Physicians Realty Trust
Form 10-K
March 12, 2015
Table of Contents

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20541**

# FORM 10-K

**x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2014**

**o TRANSITION REPORT UNDER 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

(Exact Name of Registrant as Specified in Its Charter)

| **Maryland** | **46-2519850** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| **735 N. Water Street**<br>**Suite 1000**<br>**Milwaukee, Wisconsin** | **53202** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(414) 978-6494**

(Registrant s telephone number, including area code)

Securities registered under Section 12(b) of the Act:

| **Title of Each Class** | **Name of Each Exchange On Which Registered** |
|---|---|
| Common Shares, $0.01 par value | New York Stock Exchange |

Securities registered under Section 12(g) of the Act: **None**

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

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

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

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o | Smaller reporting company o |

(Do not check if a smaller reporting company)

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

The aggregate market value of common shares held by non-affiliates of the Registrant as of June 30, 2014 was approximately $487.7 million based upon the closing price reported for such date on the New York Stock Exchange. For purposes of this disclosure, common shares held by executive officers and trustees of the Registrant on June 30, 2014 have been excluded because such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination

for other purposes.

As of March 9, 2015, the number of the Registrant s common shares outstanding was 70,237,520.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth in this Form 10-K, is incorporated herein by reference from Physicians Realty Trust s definitive proxy statement relating to the annual meeting of shareholders to be held on May 7, 2015, to be filed with the Securities and Exchange Commission within 120 days after the end of the Registrant s fiscal year ended December 31, 2014.

Table of Contents

**PHYSICIANS REALTY TRUST**

**Annual Report on Form 10-K for the Year Ended December 31, 2014**

**Table of Contents**


| | Page |
|---|---|
| **PART I** | **4** |
| Item 1. Business | 4 |
| Item 1A. Risk Factors | 9 |
| Item 1B. Unresolved Staff Comments | 36 |
| Item 2. Properties | 37 |
| Item 3. Legal Proceedings | 41 |
| Item 4. Mine Safety Disclosures | 41 |
| **PART II** | 42 |
| Item 5. Market for Registrant_s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 42 |
| Item 6. Selected Financial Data | 44 |
| Item 7. Management_s Discussion and Analysis of Financial Condition and Results of Operations | 46 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk | 68 |
| Item 8. Financial Statements and Supplementary Data | 70 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 100 |
| Item 9A. Controls and Procedures | 100 |
| Item 9B. Other Information | 100 |
| **PART III** | 101 |
| Item 10. Directors, Executive Officers and Corporate Governance | 101 |
| Item 11. Executive Compensation | 101 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 101 |
| Item 13. Certain Relationships and Related Transactions, and Director Independence | 101 |

Item 14. Principal Accountant Fees and Services 101

**PART IV** 102

Item 15. Exhibits and Financial Statement Schedules 102

Table of Contents

**Forward-Looking Statements**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K 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. 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 believes, expects, may, will, should, seeks, approximately, intends, plans, pro forma, estimates or anticipates or the neg 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 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, thus, 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 in which our properties are located;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- fluctuations in interest rates and increased 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 of beneficial interest;

- general volatility of the market price of our common shares;
- our limited operating history;
- our increased vulnerability economically due to the concentration of our investments in healthcare properties;
- our geographic concentrations in Texas and metro Atlanta, Georgia causes us to be particularly exposed to downturns in these local economies or other changes in local real estate 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, tax rates 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 complete acquisitions;
- competition for investment opportunities;

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

- the impact of our investment in joint ventures;

Table of Contents

- 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 (or GAAP);

- lack of or insufficient amounts of insurance;

- other factors affecting the real estate industry generally;

- our failure to qualify and maintain our qualification as a real estate investment trust (or 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;

- 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

- various other factors may materially adversely affect us, including the per share trading price of our common shares, such as:

- higher market interest rates;

- 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 offerings of debt; and

- if securities analysts do not publish research or reports about our industry or if they downgrade 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. You should not place undue reliance on any forward-looking statements, which speak only as of the date of this report. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes after the date of this report, except as required by applicable law. For a further discussion of these and other factors that could impact our future results, performance or transactions, see Part I, Item 1A. Risk Factors.

In this report, the terms we, us, our, our company, the Trust, the Company, and Physicians Realty refer to Physicians Realty Trust, a M real estate investment trust, together with its consolidated subsidiaries, including Physicians Realty L.P., a Delaware limited partnership, which we refer to in this report as our Operating Partnership, and the historical business and operations of four healthcare real estate funds that we have classified for accounting purposes as our Predecessor and which we sometimes refer to as the Ziegler Funds.

Table of Contents

**PART I**

**ITEM 1. BUSINESS**

**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 completed our initial public offering ( IPO ) in July 2013. As of December 31, 2014, our portfolio consisted of 87 properties located in 19 states with approximately 3,100,701 net leasable square feet, which were approximately 94.6% leased with a weighted average remaining lease term of approximately 9.6 years and approximately 76.5% of the net leasable square footage of our portfolio was either affiliated with a healthcare delivery system or located within approximately 1/4 mile of a hospital campus.

We receive a cash rental stream from these healthcare providers under our leases. Approximately 85% of the annualized base rent payments from our properties as of December 31, 2014 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 15% of the annualized base rent payments from our properties as of December 31, 2014 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 five 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 December 31, 2014, leases representing a percentage of our portfolio on the basis of leasable square feet will expire as follows:

| Year | Portfolio Lease Expirations |
|---|---|
| 2015 | 2.8% |
| 2016 | 3.6% |
| 2017 | 2.2% |
| 2018 | 6.6% |
| 2019 | 6.5% |
| 2020 | 1.6% |
| 2021 | 2.4% |
| 2022 | 3.4% |
| 2023 | 5.7% |
| 2024 | 16.9% |
| Thereafter | 42.8% |

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 health care related real estate. 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 6% to 10%. 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 had no business operations prior to completion of the IPO and the related formation transactions on July 24, 2013. Our Predecessor, which is not a legal entity, is comprised of the four healthcare real estate funds managed by B.C. Ziegler & Company ( Ziegler ) that owned directly or indirectly interests in entities that owned our initial properties we acquired on July 24, 2013 in connection with completion of our IPO and related formation transactions.

Table of Contents

We are a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our short taxable year ended December 31, 2013. 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. See Part I, Item 1A. Risk Factors - Risks Related to Our Qualification and Operation as a REIT. We are the sole general partner of our Operating Partnership and, as of March 9, 2015, own approximately 94.4% of the partnership interests in our Operating Partnership (the OP Units ).

**Our Objectives and Growth Strategy**

Our principal business objective is to provide attractive risk-adjusted returns to our shareholders through a combination of (i) sustainable and increasing rental revenue and cash flow that generate reliable, increasing dividends, and (ii) potential long-term appreciation in the value of our properties and common shares. Our primary strategies to achieve our business objective are to invest in, own and manage a diversified portfolio of high quality healthcare properties and pay careful attention to our tenants real estate strategies, which we believe will drive high retention, high occupancy and reliable, increasing rental revenue and cash flow.

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 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;
- specialty hospitals and treatment centers;
- acute care hospitals; and
- post-acute care hospitals and long-term care facilities.

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 intent to qualify as a REIT, we may also opportunistically invest in companies that provide healthcare services, in joint venture entities with operating partners, structured to comply with the REIT Investment Diversification Act of 2007 ( RIDEA ).

In connection with our review and consideration of healthcare real estate investment opportunities, we generally take into account a variety of market considerations, including:

- whether the property is anchored by a financially-sound healthcare delivery system or whether tenants have strong affiliation to a healthcare delivery system;
- the performance of the local healthcare delivery system and its future prospects;
- property location, with a particular emphasis on proximity to healthcare delivery systems;
- demand for medical office buildings and healthcare related facilities, current and future supply of competing properties, and occupancy and rental rates in the market;
- population density and growth potential;
- ability to achieve economies of scale with our existing medical office buildings and healthcare related facilities or anticipated investment opportunities; and
- existing and potential competition from other healthcare real estate owners and operators.

**Employees**

At December 31, 2014, we had 14 full-time employees, none of whom are subject to a collective bargaining agreement.

Table of Contents

**Portfolio Summary**

Please see Item 2. Properties for a table that summarizes our portfolio as of December 31, 2014.

