\$26,971	\$69,224	\$48,034

Net Operating Income (NOI) and Cash NOI

NOI is a non-GAAP financial measure that is defined as net income or loss, computed in accordance with GAAP, generated from our total portfolio of properties before general and administrative expenses, acquisition expenses, depreciation and amortization expense, interest expense, net change in the fair value of derivative financial instruments, gain or loss on the sale of investment properties, and impairment losses. We believe that NOI provides an accurate measure of operating performance of our operating assets because NOI excludes certain items that are not associated with management of the properties. Our use of the term NOI may not be comparable to that of other real estate companies as they may have different methodologies for computing this amount.

Cash NOI is a non-GAAP financial measure which excludes from NOI straight-line rent adjustments, amortization of acquired above and below market leases, and other non-cash and normalizing items. Other non-cash and normalizing items include items such as the amortization of lease inducements, payments received from seller master leases and rent abatements, and write-offs of contingent consideration. We believe that Cash NOI provides an accurate measure of the operating performance of our operating assets because it excludes certain items that are not associated with management of the properties. Additionally, we believe that Cash NOI is a widely accepted measure of comparative operating performance in the real estate community. Our use of the term Cash NOI may not be comparable to that of other real estate companies as such other companies may have different methodologies for computing this amount.

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The following is a reconciliation from the Trust's net income, the most direct financial measure calculated and presented in accordance with GAAP, to NOI, and Cash NOI (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$10,331	\$7,184	\$17,047	\$12,608
General and administrative	6,249	4,926	10,985	9,047
Acquisition expenses	5,242	3,256	10,647	6,633
Depreciation and amortization	28,123	19,799	56,056	35,809
Interest expense	11,472	4,279	21,287	8,476
Net change in the fair value of derivative	4	(27)	169	(67)
Gain on sale of investment properties	(5,308)	—	(5,308)	—
NOI	\$56,113	\$39,417	\$110,883	\$72,506
NOI	\$56,113	\$39,417	\$110,883	\$72,506
Straight-line rent adjustments	(2,097)	(4,019)	(6,605)	(7,204)
Amortization of acquired above/below market leases	844	826	1,782	1,571
Amortization of lease inducements	311	201	621	359
Seller master lease and rent abatement payments	244	253	498	523
Write-off of contingent consideration	—	—	(70)	—
Cash NOI	\$55,415	\$36,678	\$107,109	\$67,755

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Adjusted EBITDA

We define EBITDA as net income or loss computed in accordance with GAAP plus depreciation and amortization, interest expense, and net change in the fair value of derivative financial instruments. We define Adjusted EBITDA as net income or loss computed in accordance with GAAP plus depreciation and amortization, interest expense, net change in the fair value of derivative financial instruments, acquisition expenses, non-cash share compensation expense, and other normalizing items. We consider EBITDA and Adjusted EBITDA important measures because they provide additional information to allow management, investors, and our current and potential creditors to evaluate and compare our core operating results and our ability to service debt.

The following is a reconciliation from the Trust's net income, the most direct financial measure calculated and presented in accordance with GAAP, to EBITDA and Adjusted EBITDA (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$10,331	\$7,184	\$17,047	\$12,608
Depreciation and amortization	28,123	19,799	56,056	35,809
Interest expense	11,472	4,279	21,287	8,476
Net change in fair value of derivatives	4	(27)	169	(67)
EBITDA	\$49,930	\$31,235	\$94,559	\$56,826
Acquisition expenses	5,242	3,256	10,647	6,633
Non-cash share compensation expense	1,324	1,156	2,390	1,971
Write-off of contingent consideration	—	—	(70)	—
Adjusted EBITDA	\$56,496	\$35,647	\$107,526	\$65,430

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Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of operating and interest expenses and other expenditures directly associated with our properties, including:

- property expenses;
- interest expense and scheduled principal payments on outstanding indebtedness;
- general and administrative expenses; and
- capital expenditures for tenant improvements and leasing commissions.

In addition, we will require funds for future distributions expected to be paid to our common shareholders and OP Unit holders in our Operating Partnership.

As of June 30, 2017, we had a total of \$11.5 million of cash and cash equivalents and \$472.9 million of near-term availability on our unsecured revolving credit facility. Our primary sources of cash include rent we collect from our tenants, borrowings under our unsecured credit facility, and financings of debt and equity securities. We believe that our existing cash and cash equivalents, cash flow from operating activities, and borrowings available under our unsecured revolving credit facility will be adequate to fund any existing contractual obligations to purchase properties and other obligations through the next twelve months. However, because of the 90% distribution requirement under the REIT tax rules under the Code, we may not be able to fund all of our future capital needs from cash retained from operations, including capital needed to make investments and to satisfy or refinance maturing obligations. As a result, we expect to rely upon external sources of capital, including debt and equity financing, to fund future capital needs. If we are unable to obtain needed capital on satisfactory terms or at all, we may not be able to make the investments needed to expand our business or to meet our obligations and commitments as they mature. We will rely upon external sources of capital to fund future capital needs, and, if we encounter difficulty in obtaining such capital, we may not be able to make future acquisitions necessary to grow our business or meet maturing obligations.