**Geographic Concentration**

As of December 31, 2014, approximately 41% of our total annualized base rent was derived from properties located in Texas (23%) or metro Atlanta, Georgia (18%). The Texas properties are concentrated in El Paso and Plano.

As a result of this geographic concentration, we are particularly exposed to downturns in these local economies 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 either of these areas could have a disproportionate effect on our overall business results. In the event of negative economic or other changes in either of these markets, 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. See each of the discussion under Item 1A, Risk Factors, under the caption Economic and other conditions that negatively affect geographic areas to which a greater percentage of our revenue is attributed could materially adversely affect our business, results of operations and financial condition.

*Customer Concentration*

We receive substantially all of our revenue as rent payments from tenants under leases of space in our healthcare properties, with our five largest tenants based upon rental revenue representing approximately $17.2 million, or 26.1%, of the annualized rent from our properties as of December 31, 2014. No one tenant represents more than 7.1% of our total annualized rent. We have no control over the success or failure of our tenants businesses and, at any time, any of our tenants may experience a downturn in its business that may weaken its financial condition.

**Competition**

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. 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.

**Credit Facility**

Effective September 18, 2014, the credit agreement, dated as of August 29, 2013 (as amended, restated, increased, extended, supplemented or otherwise modified from time to time, the Prior Credit Agreement ), among the Operating Partnership, as borrower, the Trust, certain subsidiaries and other affiliates of the Operating Partnership, as guarantors, Regions Bank, as administrative agent, Regions Capital Markets, as sole lead arranger and sole book runner, and the lenders party thereto, and all commitments provided thereunder, were terminated. All amounts due and outstanding under the Prior Credit Agreement were repaid on or prior to such date.

On September 18, 2014, the Operating Partnership, as borrower, and the Trust and certain subsidiaries and other affiliates of the Trust, as guarantors, entered into a credit agreement (the Credit Agreement ) with KeyBank National Association as administrative agent, KeyBanc Capital Markets Inc., Regions Capital Markets and BMO Capital Markets, as joint lead arrangers and joint bookrunners, Regions Capital Markets and BMO Capital Markets, as co-syndication agents, and the lenders party thereto in connection with an unsecured revolving credit facility in the maximum principal amount of $400 million. The Credit Agreement 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 $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $750 million. The Credit Agreement replaced the Trust s senior secured revolving credit facility in the maximum principal amount of $200 million under the Prior Credit Agreement.

Table of Contents

The Credit Agreement has a maturity date of September 18, 2018 and includes a one year extension option. Borrowings under the Credit Agreement bear interest on the outstanding principal amount at a rate equal to LIBOR plus 1.50% to 2.20%, depending on the consolidated leverage ratio outlined below. In addition, the Credit Agreement includes an unused fee equal to 0.15% or 0.25% per annum, which is determined by usage under the Credit Agreement.

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 Trust may, at any time, voluntarily prepay any loan under the Credit Agreement in whole or in part without premium or penalty. As of December 31, 2014, the Trust was in compliance with all financial covenants.

The Credit Agreement includes customary representations and warranties by the Operating Partnership, the Trust and each other guarantor and imposes customary covenants on the Operating Partnership, the Trust and each other guarantor. 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 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 consolidated leverage ratio of the Trust, the Operating Partnership and its subsidiaries as follows:

| Consolidated Leverage Ratio | Adjusted LIBOR Rate Loans and Letter of Credit Fee | Base Rate Loans |
|---|---|---|
| ≤35% | LIBOR + 1.50% | 0.50% |
| >35% and ≤45% | LIBOR + 1.65% | 0.65% |
| >45% and ≤45% | LIBOR + 1.75% | 0.75% |
| >45% and ≤50% | LIBOR + 1.85% | 0.85% |
| >50% and ≤55% | LIBOR + 2.00% | 1.00% |
| >55% | LIBOR + 2.20% | 1.20% |

We may, at any time, voluntarily prepay any loan under the unsecured revolving credit facility in whole or in part without premium or penalty.

The unsecured revolving credit facility contains financial covenants that, among other things, require compliance with loan-to-value, 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. The unsecured revolving credit facility also contains customary events of default. Any event of default, if not cured or waived, could result in the acceleration of any outstanding indebtedness under the unsecured revolving credit facility.

As of December 31, 2014, there were $138 million of borrowings outstanding under our unsecured revolving credit facility and $189 million available for us to borrow without adding additional properties to the unencumbered borrowing base of assets, as defined by the Credit Agreement.

As of March 9, 2015, there were no borrowings outstanding under our unsecured revolving credit facility and $327 million is available for us to borrow without adding additional properties to the unencumbered borrowing base of assets, as defined by the Credit Agreement.

**Seasonality**

Our business has not been and we do not expect it to become subject to material seasonal fluctuations.

**Environmental Matters**

As an owner of real estate, we are subject to various federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties as a result of environmental contamination or noncompliance at our properties even if we no longer own such properties. See the discussion under Item 1A, Risk Factors, under the caption Environmental compliance costs and liabilities associated with owning, leasing, developing and operating our properties may affect our results of operations.

Table of Contents

**Certain Government Regulations**

*Overview*

Our tenants and operators are typically subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need and similar laws governing the operation of healthcare facilities, and we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. These regulations are wide-ranging and can subject our tenants and operators to civil, criminal and administrative sanctions. Affected tenants and operators may find it increasingly difficult to comply with this complex and evolving regulatory environment because of a relative lack of guidance in many areas as certain of our healthcare properties are subject to oversight from several government agencies and the laws may vary from one jurisdiction to another. Changes in laws and regulations, reimbursement enforcement activity and regulatory non-compliance by our tenants and operators can all have a significant effect on their operations and financial condition, which in turn may adversely impact us, as detailed below and set forth under Item 1A, Risk Factors, under the caption The healthcare industry is heavily regulated, and new laws or regulations, changes to existing laws or regulations, loss of licensure or failure to obtain licensure could adversely impact our company and result in the inability of our tenants to make rent payments to us.

Based on information primarily provided by our tenants and operators as of December 31, 2014 we estimate that approximately 47% of our hospital and long-term acute care hospital tenants and operators revenues were dependent on Medicare reimbursement.

The following is a discussion of certain laws and regulations generally applicable to our operators, and in certain cases, to us.

*Fraud and Abuse Enforcement*

There are various extremely complex federal and state laws and regulations governing healthcare providers relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include (i) federal and state false claims acts, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other federal or state healthcare programs, (ii) federal and state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services, (iii) federal and state physician self-referral laws (commonly referred to as the Stark Law ), which generally prohibit referrals by physicians to entities with which the physician or an immediate family member has a financial relationship, (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services and (v) federal and state privacy laws, including the privacy and security rules contained in the Health Insurance Portability and Accountability Act of 1996, which provide for the privacy and security of personal health information. Violations of healthcare fraud and abuse laws carry civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring *qui tam* or whistleblower actions. Many of our operators and tenants are subject to these laws, and some of them may in the future become the subject of governmental enforcement actions if they fail to comply with applicable laws.

*Reimbursement*

Sources of revenue for many of our tenants and operators include, among other sources, governmental healthcare programs, such as the federal Medicare program and state Medicaid programs, and non-governmental payors, such as insurance carriers and HMOs. As federal and state governments focus on healthcare reform initiatives, and as the federal government and many states face significant budget deficits, efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by some of our tenants and operators.

*Healthcare Licensure and Certificate of Need*

Certain healthcare facilities in our portfolio are subject to extensive federal, state and local licensure, certification and inspection laws and regulations. In addition, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials and operate equipment. Many states require certain healthcare providers to obtain a certificate of need, which requires prior approval for the construction, expansion and closure of certain healthcare facilities. The approval process related to state certificate of need laws may impact some of our tenants and operators abilities to expand or change their businesses.

Table of Contents

**Available Information**

Our website address is *www.docreit.com.* We make available, free of charge through the Investor Relations portion of the website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (as amended, the Exchange Act ) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the SEC or the Commission ). Reports of beneficial ownership filed pursuant to Section 16(a) of the Exchange Act are also available on our website. These reports and other information are also available, free of charge, at www.sec.gov. Alternatively, the public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

In addition, our board of trustees has established a Code of Business Conduct and Ethics that applies to our officers, including our Chief Executive Officer and President and Chief Financial Officer, trustees and employees. The Code of Business Conduct and Ethics provides a statement of the Company s policies and procedures for conducting business legally and ethically. A copy of the Code of Business Conduct and Ethics is available in the Investor Relations section of our website (www.docreit.com) under the tab Governance Documents. Any amendments to or waivers from the Code of Business Conduct and Ethics will be disclosed on our website. Information contained on our website is not part of this report.