Our long-term liquidity needs consist primarily of funds necessary to pay for acquisitions, recurring and non-recurring capital expenditures and scheduled debt maturities. We expect to satisfy our long-term liquidity needs through cash flow from operations, unsecured borrowings, issuances of equity and debt securities, and, in connection with acquisitions of additional properties, the issuance of OP Units of our Operating Partnership, and proceeds from select property dispositions and joint venture transactions.

Our ability to access capital in a timely and cost-effective manner is essential to the success of our business strategy as it affects our ability to satisfy existing obligations, including repayment of maturing indebtedness, and to make future investments and acquisitions. Factors such as general market conditions, interest rates, credit ratings on our debt and equity securities, expectations of our potential future earnings and cash distributions, and the trading price of our common shares, each of which are beyond our control and vary or fluctuate over time, all impact our access to and cost of capital. In particular, to the extent interest rates continue to rise, we may experience a decline in the trading price of our common shares, which may impact our decision to conduct equity offerings for capital raising purposes. We will likely also experience higher borrowing costs as interest rates rise, which may also impact our decisions to incur additional indebtedness, or to engage in transactions for which we may need to fund through borrowing.

We expect to continue to utilize equity and debt financings to support our future growth and investment activity. For the six months ended June 30, 2017, we raised approximately \$396.1 million in net proceeds from a public offering of senior unsecured notes, and approximately \$300.8 million in net proceeds from a follow-on public offering of

17,250,000 common shares of beneficial interest. On June 28, 2017, we launched a follow-on public offering of 21,500,000 common shares of beneficial interest. The transaction closed subsequent to the quarter and is further detailed in Note 15 (Subsequent Events).

We also continuously evaluate opportunities to finance future investments. New investments are generally funded from temporary borrowings under our primary unsecured credit facility and the proceeds from financing transactions such as those discussed above. Our investments generate cash from net operating income and principal payments on loans receivable. Permanent financing for future investments, which generally replaces funds drawn under our primary unsecured credit facility, has historically been provided through a combination of the issuance of debt and equity securities and the incurrence or assumption of secured debt.

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We intend to invest in additional properties as suitable opportunities arise and adequate sources of financing are available. We currently are evaluating additional potential investments consistent with the normal course of our business. There can be no assurance as to whether or when any portion of these investments will be completed. Our ability to complete investments is subject to a number of risks and variables, including our ability to negotiate mutually agreeable terms with sellers and our ability to finance the investment. We may not be successful in identifying and consummating suitable acquisitions or investment opportunities, which may impede our growth and negatively affect our results of operations and may result in the use of a significant amount of management resources. We expect that future investments in properties will depend on and will be financed by, in whole or in part, our existing cash, borrowings, including under our unsecured revolving credit facility or the proceeds from additional issuances of equity or debt securities.

While we intend to sell the six assets slated for disposition for other business reasons, we currently do not expect to sell any of our properties to meet our liquidity needs, although we may do so in the future.

We currently are in compliance with all debt covenants in our outstanding indebtedness.

Credit Facility

On June 10, 2016, the Operating Partnership, as borrower, and the Trust entered into an amended and restated Credit Agreement with KeyBank National Association, as administrative agent, KeyBanc Capital Markets Inc., BMO Capital Markets, and Citizens Bank N.A., as joint lead arrangers and co-book runners, BMO Capital Markets and Citizens Bank N.A., as co-syndication agents, and the lenders party thereto (the “Credit Agreement”) which increased the maximum principal amount available under an unsecured revolving credit facility from \$750 million to \$850 million. The Credit Agreement contains a 7-year term loan feature allowing us to borrow in a single drawing up to \$250 million, increasing the borrowing capacity to an aggregate \$1.1 billion. The Credit Agreement also includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing us to increase borrowing capacity by up to an additional \$500 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of \$1.6 billion.

On July 7, 2016, the Operating Partnership borrowed \$250.0 million under the 7-year term loan feature of the Credit Agreement. Borrowings under the term loan feature of the Credit Agreement bear interest on the outstanding principal amount at a rate which is determined by the Trust’s credit rating, currently equal to LIBOR + 1.80%. The Trust simultaneously entered into a pay-fixed receive-variable rate swap for the full borrowing amount, fixing the LIBOR component of the borrowing rate to 1.07%, for an all-in fixed rate of 2.87%. Both the borrowing and pay-fixed receive-variable swap have a maturity date of June 10, 2023.

The Credit Agreement has a maturity date of September 18, 2020 and includes a one year extension option. Borrowings under the Credit Agreement bear interest on the outstanding principal amount at an adjusted LIBOR rate, which is based on the Trust’s investment grade rating under the Credit Agreement. As of June 30, 2017, the Trust had an investment grade rating from Moody’s of Baa3 and as such, borrowings under the revolving credit facility of the Credit Agreement accrued interest on the outstanding principal at a rate of LIBOR plus 1.20%. The Credit Agreement includes a facility fee equal to 0.25% per annum, which is also determined by the Trust’s investment grade rating.

The Credit Agreement contains financial covenants that, among other things, require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as covenants that may limit our ability to incur additional debt or make distributions. We may, at any time, voluntarily prepay any revolving or swingline loan under the Credit Agreement in whole or in part without premium or penalty. Prepayments of term borrowings require payment of premiums of up to 2.0% of the amount of prepayment, dependent on date of such prepayment. As of June 30, 2017, we were in compliance with all financial covenants.