**ITEM 1A. RISK FACTORS**

*The following summarizes the material risks of purchasing or owning our securities. Additional unknown risks may also impair our financial performance and business operations. Our business, financial condition and/or results of operation may be materially adversely affected by the nature and impact of these risks. 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. You should carefully consider the risks and uncertainties described below.*

*We have grouped these risk factors into the following general categories:*

- Risks related to our business;
- Risks related to the healthcare industry;
- Risks related to the real estate industry;

- Risks related to financings;

- Risks related to our formation and structure; and

- Risks related to our qualification and operation as a REIT.

**Risks Related To Our Business**

***We are recently formed and have a very limited operating history; therefore there is no assurance that we will be able to achieve our investment objectives.***

We commenced operations on July 24, 2013 and have a very limited operating history. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objectives as described in this report and that the value of your investment could decline substantially. Our financial condition and results of operations will depend on many factors, including the availability of investment opportunities, readily accessible short and long-term financing, conditions in the financial markets and economic conditions generally. There can be no assurance that we will be able to generate sufficient cash flow over time to pay our operating expenses and make distributions to shareholders.

Table of Contents

***Our real estate investments are concentrated in healthcare properties, making us more vulnerable economically than if our investments were diversified in other segments of the economy.***

We acquire, own, manage, operate and selectively develop properties for lease primarily to physicians, hospitals and healthcare delivery systems. We are subject to risks inherent in concentrating investments in real estate, and the risks resulting from a lack of diversification become even greater as a result of our business strategy to concentrate our investments in the healthcare sector. Any adverse effects that result from these risks could be more pronounced than if we diversified our investments outside of healthcare properties. Given our concentration in this sector, our tenant base is especially concentrated and dependent upon the healthcare industry generally, and any industry downturn could adversely affect the ability of our tenants to make lease payments and our ability to maintain current rental and occupancy rates. Our tenant mix could become even more concentrated if a significant portion of our tenants practice in a particular medical field or are reliant upon a particular healthcare delivery system. Accordingly, a downturn in the healthcare industry generally, or in the healthcare related facility specifically, could adversely affect our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

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

For the year ended December 31, 2014, approximately 41% of our total annualized rent was derived from properties located in Texas (23%) and metro Atlanta, Georgia (18%). The Texas properties are concentrated in El Paso and Plano.

As a result of these geographic concentration, we are particularly exposed to downturns in these local economies 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 either of these areas could have a disproportionate effect on our overall business results. In the event of negative economic or other changes in either of these markets, 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.

***We may not realize the benefits that we anticipate from focusing on healthcare properties that are strategically aligned with a healthcare delivery system and from the relationships established through such strategic alignments.***

As part of our business strategy, we focus on healthcare properties that are strategically aligned with a healthcare delivery system by (i) seeking to acquire, own, manage, and develop healthcare properties that are located on medical campuses where the underlying land is owned by a healthcare delivery system or by us, or (ii) seeking to acquire, own, manage, and develop healthcare properties located in close proximity to a healthcare delivery system or strategically aligned with a healthcare delivery system through leasing or other arrangements. We may not realize the benefits that we anticipate as a result of these strategic relationships. In particular, we may not obtain or realize increased rents, or reduced tenant turnover rates as compared to healthcare properties that are not strategically aligned. Moreover, building a portfolio of healthcare properties that are strategically aligned does not assure the success of any given property. The associated healthcare delivery system may not be successful and the strategic alignment that we seek for our healthcare properties could dissolve, and we may not succeed in replacing them. If we do not realize the benefits that we anticipate from this focus and those strategic alignments dissolve and we are not successful in replacing them, our reputation, business, financial results and prospects may be adversely affected.

***Adverse economic or other conditions in the geographic markets in which we conduct business could negatively affect our occupancy levels and rental rates and therefore our operating results.***

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. The failure of our properties to generate revenues sufficient to meet our cash requirements, including operating and other expenses, debt service and capital expenditures, may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

Table of Contents

***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.***

We cannot predict whether our tenants will renew existing leases beyond their current terms. Nearly all of our properties are subject to leases which have multi-year terms. As of December 31, 2014, leases representing 2.8%, 3.6% and 2.2% of leasable square feet at our properties will expire in the 2015, 2016 and 2017, respectively. If any of our leases are not renewed, we would attempt to lease those properties to another tenant. In case of non-renewal, we generally have advance notice before expiration of the lease term to arrange for repositioning of the properties and our tenants are required to continue to perform all of their obligations (including the payment of all rental amounts) for the non-renewed assets 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 reposition the properties with a suitable replacement tenant. 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 repositioned. Our ability to reposition our properties with a suitable tenant 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 may fail to complete any pending acquisitions, which could have a material adverse impact on our results of operations, earnings and cash flow.***

From time to time, we enter into definitive agreements through subsidiaries of our Operating Partnership to acquire healthcare properties that are structured as bifurcated transactions (i.e., the closing of the transaction does not occur at the time of the signing of the definitive agreement). The acquisition of any such properties are subject to customary closing conditions, and there can be no assurance that those conditions will be satisfied or that the acquisitions will close on the terms that may be described or at all. Pending acquisitions, whether or not successful, require substantial time and attention from management. Furthermore, any such pending acquisitions require significant expense, including expenses for due diligence, legal and accounting fees and other costs. In the event we do not complete any pending acquisitions, these expenses will not be offset by revenues from the investments and we may have issued a significant number of additional common shares without realizing a corresponding increase in earnings and cash flow from the investments. As a result, our failure to complete pending acquisitions could have a material adverse impact on our financial condition, results of operations and the market price of our common shares.

***We may be unable to successfully acquire or develop properties and expand our operations into new or existing markets.***

We intend to explore acquisitions or developments of properties in new and existing geographic markets. These acquisitions and developments could divert management s attention from our existing properties, and we may be unable to retain key employees or attract highly qualified new

employees. In addition, we may not possess familiarity with the dynamics and prevailing conditions of any new geographic markets which could adversely affect our ability to successfully expand into or operate within those markets. For example, new markets may have different insurance practices, reimbursement rates and local real estate, zoning and development regulations than those with which we are familiar. We may find ourselves more dependent on third parties in new markets because our distance could hinder our ability to directly and efficiently manage and otherwise monitor new properties in new markets. Our expansion into new markets could result in unexpected costs or delays as well as lower occupancy rates and other adverse consequences. We may not be successful in identifying suitable properties or other assets which meet our acquisition or development criteria or in consummating acquisitions or developments on satisfactory terms or at all for a number of reasons, including, among other things, unsatisfactory results of our due diligence investigations, failure to obtain financing for the acquisition or development on favorable terms or at all, and our misjudgment of the value of the opportunities. We may also be unable to successfully integrate the operations of acquired properties, maintain consistent standards, controls, policies and procedures, or realize the anticipated benefits of the acquisitions within the anticipated timeframe or at all. If we are unsuccessful in expanding into new or our existing markets, it could adversely affect our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

Table of Contents

***We may not be successful in identifying and completing off-market acquisitions and other suitable acquisitions or investment opportunities, which may impede our growth and adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.***

An important component of our growth strategy is to acquire off-market properties before they are widely marketed by the owners. Facilities that are acquired off-market are typically more attractive to us as a purchaser because of the absence of a formal marketing process, which could lead to higher prices or other unattractive terms. If we cannot obtain off-market deal flow in the future, our ability to locate and acquire facilities at attractive prices could be adversely affected. We expect to 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. 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 these assets and therefore likely would increase prices paid for them. Those higher prices for healthcare properties or other assets may adversely affect our returns from our investments.

***Some of our existing properties and properties we acquire in the future are and may be subject to ground lease or other restrictions on the use of the space. If we are required to undertake significant capital expenditures to procure new tenants, then our business and results of operations may suffer.***

Six of our properties (Mid Coast Hospital, Valley West Hospital, Crescent City Surgical Centre, Ortho One Columbus, Berger Medical Center, and Carmel Medical Pavilion), representing approximately 9% of our total leasable square feet and 11% of our annualized revenue based on rental payments for the month ended December 31, 2014, are subject to ground leases that contain certain restrictions. These restrictions include limits on our ability to re-let our initial properties to tenants not affiliated with the healthcare delivery system that owns the underlying property, rights of purchase and rights of first offer and refusal with respect to sales of the property and limits on the types of medical procedures that may be performed. In addition, lower than expected rental rates upon re-letting could impede our growth. We may not be able to re-let space on terms that are favorable to us or at all. Further, we may be required to undertake significant capital expenditures to renovate or reconfigure space to attract new tenants. If we are unable to promptly re-let our initial properties, if the rates upon such re-letting are significantly lower than expected or if we are required to undertake significant capital expenditures in connection with re-letting, 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.

***Our healthcare properties, the associated healthcare delivery systems with which our healthcare properties are strategically aligned and our tenants may be unable to compete successfully.***

Our healthcare properties and the associated healthcare delivery systems with which our healthcare properties are strategically aligned often face competition from nearby hospitals and other healthcare properties that provide comparable services. In addition, pharmacies and other retailers may initiate or expand healthcare clinic operations and services to compete with our tenants in the provision of healthcare delivery systems. Any of our properties may be materially and adversely affected if the healthcare delivery system with which it is strategically aligned is unable to compete successfully. There are numerous factors that determine the ability of a healthcare delivery system to compete successfully, most of which are outside of our control.

Similarly, our tenants face competition from other medical practices and service providers at nearby hospitals and other healthcare properties. From time to time and for reasons beyond our control, managed care organizations may change their lists of preferred hospitals or in-network physicians. Physicians also may change hospital affiliations. If competitors of our tenants or competitors of the associated healthcare delivery systems with which our healthcare properties are strategically aligned have greater geographic coverage, improve access and convenience to physicians and patients, provide or are perceived to provide higher quality services, recruit physicians to provide competing services at their facilities, expand or improve their services or obtain more favorable managed care contracts, our tenants may not be able to successfully compete. Any reduction in rental revenues resulting from the inability of our tenants or the associated healthcare delivery systems with which our healthcare properties are strategically aligned to compete in providing medical services and/or receiving sufficient rates of reimbursement for healthcare services rendered could have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

Table of Contents

***We may in the future make investments in development projects, which may not yield anticipated returns which could directly affect our operating results and reduce the amount of funds available for distributions.***

A component of our growth strategy is exploring development opportunities, some of which may arise through strategic joint ventures. In deciding whether to make an investment in a particular development, we make certain assumptions regarding the expected future performance of that property. To the extent that we consummate development opportunities, our investment in these projects will be subject to the following risks:

- we may be unable to obtain financing for development projects on favorable terms or at all;
- we may not complete development projects on schedule or within budgeted amounts;
- we may encounter delays in obtaining or fail to obtain all necessary zoning, land use, building, occupancy, environmental and other governmental permits and authorizations, or underestimate the costs necessary to develop the property to market standards;
- development or construction delays may provide tenants the right to terminate preconstruction leases or cause us to incur additional costs;
- volatility in the price of construction materials or labor may increase our development costs;
- hospitals or health systems may maintain significant decision-making authority with respect to the development schedule;
- we may incorrectly forecast risks associated with development in new geographic regions;
- tenants may not lease space at the quantity or rental rate levels projected;
- demand for our development project may decrease prior to completion, including due to competition from other developments; and

- lease rates and rents at newly developed properties may fluctuate based on factors beyond our control, including market and economic conditions.

If our investments in development projects do not yield anticipated returns for any reason, including those set forth above, 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.

***We may in the future make investments in joint ventures, which could be adversely affected by our lack of decision-making authority, our reliance upon our joint venture partners financial condition, any disputes that may arise between us and our joint venture partners and our exposure to potential losses from the actions of our joint venture partners.***

We may in the future make co-investments with third parties through partnerships, joint ventures or other entities, acquiring noncontrolling interests in or sharing responsibility for the management of the affairs of a property, partnership, joint venture or other entity. Joint ventures generally involve risks not present with respect to our wholly-owned properties, including the following:

- our joint venture partners may make management, financial and operating decisions with which we disagree or that are not in our best interest;

- we may be prevented from taking actions that are opposed by our joint venture partners;

- our ability to transfer our interest in a joint venture to a third party may be restricted;

- our joint venture partners might become bankrupt or fail to fund their share of required capital contributions which may delay construction or development of a healthcare related facility or increase our financial commitment to the joint venture;

- our joint venture partners may have business interests or goals with respect to the healthcare related facility that conflict with our business interests and goals which could increase the likelihood of disputes regarding the ownership, management or disposition of the healthcare related facility;

Table of Contents

- disputes may develop with our joint venture partners over decisions affecting the healthcare related facility or the joint venture which may result in litigation or arbitration that would increase our expenses and distract our officers and/or trustees from focusing their time and effort on our business and possibly disrupt the daily operations of the healthcare related facility; and

- we may suffer losses as a result of the actions of our joint venture partners with respect to our joint venture investments.

Joint venture investments involve risks that may not be present with other methods of ownership. In addition to those risks identified above, our partners might at any time have economic or other business interests or goals that are or become inconsistent with our interests or goals; that we could become engaged in a dispute with our partners, which could require us to expend additional resources to resolve such disputes and could have an adverse impact on the operations and profitability of the joint venture; and that our partners may be in a position to take action or withhold consent contrary to our instructions or requests. In addition, our ability to transfer our interest in a joint venture to a third party may be restricted. In the future, in certain instances, we or our partners may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partners interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partners interest may be limited if we do not have sufficient cash, available borrowing capacity or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it. Joint ventures may require us to share decision-making authority with our partners, which could limit our ability to control the properties in the joint ventures. Even when we have a controlling interest, certain major decisions may require partner approval, such as the sale, acquisition or financing of a property.

***RIDEA and operating properties.***

We may invest in senior housing facilities or other properties, structured, where applicable, in compliance with RIDEA or other applicable REIT laws or regulations. If so, we will be exposed to various operational risks with respect to those operating properties that may increase our costs or adversely affect our ability to generate revenues. These risks include fluctuations in patient volume and occupancy, Medicare and Medicaid reimbursement, if applicable, and private pay rates; economic conditions; competition; federal, state, local, and industry-regulated licensure, certification and inspection laws, regulations, and standards; the availability and increases in cost of general and professional liability insurance coverage; state regulation; the availability and increases in cost of labor (as a result of unionization or otherwise) and other risks applicable to operating businesses. Any one or a combination of these factors may adversely affect our revenue and operations.

***We may not be able to control our operating costs or our expenses may remain constant or increase, even if our revenue does not increase, which could cause our results of operations to be adversely affected.***

Factors that may adversely affect our ability to control operating costs include the need to pay for insurance and other operating costs, including real estate taxes, which could increase over time, the need periodically to repair, renovate and re-let space, the cost of compliance with governmental regulation, including zoning and tax laws, the potential for liability under applicable laws, interest rate levels and the availability of financing. Certain costs associated with real estate investments may not be reduced even if a healthcare related facility is not fully occupied or other circumstances cause our revenues to decrease. If our operating costs increase as a result of any of the foregoing factors, our results of operations may be adversely affected.

***Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flows.***

We maintain comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by our lenders), extended coverage and rental loss insurance with respect to our initial properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, riots, acts of war or terrorism. Should an uninsured loss occur, we could lose both our investment in and anticipated profits and cash flows from a healthcare related facility. If any such loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. In addition, future lenders may require such insurance, and our failure to obtain such insurance could constitute a default under loan agreements. We may determine not to insure some or all of our properties at levels considered customary in our industry and which would expose us to an increased risk of loss. As a result, 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.