The Credit Agreement includes customary representations and warranties by us and imposes customary covenants on us. The Credit Agreement also contains customary events of default, and if an event of default occurs and continues, the Operating Partnership is subject to certain actions by the administrative agent, including without limitation, the acceleration of repayment of all amounts outstanding under the Credit Agreement.

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The Credit Agreement provides for revolving credit and term loans to the Operating Partnership. Base Rate Loans, Adjusted LIBOR Rate Loans, and Letters of Credit (each, as defined in the Credit Agreement) will be subject to interest rates, based upon the Trust's investment grade rating as follows:

Credit Rating	Margin for Revolving Loans: Adjusted LIBOR Rate Loans and Letter of Credit Fee	Margin for Revolving Loans: Base Rate Loans	Margin for Term Loans: Adjusted LIBOR Rate Loans and Letter of Credit Fee	Margin for Term Loans: Base Rate Loans
At Least A- or A3	LIBOR + 0.85%	— %	LIBOR + 1.40%	0.40 %
At Least BBB+ or BAA1	LIBOR + 0.90%	— %	LIBOR + 1.45%	0.45 %
At Least BBB or BAA2	LIBOR + 1.00%	0.10 %	LIBOR + 1.55%	0.55 %
At Least BBB- or BAA3	LIBOR + 1.20%	0.20 %	LIBOR + 1.80%	0.80 %
Below BBB- or BAA3	LIBOR + 1.55%	0.60 %	LIBOR + 2.25%	1.25 %

As of June 30, 2017, there were \$360.0 million borrowings outstanding under our unsecured revolving credit facility and \$472.9 million available for us to borrow without adding additional properties to the unencumbered borrowing base of assets, as defined by the Credit Agreement.

Senior Notes

On March 7, 2017, the Operating Partnership issued \$400.0 million in aggregate principal amount of its 4.30% Senior Notes due March 15, 2027 (the "2027 Senior Notes") in a public offering (the "Debt Offering") through underwriters for whom J.P. Morgan Securities LLC, Credit Agricole Securities (USA) Inc. and Jefferies LLC acted as representatives (the "Representatives") pursuant to an underwriting agreement, dated March 2, 2017 (the "Underwriting Agreement"), among the Operating Partnership, the Trust and the Representatives. The Underwriting Agreement contains customary representations, warranties and agreements by the Operating Partnership and the Trust, customary conditions to closing, indemnification obligations of the Operating Partnership, the Trust and the underwriters, including for liabilities under the Securities Act, other obligations of the parties and termination provisions.

The 2027 Senior Notes were registered under the Securities Act on the Trust's and the Operating Partnership's automatic shelf registration statement on Form S-3ASR (File No. 333-216214), filed with the Commission on February 24, 2017.

The 2027 Senior Notes are the senior unsecured indebtedness of the Operating Partnership and rank equally in right of payment with all of the Operating Partnership's existing and future senior unsecured indebtedness. As a result, the 2027 Senior Notes effectively are subordinated in right of payment to all of the Operating Partnership's existing and future secured indebtedness (to the extent of the value of the collateral securing such indebtedness), and all mortgages, preferred equity and indebtedness and other liabilities, whether secured or unsecured, of the Operating Partnership's subsidiaries. The Operating Partnership's obligations under the 2027 Senior Notes are fully and unconditionally guaranteed by the Trust.

The 2027 Senior Notes began accruing interest on March 7, 2017 and will pay interest semi-annually beginning September 15, 2017. The 2027 Senior Notes were sold at an issue price of 99.68% of their face value, before the underwriters' discount. Our net proceeds from the offering, after deducting underwriting discounts and expenses, were approximately \$396.1 million. We used the net proceeds of the Debt Offering to repay a portion of the outstanding indebtedness under our unsecured revolving credit facility and for general corporate purposes, including working capital and funding acquisitions.

The 2027 Senior Notes are subject to customary events of default, which may result in the accelerated maturity of the 2027 Senior Notes.

As of June 30, 2017, we had \$625.0 million aggregate principal amount of senior notes issued and outstanding by the Operating Partnership, as follows: (i) \$15.0 million aggregate principal amount of 4.03% Senior Notes, Series A, due January 7, 2023, (ii) \$45.0 million aggregate principal amount of 4.43% Senior Notes, Series B, due January 7, 2026, (iii) \$45.0 million aggregate principal amount of 4.57% Senior Notes, Series C, due January 7, 2028, (iv) \$45.0 million aggregate principal amount of 4.74% Senior Notes, Series D, due January 7, 2031, (v) \$25.0 million aggregate principal amount of 4.09% Senior Notes, Series A, due August 11, 2025, (vi) \$25.0 million aggregate principal amount of 4.18% Senior Notes, Series B, due August 11, 2026, (vii) \$25.0 million aggregate principal amount of 4.24% Senior Notes, Series C, due August 11, 2027, and (viii) \$400.0 million aggregate principal amount of 4.30% Senior Notes, due March 15, 2027.

The note agreements covering the notes (other than the 2027 Senior Notes) contain covenants that are substantially similar to those contained in the Credit Agreement, including financial covenants that require compliance with leverage and

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coverage ratios and maintenance of minimum tangible net worth, as well as other affirmative and negative covenants that may limit, among other things, our ability to incur additional debt, make distributions or investments, incur liens and sell, transfer or dispose of assets. The note agreements also include customary representations and warranties and customary events of default substantially similar to those contained in the Credit Agreement.