Table of Contents

***Environmental compliance costs and liabilities associated with owning, leasing, developing and operating our properties may affect our results of operations.***

Under various U.S. federal, state and local laws, ordinances and regulations, current and prior owners and tenants of real estate may be jointly and severally liable for the costs of investigating, remediating and monitoring certain hazardous substances or other regulated materials on or in such property. In addition to these costs, the past or present owner or tenant of a property from which a release emanates could be liable for any personal injury or property damage that results from such releases, including for the unauthorized release of asbestos-containing materials and other hazardous substances into the air, as well as any damages to natural resources or the environment that arise from such releases. These environmental laws often impose such liability without regard to whether the current or prior owner or tenant knew of, or was responsible for, the presence or release of such substances or materials. Moreover, the release of hazardous substances or materials, or the failure to properly remediate such substances or materials, may adversely affect the owner s or tenant s ability to lease, sell, develop or rent such property or to borrow by using such property as collateral. Persons who transport or arrange for the disposal or treatment of hazardous substances or other regulated materials may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, regardless of whether or not such facility is owned or operated by such person.

Certain environmental laws impose compliance obligations on owners and tenants of real property with respect to the management of hazardous substances and other regulated materials. For example, environmental laws govern the management and removal of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions. If we incur substantial costs to comply with these environmental laws or we are held liable under these laws, 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.

***Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.***

Under the Americans with Disabilities Act of 1990, or the ADA, all places of public accommodation are required to meet certain U.S. federal requirements related to access and use by disabled persons. A number of additional U.S. federal, state and local laws may also require modifications to our healthcare properties, or restrict certain further renovations of the buildings, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines, an award of damages to private litigants and/or an order to correct any non-complying feature which could result in substantial capital expenditures. We have not conducted a detailed audit or investigation of all of our properties to determine our compliance, and we cannot predict the ultimate cost of compliance with the ADA or other legislation. If one or more of our properties is not in compliance with the ADA or other related legislation, then we would be required to incur additional costs to bring the facility into compliance. If we incur substantial costs to comply with the ADA or other related legislation, 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.

***Acquiring outstanding mortgages or other debt secured by a healthcare related facility or land suitable for development as a healthcare related facility may expose us to risks of costs and delays in acquiring the underlying property.***

We may decide to acquire outstanding mortgages or other debt secured by a healthcare related facility or land suitable for development as a healthcare related facility from lenders and investors if we believe we can ultimately foreclose or otherwise acquire ownership of the underlying property in the near-term through foreclosure, deed-in-lieu of foreclosure or other means. However, if we do acquire such debt, borrowers may seek to assert various defenses to our foreclosure or other actions and we may not be successful in acquiring the underlying property on a timely basis, or at all, in which event we could incur significant costs and experience significant delays in acquiring such properties, all of which could

adversely affect our financial performance and reduce our expected returns from such investments. In addition, we may not earn a current return on such investments particularly if the mortgage or other debt that we acquire is in default.

***We have now, and may have in the future, exposure to contingent rent escalators, which can hinder our growth and profitability.***

We receive a significant portion of our revenues by leasing our assets under long-term triple-net leases in which the rental rate is generally fixed with annual escalations. Leases in the future may contain escalators contingent upon the achievement of specified revenue parameters or based on changes in the Consumer Price Index. If, as a result of weak economic conditions or other factors, the revenues generated by our triple-net-leased properties do not meet the specified parameters or the Consumer Price Index does not increase, our growth and profitability will be hindered by these leases.

Table of Contents

***We may not be able to maintain or expand our relationships with our existing and future hospital and healthcare delivery system clients.***

The success of our business depends, to a large extent, on our current and future relationships with hospital and healthcare delivery system clients. We invest a significant amount of time to develop, maintain and be responsive to these relationships, and our relationships have helped us to secure acquisition and development opportunities, as well as other advisory, property management and projects, with both new and existing clients. If our relationships with hospital or health system clients deteriorate, or if a conflict of interest or non-compete arrangement prevents us from expanding these relationships, our ability to secure new acquisition and development opportunities or other advisory, property management and hospital project management projects could be adversely impacted and our professional reputation within the industry could be damaged.

***Our investments in real estate-related investments will be subject to the risks typically associated with real estate, which may have a material effect on your investment.***

Our loans held for investment generally will be directly or indirectly secured by a lien on real property, or the equity interests in an entity that owns real property, that, upon the occurrence of a default on the loan, could result in our acquiring ownership of the property. We will not know whether the values of the properties ultimately securing our loans will remain at or above the levels existing on the dates of origination of those loans. If the values of the underlying properties decline, our risk will increase because of the lower value of the security associated with such loans. In this manner, real estate values could impact the values of our loan investments. Any investments in mortgage-related securities, collateralized debt obligations and other real estate-related investments (including potential investments in real property) may be similarly affected by real estate property values. Therefore, our investments will be subject to the risks typically associated with real estate.

The value of real estate may be adversely affected by a number of risks, including:

- natural disasters, such as hurricanes, earthquakes and floods;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and real estate conditions;
- an oversupply of (or a reduction in demand for) space in the areas where particular properties are located and the attractiveness of particular properties to prospective tenants;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance therewith and the potential for liability under applicable laws;

- costs of remediation and liabilities associated with environmental conditions affecting properties; and the potential for uninsured or underinsured property losses.

The value of each property is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of rental or other income that can be generated net of expenses required to be incurred with respect to the property. Many expenditures associated with properties (such as property taxes, operating expenses and capital expenditures) cannot be reduced when there is a reduction in income from the properties. These factors may have a material adverse effect on the ability of the borrowers to pay their loans, as well as on the value that we can realize from assets we own or acquire.

***Our investments in, or originations of, senior debt or mezzanine debt will be subject to the specific risks relating to the particular company and to the general risks of investing in real estate-related loans and securities, which may result in significant losses.***

We may invest in, or originate, senior debt or mezzanine debt. These investments will involve special risks relating to the particular borrower, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities may not be collateralized and also may be subordinated to the entity s other obligations. We are likely to invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. We have not adopted any limit on such investments.

These investments also will subject us to the risks inherent with real estate investments referred to previously, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;

Table of Contents

- the dependence upon the successful operation of, and net income from, real property;

- risks generally incident to interests in real property; and

- risks specific to the type and use of a particular property.

These risks may adversely affect the value of our investments and the ability of our borrowers to make principal and interest payments in a timely manner, or at all, and could result in significant losses.

***Cybersecurity incidents could disrupt our business and result in the compromise of confidential information***

Our business is at risk from and may be impacted by cybersecurity attacks, including attempts to gain unauthorized access to our confidential data, and other electronic security breaches. Such cyber attacks can range from individual attempts to gain unauthorized access to our information technology systems to more sophisticated security threats. While we employ a number of measures to prevent, detect and mitigate these threats, there is no guarantee such efforts will be successful in preventing a cyber attack. Cybersecurity incidents could disrupt our business and compromise confidential information and of ours and third parties, including our tenants.

**Risks Related to the Healthcare Industry**

***The healthcare industry is heavily regulated, and new laws or regulations, changes to existing laws or regulations, loss of licensure or failure to obtain licensure could adversely impact our company and result in the inability of our tenants to make rent payments to us.***

The healthcare industry is heavily regulated by U.S. federal, state and local governmental authorities. Our tenants generally are subject to laws and regulations covering, among other things, licensure, certification for participation in government programs, billing for services, privacy and security of health information and relationships with physicians and other referral sources. In addition, new laws and regulations, changes in existing laws and regulations or changes in the interpretation of such laws or regulations could negatively affect our financial condition and the financial condition of our tenants. These changes, in some cases, could apply retroactively. The enactment, timing or effect of legislative or regulatory changes cannot be predicted.

The Affordable Care Act is changing how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals and reduced Medicare program spending. In addition, the new law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality and contains provisions intended to strengthen fraud and abuse enforcement. The complexities and ramifications of the Affordable Care Act are significant and are being implemented in a phased approach which began in 2010. At this time, it is difficult to predict the full effects of the Affordable Care Act and its impact on our business, our revenues

and financial condition and those of our tenants due to the law s complexity, lack of implementing regulations or interpretive guidance, gradual implementation and possible amendment. Further, we are unable to foresee how individuals and businesses will respond to the choices afforded them by the Affordable Care Act. The Affordable Care Act could adversely affect the reimbursement rates received by our tenants, the financial success of our tenants and strategic partners and consequently us.