Follow-on Equity Offerings

On March 17, 2017, the Trust completed a follow-on public offering of 17,250,000 common shares of beneficial interest, including 2,250,000 common shares issued upon exercise of the underwriters' overallotment option, resulting in net proceeds to it of approximately \$300.8 million. The Trust contributed the net proceeds of this offering to the Operating Partnership in exchange for 17,250,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under its unsecured revolving credit facility and for general corporate purposes, including working capital and funding acquisitions.

In July 2017, the Trust completed a follow-on public offering of 21,500,000 common shares, including 1,500,000 common shares issued upon partial exercise of the underwriters' option to purchase additional shares, resulting in net proceeds to it of approximately \$420.3 million. The Trust contributed the net proceeds of this offering to the Operating Partnership in exchange for 21,500,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under its unsecured revolving credit facility and for general corporate purposes, including working capital and funding acquisitions.

ATM Program

On August 5, 2016, the Trust and the Operating Partnership entered into separate At Market Issuance Sales Agreements (the "Sales Agreements") with each of KeyBanc Capital Markets Inc., Credit Agricole Securities (USA) Inc., JMP Securities LLC, Raymond James & Associates, Inc., and Stifel Nicolaus & Company, Incorporated (the "Agents"), pursuant to which the Trust may issue and sell, from time to time, its common shares having an aggregate offering price of up to \$300.0 million, through the Agents (the "ATM Program"). The offering of the common shares from time to time is registered pursuant to the Trust's and the Operating Partnership's automatic shelf registration statement on Form S-3ASR (File No. 333-216214), which became automatically effective upon filing with the Commission on February 24, 2017. In accordance with the Sales Agreements, the Trust may offer and sell its common shares through any of the Agents, from time to time, by any method deemed to be an "at the market offering" as defined in Rule 415 under the Securities Act of 1933, as amended, which includes sales made directly on the New York Stock Exchange or other existing trading market, or sales made to or through a market maker. With the Trust's express written consent, sales may also be made in negotiated transactions or any other method permitted by law.

During the quarterly periods ended March 31, 2017 and June 30, 2017, the Trust's issuance and sale of common shares pursuant to the ATM Program is as follows (in thousands, except common shares and price):

	Common shares sold	Weighted average price	Net proceeds
Quarterly period ended March 31, 2017	—	\$ —	\$ —
Quarterly period ended June 30, 2017	4,150,000	20.07	82,440
Year to date	4,150,000	\$ 20.07	\$ 82,440

As of July 31, 2017, the Trust has \$216.7 million remaining available under the ATM Program.

Dividend Reinvestment and Share Purchase Plan

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On December 2, 2014, we adopted a Dividend Reinvestment and Share Purchase Plan (the “DRIP”). Under the DRIP:

Existing shareholders may purchase additional common shares by reinvesting all or a portion of the dividends paid on their common shares and by making optional cash payments of not less than \$50 and up to a maximum of \$10,000 per month;

New investors may join the DRIP by making an initial investment of not less than \$1,000 and up to a maximum of \$10,000; and

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Once enrolled in the DRIP, participants may authorize electronic deductions from their bank account for optional cash payments to purchase additional shares.

The DRIP is administered by our transfer agent, Computershare Trust Company, N.A. Our common shares sold under the DRIP will be newly issued or purchased in the open market, as further described in the DRIP. As of July 31, 2017, we have issued 37,784 common shares under the DRIP since its inception.

Critical Accounting Policies

Our consolidated financial statements included in Part I, Item 1 of this report are prepared in conformity with GAAP for interim financial information set forth in the Accounting Standards Codification (“ASC”), as published by the Financial Accounting Standards Board (“FASB”), which require us to make estimates and assumptions regarding future events 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 periods. Actual results could differ from those estimates. We base these estimates on our experience and assumptions we believe to be reasonable under the circumstances. However, if our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, we may have applied a different accounting treatment, resulting in a different presentation of our financial statements. We periodically reevaluate our estimates and assumptions, and in the event they prove to be different from actual results, we make adjustments in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Commission on February 24, 2017, for further information regarding the critical accounting policies that affect our more significant estimates and judgments used in the preparation of our consolidated financial statements included in Part I, Item 1 of this report.

REIT Qualification Requirements

We are subject to a number of operational and organizational requirements necessary to qualify and maintain our qualification as a REIT. If we fail to qualify as a REIT or fail to remain qualified as a REIT in any taxable year, our income would be subject to federal income tax at regular corporate rates and potentially increased state and local taxes and could incur substantial tax liabilities which could have an adverse impact upon our results of operations, liquidity and distributions to our shareholders.

Off-Balance Sheet Arrangements

As of June 30, 2017, we have no off-balance sheet debt.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use certain derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. Our derivative instruments consist of five interest rate swaps. See Note 2 (Summary of Significant Accounting Policies) and Note 7 (Derivatives) to our consolidated financial statements included in Item 1 to this report for further detail on our interest rate swaps.