On June 28, 2012, the United States Supreme Court upheld the individual mandate of the Affordable Care Act but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion allow states not to participate in the expansion (and to forego funding for the Medicaid expansion) without losing their existing Medicaid funding. While the U.S. federal government will pay for approximately 100% of those additional costs from 2014 to 2016, states will be expected to pay a small percentage of those additional costs beginning in 2017. Because the U.S. federal government substantially funds the Medicaid expansion, it is unclear how many states ultimately will elect this option. The participation by states in the Medicaid expansion could have the effect of increasing some of our tenants revenues but also could be a strain on U.S. federal government and state budgets.

On March 4, 2015, the United States Supreme Court ( USSC ) will consider in King v. Burwell (Docket No. 14-114) whether the U.S. Internal Revenue Service may extend tax credits subsidies to health insurance purchased through exchanges established by the U.S. federal government under Section 1321 of the Patient Protection and Affordable Care Act. If the USSC rules the subsidies are not permitted by the Affordable Care Act, millions of Americans who purchased health insurance coverage residing in 34 states could default on their obligation to pay for their health insurance coverage and thus their ability to pay for health care services. Such default could adversely affect our tenants and their ability to pay rent to us

Table of Contents

Annual statutory and regulatory policy decisions may impact one or more specific unique providers that lease space in any of our facilities. For example, on April 1, 2014, the President signed into law the Protecting Access to Medicare Act of 2014, which in part amended an existing statutory moratorium on the establishment of new long-term care hospitals ( LTCH ), the establishment of new LTCH satellite facilities, and bed increases within such existing facilities effective for the period April 1, 2014 through September 30, 2017. The present moratorium is similar to a moratorium that expired December 28, 2012, but unlike the expired moratorium, does not include any exceptions that would allow for bed increases at existing LTCHs or LTCH satellite facilities. Pursuant to the new law, limited exceptions apply to the moratorium on the establishment of new LTCHs and new LTCH satellite facilities. To qualify for the exception, a hospital or entity must have satisfied one of the following: (1) begun its qualifying period for payment as an LTCH; (2) entered into a binding written agreement with an outside, unrelated party for the actual construction, renovation, lease or demolition for an LTCH, and have expended, before April 1, 2014, at least 10 percent of the estimated cost of the project or, if less, $2.5 million; or (3) obtained a certificate of need, as may be required, in a certificate-of-need state. The Centers for Medicare and Medicaid Services (CMS) has issued a proposed rule addressing the moratorium and exceptions thereto but to date no final rule has been implemented. This law directly applies to our existing tenant, LifeCare Hospitals in each of Plano, Texas, Fort Worth, Texas and Pittsburgh, Pennsylvania facilities but does not directly impact any of our existing facilities, as it only applies to the Medicare participation of facilities that are not already participating in the Medicare program as LTCHs.

Many states also regulate the establishment and construction of healthcare facilities and services, and the expansion of existing healthcare facilities and services through certificate of need, or CON, laws, which by way of example may include regulation of certain types of beds, medical equipment and capital expenditures. Under such laws, the applicable state regulatory body must determine a need exists for a project before the project can be undertaken. If one of our tenants seeks to undertake a CON-regulated project, but is not authorized by the applicable regulatory body to proceed with the project, the tenant would be prevented from operating in its intended manner.

Failure to comply with these laws and regulations or failure to secure CON approval to undertake a desired project could adversely affect our tenants ability to make rent payments to us which may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

***Adverse trends in healthcare provider operations may negatively affect our lease revenues and our ability to make distributions to our shareholders.***

The healthcare industry is currently experiencing, among other things:

- changes in the demand for and methods of delivering healthcare services;
- changes in third party reimbursement methods and policies;
- consolidation and pressure to integrate within the healthcare industry through acquisitions and joint ventures; and

- increased scrutiny of billing, referral and other practices by U.S. federal and state authorities.

These factors may adversely affect the economic performance of some or all of our tenants and, in turn, our lease revenues, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

***Reductions in reimbursement from third party payors, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent payments to us or renew their lease.***

Sources of revenue for our tenants typically include the U.S. federal Medicare program, state Medicaid programs, private insurance payors and health maintenance organizations. Healthcare providers continue to face increased government and private payor pressure to control or reduce healthcare costs and significant reductions in healthcare reimbursement, including reduced reimbursements and changes to payment methodologies under the Affordable Care Act. The Congressional Budget Office, or CBO, estimates the reductions required by the Affordable Care Act over the next ten years will include $415 billion in cuts to Medicare fee-for-service payments, the majority of which will come from hospitals, and that some hospitals will become insolvent as a result of the reductions. In some cases, private insurers rely upon all or portions of the Medicare payment systems to determine payment rates which may result in decreased reimbursement from private insurers.

The slowdown in the United States economy has negatively affected state budgets, thereby putting pressure on states to decrease spending on state programs including Medicaid. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in state Medicaid programs due to unemployment and declines in family incomes. Historically, states have often attempted to reduce Medicaid spending by limiting benefits and tightening Medicaid eligibility requirements. Many

Table of Contents

states have adopted, or are considering the adoption of, legislation designed to enroll Medicaid recipients in managed care programs and/or impose additional taxes on hospitals to help finance or expand the states Medicaid systems. Potential reductions to Medicaid program spending in response to state budgetary pressures could negatively impact the ability of our tenants to successfully operate their businesses.

Efforts by payors to reduce healthcare costs will likely continue which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. A reduction in reimbursements to our tenants from third party payors for any reason could adversely affect our tenants ability to make rent payments to us which may have a material adverse effect on our businesses, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

***Our tenants and our company are subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant s ability to make rent payments to us.***

There are various federal and state laws prohibiting fraudulent and abusive business practices by healthcare providers who participate in, receive payments from or are in a position to make referrals in connection with government-sponsored healthcare programs, including the Medicare and Medicaid programs. Our lease arrangements with certain tenants may also be subject to these fraud and abuse laws.

These laws include without limitation:

- the Federal Anti-Kickback Statute, which prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of any federal or state healthcare program patients;

- the Federal Physician Self-Referral Prohibition (commonly called the Stark Law ), which, subject to specific exceptions, restricts physicians who have financial relationships with healthcare providers from making referrals for designated health services for which payment may be made under Medicare or Medicaid programs to an entity with which the physician, or an immediate family member, has a financial relationship;

- the False Claims Act, which prohibits any person from knowingly presenting false or fraudulent claims for payment to the federal government, including under the Medicare and Medicaid programs;

- the Civil Monetary Penalties Law, which authorizes the Department of Health and Human Services to impose monetary penalties for certain fraudulent acts; and

- state anti-kickback, anti-inducement, anti-referral and insurance fraud laws which may be generally similar to, and potentially more expansive than, the federal laws set forth above.

Violations of these laws may result in criminal and/or civil penalties that range from punitive sanctions, damage assessments, penalties, imprisonment, denial of Medicare and Medicaid payments and/or exclusion from the Medicare and Medicaid programs. In addition, the Affordable Care Act clarifies that the submission of claims for items or services generated in violation of the Anti-Kickback Statute constitutes a false or fraudulent claim under the False Claims Act. The federal government has taken the position, and some courts have held, that violations of other laws, such as the Stark Law, can also be a violation of the False Claims Act. Additionally, certain laws, such as the False Claims Act, allow for individuals to bring whistleblower actions on behalf of the government for violations thereof. Imposition of any of these penalties upon one of our tenants or strategic partners could jeopardize that tenant s ability to operate or to make rent payments or affect the level of occupancy in our healthcare properties, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares. Further, we enter into leases and other financial relationships with healthcare delivery systems that are subject to or impacted by these laws. We also have other investors who are healthcare providers in certain of our subsidiaries that own our healthcare properties. If any of our relationships, including those related to the other investors in our subsidiaries, are found not to comply with these laws, we and our physician investors may be subject to civil and/or criminal penalties.

***Our healthcare-related tenants may be subject to significant legal actions that could subject them to increased operating costs and substantial uninsured liabilities, which may affect their ability to pay their rent payments to us, and we could be subject to healthcare industry violations.***

As is typical in the healthcare industry, our tenants may often become subject to claims that their services have resulted in patient injury or other adverse effects. Many of these tenants may have experienced an increasing trend in the frequency and severity of professional liability and general liability insurance claims and litigation asserted against them. The insurance coverage maintained

Table of Contents

by these tenants may not cover all claims made against them nor continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to these tenants due to state law prohibitions or limitations of availability. As a result, these types of tenants of our healthcare properties and healthcare-related facilities operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits.