Interest risk amounts are our management’s estimates and were determined by considering the effect of hypothetical interest rates on our consolidated financial instruments. These analyses do not consider the effect of any change in

overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

Fixed Interest Rate Debt

As of June 30, 2017, our consolidated fixed interest rate debt totaled \$766.4 million, which represented 54.4% of our total consolidated debt, excluding the impact of interest rate swaps. On July 7, 2016, we entered into a pay-fixed receive-variable rate swap for the full \$250.0 million borrowing amount of our term loan borrowings, fixing the LIBOR component of the borrowing rate to 1.07%, for an all-in fixed rate of 2.87%. Both the borrowing and pay-fixed receive-variable swap have a maturity date of June 10, 2023.

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Assuming the effects of the interest rate swap agreement we entered into on July 7, 2016 relating to our unsecured debt, our fixed interest rate debt would represent 72.1% of our total consolidated debt. Interest rate fluctuations on our fixed interest rate debt will generally not affect our future earnings or cash flows unless such instruments mature or are otherwise terminated. However, interest rate changes could affect the fair value of our fixed interest rate debt.

As of June 30, 2017, the fair value and the carrying value of our consolidated fixed interest rate debt were approximately \$770.0 million and \$766.4 million, respectively. The fair value estimate of our fixed interest rate debt was estimated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated on June 30, 2017. As we expect to hold our fixed interest rate debt instruments to maturity, based on the underlying structure of the debt instrument, and the amounts due under such instruments are limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that market fluctuations in interest rates, and the resulting change in fair value of our fixed interest rate debt instruments, would have a significant impact on our operating cash flows.

Variable Interest Rate Debt

As of June 30, 2017, our consolidated variable interest rate debt totaled \$642.8 million, which represented 45.6% of our total consolidated debt. Assuming the effects of the interest rate swap agreement we entered into on July 7, 2016 relating to our unsecured debt, our variable interest rate debt would represent 27.9% of our total consolidated debt. Interest rate changes on our variable rate debt could impact our future earnings and cash flows, but would not significantly affect the fair value of such debt. As of June 30, 2017, we were exposed to market risks related to fluctuations in interest rates on \$392.8 million of consolidated borrowings. Assuming no increase in the amount of our variable rate debt, if LIBOR were to change by 100 basis points, interest expense on our variable rate debt as of June 30, 2017 would change by approximately \$3.9 million annually.

Derivative Instruments

As of June 30, 2017, we had five outstanding interest rate swaps designated as a cash flow hedge of interest rate risk, with a total notional amount of \$250.0 million. See Note 7 (Derivatives) to our consolidated financial statements for further detail on our interest rate swaps. We are exposed to credit risk of the counterparty to our interest rate swap agreements in the event of non-performance under the terms of the agreements. If we were not able to replace these swaps in the event of non-performance by the counterparty, we would be subject to variability of the interest rate on the amount outstanding under our debt that is fixed through the use of the swaps.

Indebtedness

As of June 30, 2017, we had total consolidated indebtedness of approximately \$1.4 billion. The weighted average interest rate on our consolidated indebtedness was 3.58% (based on the 30-day LIBOR rate as of June 30, 2017, of 1.17%). As of June 30, 2017, we had approximately \$392.8 million, or approximately 27.9%, of our outstanding long-term debt exposed to fluctuations in short-term interest rates. See Note 6 (Debt) to our consolidated financial statements included in Item 1 to this report for a summary of our indebtedness as of June 30, 2017.

Item 4. Controls and Procedures

Physicians Realty Trust

Evaluation of Disclosure Controls and Procedures.

The Trust's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Trust's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, the Trust's Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2017, the Trust's disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information it is required to disclose in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission, and that such information is accumulated and communicated to the Trust's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

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Changes in Internal Control over Financial Reporting.

There have been no changes in the Trust's system of internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures.

In designing and evaluating the disclosure controls and procedures and the Trust's internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and the Trust's internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Physicians Realty L.P.

Evaluation of Disclosure Controls and Procedures.

The Operating Partnership's management, with the participation of the Chief Executive Officer and Chief Financial Officer of the Operating Partnership's general partner, has evaluated the effectiveness of the Operating Partnership's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer of the Operating Partnership's general partner concluded that as of June 30, 2017, the Operating Partnership's disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information it is required to disclose in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Commission, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer of the Operating Partnership's general partner, as appropriate, to allow for timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting.

There have been no changes in the Operating Partnership's system of internal control over financial reporting during the quarter ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures.

In designing and evaluating the disclosure controls and procedures and the Operating Partnership's internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and the Operating Partnership's internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II. Other Information

Item 1. Legal Proceedings

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

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Item 1A. Risk Factors

The following risk factors and other information included in this report should be carefully considered. The risks and uncertainties described below are not the only ones we face. You should also carefully consider the risk factors described in Part I, Item 1A (Risk Factors) of our Annual Report, and in Part II, Item 1A (Risk Factors) of our First Quarterly Report. Our business, financial condition and operating results can be materially adversely affected by a number of factors, whether currently known or unknown, including, but not limited to, those described below, any one or more of which could, directly or indirectly, cause our actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, results of operations and common stock price. In such case, the market value of our securities could be detrimentally affected, and investors may lose part or all of the value of their investment.

The following discussion of risk factors contains forward-looking statements. These risk factors and the risk factors described in Part I, Item 1A (Risk Factors) of the Annual Report and in Part II, Item 1A (Risk Factors) of the First Quarterly Report may be important to understanding any statement in this report or elsewhere. The following information should be read in conjunction with our consolidated and combined financial statements, and related notes, included in Part I, Item 1, “Financial Statements” and Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report.

Because of the following factors, as well as other factors affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. You should carefully consider the risks and uncertainties described below as well as the risk factors described in Part I, Item 1A (Risk Factors) of the Annual Report and in Part II, Item 1A (Risk Factors) of the First Quarterly Report.

Risks Related To Our Business

Economic and other conditions that negatively affect geographic areas in which we conduct business, and in particular in Texas and other areas to which a greater percentage of our revenue is attributed, could materially adversely affect our business, results of operations and financial condition.

Our operating results depend upon our ability to maintain and increase occupancy levels and rental rates at our properties. Adverse economic or other conditions in the geographic markets in which we operate, including periods of economic slowdown or recession, industry slowdowns, periods of deflation, relocation of businesses, changing demographics, earthquakes and other natural disasters, fires, terrorist acts, civil disturbances or acts of war and other man-made disasters which may result in uninsured or underinsured losses, and changes in tax, real estate, zoning and other laws and regulations, may lower our occupancy levels and limit our ability to increase rents or require us to offer rental concessions.

For the quarter ended June 30, 2017, approximately 14.6% of our gross leasable area and 16.8% of our total annualized base rent was derived from properties located in Texas. As a result of this geographic concentration, we are particularly exposed to downturns in the Texas economy or other changes in local real estate market conditions. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in Texas could have a disproportionate effect on our overall business results. In the event of negative economic or other changes in any of the markets in which we conduct business, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be adversely affected.

Any failure, inability or unwillingness by our tenants to pay rent or other amounts under leases could materially adversely affect our financial results; we may have difficulty finding suitable replacement tenants in the event of a tenant default or non-renewal of our leases, especially for our properties located in smaller markets.

Our portfolio of healthcare properties is leased to physicians, hospitals, healthcare delivery systems and other healthcare providers. We cannot assure you that our tenants will have sufficient assets, income and access to financing to enable them to satisfy their respective obligations to us, and any failure, inability or unwillingness by our tenants to do so could adversely affect our financial results. For example, the collectability of rents with respect to the Kennewick MOB was not reasonably assured for the quarter ending June 30, 2017. In addition, on June 30, 2017, Kennewick Public Hospital District, the sole tenant of the Kennewick MOB, filed for Chapter 9 bankruptcy, and therefore collectability of rents with respect to the Kennewick MOB may not be reasonably assured in the future. Therefore, we will no longer recognize rental revenues from the Kennewick MOB on an accrual basis. Instead, we will limit future recognition of revenue to amounts collected. We took a

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charge of approximately \$2.8 million against previously recognized deferred rental revenue during the quarter ending June 30, 2017. No assurance can be made that all or any of the past due rent or prepaid expenses will be collected.

We cannot predict whether our tenants will renew or extend existing leases beyond their current terms. Nearly all of our properties are subject to leases which have multi-year terms. As of June 30, 2017, leases representing 1.2%, 3.8%, and 4.3% of leasable square feet in our portfolio will expire in 2017, 2018, and 2019, respectively. If any of our leases are not renewed or extended, or if a tenant defaults under the terms of its lease or becomes insolvent, we would attempt to relet those spaces or properties to other tenants or new tenants. In case of non-renewal, we generally have advance notice before expiration of the lease term to arrange for reletting or repositioning of the spaces or the properties and our tenants are required to continue to perform all of their obligations (including the payment of all rental amounts) under the non-renewed leases until such expiration. However, following expiration of a lease term or if we exercise our right to replace a tenant in default, rental payments on the related properties could decline or cease altogether while we relet or reposition the spaces or the properties with suitable replacement tenants. We also might not be successful in identifying suitable replacement tenants or entering into leases with new tenants on a timely basis or on terms as favorable to us as our current leases, or at all, and we may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of, and avoid the imposition of liens on, our properties while they are being relet or repositioned. Our ability to relet or reposition our properties, or spaces within our properties, with suitable tenants could be significantly delayed or limited by state licensing, receivership, certificate of need or other laws, as well as by the Medicare and Medicaid change-of-ownership rules. We could also incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. In addition, our ability to locate suitable replacement tenants could be impaired by the specialized healthcare uses or contractual restrictions on use of the properties, and we may be required to spend substantial amounts to adapt the properties to other uses. Any such delays, limitations and expenses could adversely impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for tenant default and could have a material adverse effect on us or cause us to take an impairment charge on a property.

All of these risks may be greater in smaller markets, where there may be fewer potential replacement tenants, making it more difficult to replace tenants, especially for specialized spaces, like hospital or outpatient treatment facilities located in our properties, and could have a material adverse effect on us.

We compete with many other entities engaged in real estate investment activities for acquisitions of healthcare properties, some of whom may have greater financial resources and lower costs of capital than we do. Increased competition would result in increased demand for the same assets and therefore increase prices paid for them. Those higher prices for healthcare properties or other assets may adversely affect our returns from our investments.