We also believe that there has been, and will continue to be, an increase in governmental investigations of certain healthcare providers, particularly in the area of Medicare/Medicaid false claims, as well as an increase in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or governmental investigation, any settlements of such proceedings or investigations in excess of insurance coverage, whether currently asserted or arising in the future, could have a material adverse effect on a tenant s financial condition. If a tenant is unable to obtain or maintain insurance coverage, if judgments are obtained or settlements reached in excess of the insurance coverage, if a tenant is required to pay uninsured punitive damages, or if a tenant is subject to an uninsurable government enforcement action or investigation, the tenant could be exposed to substantial additional liabilities, which may affect the tenant s ability to pay rent, which in turn could have a material adverse effect on our business, financial condition and results of operations, our ability to pay distributions to our shareholders and the trading price of our common shares. We could also be subject to costly government investigations or other enforcement actions which could have a material adverse effect on our business, financial condition and results of operations, our ability to pay distributions to our shareholders and the trading price of our common shares.

**Risks Related to the Real Estate Industry**

***Our operating performance is subject to risks associated with the real estate industry.***

Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond our control. Certain events may decrease cash available for distributions as well as the value of our initial properties. These events include, but are not limited to:

- vacancies or our inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or tenant-favorable renewal options;

- inability to collect rent from tenants;

- competition from other real estate investors with significant capital, including other real estate operating companies, REITs and institutional investment funds;

- reductions in the level of demand for healthcare properties and changes in the demand for certain healthcare-related properties;

- increases in the supply of medical office space;

- increases in expenses associated with our real estate operations, including, but not limited to, insurance costs, third party management fees, energy prices, real estate assessments and other taxes and costs of compliance with laws, regulations and governmental policies, and restrictions on our ability to pass such expenses on to our tenants; and

- changes in, and changes in enforcement of, laws, regulations and governmental policies associated with real estate, including, without limitation, health, safety, environmental, zoning and tax laws, governmental fiscal policies and the ADA.

In addition, periods of economic slowdown or recession, such as the recent U.S. economic downturn, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases. If we cannot operate our properties to meet our financial expectations, our business, financial condition, results of operations, cash flow, per share trading price of our common shares and ability to satisfy our debt service obligations and to make distributions to our shareholders could be adversely affected.

Table of Contents

***Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of any of our properties.***

Because real estate investments are relatively illiquid, our ability to promptly sell one or more of our properties in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any of our properties for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of any of our properties. We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements.

In acquiring a property, we may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate. These facts and any others that would impede our ability to respond to adverse changes in the performance of our properties may have an adverse effect on our business, financial condition, results of operations, or ability to make distributions to our shareholders and the trading price of our common shares.

***Uncertain market conditions could cause us to sell our healthcare properties at a loss in the future.***

We intend to hold our various real estate investments until such time as we determine that a sale or other disposition appears to be advantageous to achieve our investment objectives. Our senior management team and our board of trustees may exercise their discretion as to whether and when to sell a healthcare related facility, and we will have no obligation to sell our buildings at any particular time. We generally intend to hold our healthcare properties for an extended period of time, and we cannot predict with any certainty the various market conditions affecting real estate investments that will exist at any particular time in the future. Because of the uncertainty of market conditions that may affect the future disposition of our healthcare properties, we may not be able to sell our properties at a profit in the future or at all. We may incur prepayment penalties in the event that we sell a property subject to a mortgage earlier than we otherwise had planned. Additionally, we could be forced to sell healthcare properties at inopportune times which could result in us selling the affected property at a substantial loss. Accordingly, the extent to which you will receive cash distributions and realize potential appreciation on our real estate investments will, among other things, be dependent upon fluctuating market conditions. Any inability to sell a healthcare property could adversely impact our ability to make debt payments and distributions to our shareholders.

***Our assets may be subject to impairment charges.***

We will periodically evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based upon factors such as market conditions, tenant performance and legal structure. For example, the termination of a lease by a major tenant may lead to an impairment charge. If we determine that an impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset which could have an adverse effect on our results of operations in the period in which the impairment charge is recorded. We recognized a $0.3 million impairment loss on a medical office building in Pickerington, Ohio, and a $1.5 million impairment loss on a medical office building in Lansing, Michigan. Both properties are vacant. The fair market value of the Ohio property was determined based on an accepted arms-length offer to purchase the property and the fair market value of the Lansing, Michigan property was determined by a third party valuation firm. For both properties, the impairment was assessed because the property s carrying amount exceeded its estimated fair value.

Table of Contents

***Our mezzanine loan assets will involve greater risks of loss than senior loans secured by income-producing properties.***

We have originated two mezzanine loans and in the future, we may originate further mezzanine loans or other real estate-related investments which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender and because it is in second position and there may not be adequate equity in the property. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy such mezzanine loan. If a borrower defaults on a mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, such mezzanine loan will be satisfied only after the senior debt. We may be unable to enforce guaranties of payment and/or performance given as security for some mezzanine loans. As a result, we may not recover some or all of our initial expenditure. Mezzanine loans may partially finance the construction of real estate projects and so involve additional risks inherent in the construction process, such as adherence to budgets and construction schedules. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans would result in operating losses for us and may limit our ability to make distributions to our shareholders.

**Risks Related to Financings**

***Required payments of principal and interest on borrowings may leave us with insufficient cash to operate our properties or to pay the distributions currently contemplated or necessary to qualify as a REIT and may expose us to the risk of default under our debt obligations.***

As of December 31, 2014, we had approximately $78.1 million of mortgage debt on individual properties. During January 2015, we have assumed an additional $5.8 million of mortgage debt in connection with a property acquisition. We expect to incur additional debt in the future. We do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity, and, therefore, we expect to repay our indebtedness through refinancings and future offerings of equity and debt securities, either of which we may be unable to secure on favorable terms or at all. Our level of debt and the limitations imposed upon us by our debt agreements could have adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;

- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions;

- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;

- because a portion of our debt bears, or is expected to bear, interest at variable rates, an increase in interest rates could materially increase our interest expense;

- we may fail to effectively hedge against interest rate volatility

- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms if we are able to do so at all

- after debt service, the amount available for distributions to our shareholders is reduced;

- our leverage could place us at a competitive disadvantage compared to our competitors who have less debt;

- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;

- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;

Table of Contents

- we may violate financial covenants contained in our various loan documents which would cause a default on our obligations, giving lenders various remedies, including increased interest rates, foreclosure and liability for additional expenses;

- we may inadvertently violate non-financial restrictive covenants in our loan documents, such as covenants that require us to maintain the existence of entities, maintain insurance policies and provide financial statements, which would entitle the lenders to accelerate our debt obligations; and

- our default under any of our mortgage loans with cross-default or cross-collateralization provisions could result in default on other indebtedness and result in the foreclosures of other properties.

The realization of any or all of these risks may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

***We 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.***

In order to qualify as a REIT under the Code, we are required, among other things, to distribute each year to our shareholders at least 90% of our taxable income, without regard to the deduction for dividends paid and excluding net capital gain. Because of this distribution requirement, 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. Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions, the market s perception of our current and potential future earnings and cash distributions and the market price of our common shares. We may not be in a position to take advantage of attractive investment opportunities for growth if we are unable to access the capital markets on a timely basis on favorable terms.

***We could become highly leveraged in the future because our organizational documents contain no limitations on the amount of debt that we may incur.***

As of December 31, 2014, our indebtedness represented approximately 26.6% of our total assets. However, our organizational documents contain no limitations on the amount of indebtedness that we or our Operating Partnership may incur. We could alter the balance between our total outstanding indebtedness and the value of our properties at any time. If we become more highly leveraged, the resulting increase in outstanding debt could adversely affect our ability to make debt service payments, to pay our anticipated distributions and to make the distributions required to qualify as a REIT. The occurrence of any of the foregoing risks could adversely affect our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

***Increases in interest rates may increase our interest expense and adversely affect our cash flows and our ability to service our indebtedness and to make distributions to our shareholders.***

As of December 31, 2014, we had approximately $142.4 million of variable-rate indebtedness outstanding that has not been swapped for a fixed interest rate and we expect that more of our indebtedness in the future, including borrowings under our unsecured revolving credit facility since December 31, 2014 and thereafter, will be subject to variable interest rates. Increases in interest rates on any variable rate indebtedness will increase our interest expense, which could adversely affect our cash flow and our ability to pay distributions.