We compete with many other entities engaged in real estate investment activities for acquisitions of healthcare properties, including national, regional and local operators, acquirers and developers of healthcare-related real estate properties and other investors such as private equity firms, some of whom may have greater financial resources and lower costs of capital than we do. The competition for healthcare-related real estate properties may significantly increase the price that we must pay for healthcare properties or other assets that we seek to acquire, and our competitors may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger REITs that target healthcare properties may enjoy significant competitive advantages that result from, among other things, a lower cost of capital, enhanced operating efficiencies, more personnel, and market penetration and familiarity with markets. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. Increased competition would result in increased demand for the same assets and therefore increase prices paid for

them. Those higher prices for healthcare properties or other assets may adversely affect our returns from our investments.

In recent months, we have seen an increased level of competition for healthcare properties and, as a result, an increase in prices paid for them. In turn, this has had a negative impact on the initial cash yields on potential asset acquisitions. We seek to invest in stabilized medical facility assets with initial cash yields of 5.0% to 9.0%, although our investments in the Baylor Charles A. Sammons Cancer Center and the St. Vincent MOBs, and our potential investment in the Northside MOBs, if consummated, each has an anticipated initial cash yield of approximately 4.7%, and we may invest in other medical facility assets with initial cash yields outside of this range.

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If CHI's business, financial position or results of operations suffer or are adversely affected, it could have a material adverse effect on our business, financial position or results of operations.

During 2016, we entered into separate agreements to purchase more than 50 medical office facilities from regional health systems controlled by CHI containing 3,159,495 rentable square feet located in 10 states (the "2016 CHI Portfolio"). We elected not to complete the acquisition of two of the 2016 CHI Portfolio properties. To date, we have completed the acquisition of 49 of the properties comprising the 2016 CHI Portfolio representing approximately 3,016,926 net leasable square feet. We anticipate closing on the remaining medical office facility located in Fruitland, Idaho, later in 2017.

Separately, we entered into a separate agreement to purchase a newly constructed medical office facility in Omaha, Nebraska, representing approximately 79,186 net leasable square feet, for approximately \$33.4 million that is 100% leased and 100% occupied by CHI's affiliate, Creighton University Medical Center. We completed the acquisition of the Omaha, Nebraska medical office facility on March 28, 2017.

On May 8, 2017, we entered into the CHI Purchase Agreements with certain subsidiaries and affiliates of CHI to acquire the 2017 CHI Portfolio. We completed the acquisition of the Tranche 1 properties on June 29, 2017 and anticipate closing on the Tranche 2 properties promptly following the date on which approval of CHCF is obtained, or at such other times as the parties may agree, which is anticipated to occur in the third quarter of 2017. Total annualized base rent from CHI affiliated tenants totaled 19.2% of our total consolidated base rent for the period ended June 30, 2017.

Although CHI is not a party to nor a guarantor of the agreements discussed above or any related lease agreements which were previously or may in the future be entered into in connection with the closing of the transactions above, it controls each of the subsidiaries and affiliates that are or will be parties to such agreements. Given this control, if CHI's business, financial position or results of operations suffer or are adversely affected, it could adversely affect CHI's ability to provide any financial or operational support for the subsidiaries and affiliates it controls, which could adversely affect one or more of the CHI-affiliated tenants' ability to pay rent to us. Additionally, if CHI's business, financial position or results of operations were to suffer or its credit ratings were to be downgraded, it could cause investors to lose confidence in our ability to collect rent from the CHI-affiliated tenants and could cause our stock price to decline. Moreover, there can be no assurance that CHI's subsidiaries and affiliates will have sufficient assets, income and access to financing to enable them to satisfy their payment obligations under their lease agreements. The inability of CHI's subsidiaries and affiliates to meet their rent obligations could materially adversely affect our business, financial position or results of operations including our ability to pay dividends to our stockholders as required to maintain our status as a REIT. The inability of CHI's subsidiaries and affiliates to satisfy their other obligations under their lease agreements such as the payment of taxes, insurance and utilities could have a material adverse effect on the condition of the leased properties as well as on our business, financial position and results of operations. For these reasons, if CHI were to experience a material adverse effect on its business, financial position or results of operations, our business, financial position or results of operations could also be materially adversely affected.

Failure by CHI's subsidiaries and affiliates to comply with the terms of their lease agreements or to comply with the healthcare regulations to which the leased properties and CHI's operations are subject could require us to find other lessees for any affected leased properties and there could be a decrease or cessation of rental payments by CHI's subsidiaries and affiliates. In such event, we may be unable to locate suitable replacement lessees willing to pay similar rental rates or at all, which would have the effect of reducing our rental revenues and could materially adversely affect our business, financial position or results of operations.

Risks Related to Healthcare Industry

Current and potential future healthcare reforms could adversely impact our Company and result in the inability of our tenants to make rent payments to us.

On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act of 2010 (the “Patient Protection and Affordable Care Act”), and on March 30, 2010, President Obama signed the Healthcare and Education Reconciliation Act of 2010, which in part modified the Patient Protection and Affordable Care Act (collectively, the “Affordable Care Act”).

There has been extensive discussion about a possible repeal or amendment of the Affordable Care Act or other government action, which could adversely impact our Company and result in the inability of our tenants to make rent payments to us. President Trump and leadership in Congress have publicly stated their intention to repeal and replace (or modify) the Affordable Care Act. On January 20, 2017, President Trump issued an Executive Order stating that it is the administration’s official policy to repeal the Affordable Care Act and instructing the Secretary of Health and Human Services and the heads of

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all other executive departments and agencies with authority and responsibility under the Affordable Care Act to, among other matters, delay implementation of or grant an exemption from any provision of the Affordable Care Act that would impose a fiscal burden on any state or a cost, fee, tax, penalty, or regulatory burden on individuals, families, healthcare providers, health insurers, patients, and others.

On May 4, 2017, the U.S. House of Representatives passed the American Health Care Act (the “AHCA”), which would repeal many provisions of the Affordable Care Act. On May 24, 2017, the Congressional Budget Office (the “CBO”) estimated that the AHCA would increase the number of uninsured Americans by 14 million in 2018 and by 23 million in 2026. In addition, the CBO predicted that the AHCA would increase insurance premiums in 2018 and 2019. It is estimated that insurance premiums would then decline by 2020, but there would be variations in the decline on a state by state basis depending upon how the states choose to implement the law. The AHCA, or a revised version of it, would need to pass the U.S. Senate before becoming law.

The U.S. Senate considered an alternative version of the AHCA, the Better Care Reconciliation Act, which would repeal and replace the Affordable Care Act. On July 25, 2017, the U.S. Senate voted to begin debate on a bill to repeal major provisions of the Affordable Care Act and then a motion on the Better Care Reconciliation Act amendment failed due to an insufficient number of Senators supporting the amendment. On July 26, 2017, the U.S. Senate rejected a bill that would have repealed much of the Affordable Care Act, with a two-year transition period to give lawmakers time to craft a replacement. On July 28, 2017, the U.S. Senate rejected a “skinny repeal” bill, which would have repealed the Affordable Care Act’s individual mandate and rolled back a tax on medical devices. It is possible that further U.S. Senate votes will occur on repeal-only legislation and/or repeal-and-replace legislation as well as numerous amendments.

It is expected that Congress will continue to consider other legislation to repeal the Affordable Care Act or repeal and replace some or all elements of the Affordable Care Act. The passage of the AHCA or similar legislation may adversely impact the insurance coverage and reimbursement for certain of our operators and tenants, which could negatively impact our payment stream, and ultimately our revenue.

We cannot predict the effect of the Executive Order on the Affordable Care Act, or whether Congress’ attempt to repeal or repeal and replace the law will be successful. Further, we cannot predict how the Affordable Care Act might be amended or modified, either through the legislative or judicial process, and how any such modification might impact our tenants’ operations or the net effect of this law on us. If the operations, cash flows or financial condition of our operators and tenants are materially adversely impacted by any repeal or modification of the law, our revenue and operations may be materially adversely affected as well.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

From time to time the Operating Partnership issues OP Units to the Trust, as required by the Partnership Agreement, to reflect additional issuances of common shares by the Trust and to preserve equitable ownership ratios.

Table of Contents**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth information relating to repurchases of our common shares of beneficial interest and OP Units during the three months ended June 30, 2017:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2017 - April 30, 2017	9,724	(1)\$19.82	N/A	N/A
May 1, 2017 - May 31, 2017	—	—	N/A	N/A
June 1, 2017 - June 30, 2017	1,755	(2)20.47	N/A	N/A
Total	11,479	\$19.92	—	—

(1) Represents OP Units redeemed by holders in exchange for common shares of the Trust.

(2) Pursuant to a general authorization, not publicly announced, whereby the Trust is authorized to repurchase common shares of the Trust to satisfy employee withholding tax obligations related to stock-based compensation.

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Item 6. Exhibits

Exhibit No.	Description
10.1	(1) Real Estate Purchase and Sale Agreement, dated June 27, 2017, between BCC Cancer Center Venture, L.P. and DOC-3410 Worth St. MOB, LLC
31.1	Certification of John T. Thomas, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Physicians Realty Trust*
31.2	Certification of Jeffrey N. Theiler, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Physicians Realty Trust*
31.3	Certification of John T. Thomas, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Physicians Realty L.P.*
31.4	Certification of Jeffrey N. Theiler, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Physicians Realty L.P.*
32.1	Certification of John T. Thomas and Jeffrey N. Theiler, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) for Physicians Realty Trust*
32.2	Certification of John T. Thomas and Jeffrey N. Theiler, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) for Physicians Realty L.P.*
101.INS	XBRL Instance Document (+)
101.SCH	XBRL Extension Schema Document (+)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (+)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (+)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (+)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (+)

* Filed herewith

(1) Incorporated by reference to Physicians Realty Trust's and Physician Realty L.P.'s combined Current Report on Form 8-K filed with the SEC on July 7, 2017.

(+) Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement for purposes of Section 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHYSICIANS REALTY TRUST

Date: August 4, 2017 /s/ John T. Thomas

John T. Thomas
Chief Executive Officer and President
(Principal Executive Officer)

Date: August 4, 2017 /s/ Jeffrey N. Theiler

Jeffrey N. Theiler
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHYSICIANS REALTY L.P.

By: Physicians Realty Trust, its general partner

Date: August 4, 2017 /s/ John T. Thomas

John T. Thomas
Chief Executive Officer and President
(Principal Executive Officer)

Date: August 4, 2017 /s/ Jeffrey N. Theiler

Jeffrey N. Theiler
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)