***Failure to hedge effectively against interest rate changes may adversely affect our results of operations.***

In certain cases, we may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements. Hedging involves risks, such as the risk that the counterparty may fail to honor its obligations under an arrangement, that the arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. In addition, we may be limited in the type and amount of hedging transactions that we may use in the future by our need to satisfy the REIT income tests under the Code. Failure to hedge effectively against interest rate changes may have an adverse effect on our business, financial condition, results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

Table of Contents

***Our ability to issue equity to expand our business will depend, in part, upon the market price of our common shares, and our failure to meet market expectations with respect to our business could negatively affect the market price of our common shares and thereby limit our ability to raise capital.***

The availability of equity capital to us will depend, in part, upon the market price of our common shares which, in turn, will depend upon various market conditions and other factors that may change from time to time, including:

- the extent of investor interest;

- our ability to satisfy the distribution requirements applicable to REITs;

- the general reputation of REITs and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

- our financial performance and that of our tenants;

- analyst reports about us and the REIT industry;

- general stock and bond market conditions, including changes in interest rates on fixed income securities, which may lead prospective purchasers of our common shares to demand a higher annual yield from future distributions;

- a failure to maintain or increase our dividend which is dependent, in large part, upon FFO which, in turn, depends upon increased revenue from additional acquisitions and rental increases; and

- other factors such as governmental regulatory action and changes in REIT tax laws.

Our failure to meet the market s expectation with regard to future earnings and cash distributions would likely adversely affect the market price of our common shares and, as a result, the cost and availability of equity capital to us.

***Increases in market interest rates may have an adverse effect on the trading prices of our common shares as prospective purchasers of our common shares may expect a higher dividend yield and as an increased cost of borrowing may decrease our funds available for distribution.***

One of the factors that influences the trading prices of our common shares is the dividend yield on the common shares (as a percentage of the price of our common shares) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our common shares to expect a higher dividend yield (with a resulting decline in the trading prices of our common shares) and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common shares to decrease.

***Our issuance of equity securities, including OP Units, or the perception that such issuances might occur could materially adversely affect us, including the per share trading price of our common shares.***

The vesting of any restricted shares granted to trustees, executive officers and other employees under our 2013 Equity Incentive Plan, the issuance of our common shares or OP Units in connection with future property, portfolio or business acquisitions and other issuances of our common shares could have an adverse effect on the per share trading price of our common shares and may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future issuances of our common shares may be dilutive to existing shareholders.

On August 4, 2014, we filed a shelf registration statement on Form S-3 with the Commission, allowing us to offer up to $900 million of an indeterminate amount of common shares, preferred shares, convertible preferred shares, debt securities, convertible debt securities or other types of securities, from time to time (the Shelf Registration Statement ). The Commission declared the Shelf Registration Statement effective on August 19, 2014. We have issued securities under the Shelf Registration Statement as follows.

Table of Contents

On August 19, 2014, we and the Operating Partnership entered into separate At-the-Market Issuance Sales Agreements (the Sales Agreements ) with each of MLV & Co. LLC, KeyBanc Capital Markets Inc., JMP Securities LLC, and RBC Capital Markets, LLC (the Agents ), pursuant to which we may issue and sell common shares having an aggregate offering price of up to $150 million, from time to time, through the Agents pursuant to the Shelf Registration Statement (the ATM Program ). In accordance with the Sales Agreements, we may offer and sell our 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 (the Securities Act ), which includes sales made directly on the NYSE, or other existing trading market, or sales made to or through a market maker. With our express written consent, sales also may be made in negotiated transactions or any other method permitted by law. The common shares are registered under the Securities Act pursuant to the Shelf Registration Statement, and are being offered pursuant to a prospectus dated August 19, 2014, as supplemented by a prospectus supplement dated August 19, 2014, filed with the Commission pursuant to Rule 424(b) of the Securities Act. For the year ended December 31, 2014, we sold 3,576,010 common shares pursuant to the ATM Program, at a weighted average price of $15.54 per share resulting in total proceeds of approximately $55.6 million, before $0.8 million in commissions. As of March 9, 2015, we sold 247,397 common shares during 2015 pursuant to the ATM Program, at a weighted average price of $16.96 per share resulting in total proceeds of approximately $4.2 million, before $55,696 in commissions. As of March 9, 2015, we have $90.2 million remaining available under the ATM Program.

On September 12, 2014, we completed a follow-on public offering of 10,925,000 common shares of beneficial interest, including 1,425,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to us of approximately $145.7 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 10,925,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our former senior secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

On January 21, 2015, we completed a follow-on public offering of 18,975,000 common shares of beneficial interest, including 2,475,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to us of approximately $297.2 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 18,975,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

Any offering pursuant to the Shelf Registration Statement, whether a follow-on public offering, an at-the-market offering or otherwise, may cause dilution to our shareholders and could cause the per share trading price of our common shares to decline.

***Future offerings of debt, which would be senior to our common shares upon liquidation, or preferred equity securities which may be senior to our common shares for purposes of dividend distributions or upon liquidation, may materially adversely affect us, including the per share trading price of our common shares.***

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities (or causing our Operating Partnership to issue debt securities), including medium-term notes, senior or subordinated notes and classes or series of preferred shares. Upon liquidation, holders of our debt securities and preferred shares and lenders with respect to other borrowings will be entitled to receive our available assets prior to distribution to the holders of our common shares. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common shares and may result in dilution to owners of our common shares. Holders of our common shares are not entitled to preemptive rights or other protections against dilution. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability pay dividends or other distributions to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk that our future offerings could reduce the per share trading price of our common shares

and dilute their interest in us.

***If securities analysts do not publish research or reports about our industry or if they downgrade our common shares or the healthcare-related real estate sector, the market price of our common shares could decline.***

The trading market for our common shares depends in part upon the research and reports that industry or financial analysts publish about us and our industry. We have no control over these analysts. Furthermore, if one or more of the analysts who do cover us downgrades our shares or our industry, or the stock of any of our competitors, the price of our common shares could decline. If one or more of these analysts ceases coverage of our company, we could lose attention in the market which in turn could cause the market price of our common shares to decline.

Table of Contents

**Risks Related to Our Portfolio and Structure**

***We did not use third party appraisals of our initial properties to determine the consideration paid in the formation transactions. As a result, the value of the consideration paid for our initial properties in the formation transactions may exceed their aggregate fair market value.***

We did not use third party appraisals or obtain any independent third party valuations or fairness opinions in establishing the consideration paid for our initial properties contributed to us in connection with our formation transactions. Our Operating Partnership issued OP Units and assumed certain indebtedness secured by the initial properties in exchange for the contribution of the initial properties. The total value of the consideration issued in exchange for the contribution of ownership interests in the initial properties may have exceeded the fair market value of such assets. Upon a sale of any of the initial properties, we may not realize the value that we attributed to such property at the time of our IPO.

***We may have assumed unknown liabilities in connection with the formation transactions which could result in unexpected liabilities and expenses.***

As part of the acquisition of our initial properties, we (through our Operating Partnership) received certain assets or interests in certain assets subject to existing liabilities, some of which may be unknown to us. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with the entities prior to this report (including those that had not been asserted or threatened prior to this report), tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. Our recourse with respect to such liabilities may be limited. Depending upon the amount or nature of such liabilities, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our shares may be adversely affected.

***Our title insurance policies may not cover all title defects.***

Each of our properties is insured by a title insurance policy. We did not, however, obtain new owner s title insurance policies in connection with the acquisition of all of our initial properties in the formation transactions. In some instances, these title insurance policies are effective as of the time of the initial acquisition or later refinancing of the relevant property by the prior owner of such property. For such properties, it is possible that there may be title defects that have arisen since such acquisition or refinancing for which we will have no title insurance coverage. If there were a material title defect related to any of our properties that is not adequately covered by a title insurance policy, we could lose some or all of our capital invested in and our anticipated profits from such property.

***We did not obtain new Phase I environmental site assessments for our initial properties in connection with our formation transactions, and the assessments our Predecessor obtained before their acquisition of these properties do not provide assurance that we will not be exposed to environmental liabilities at our initial properties.***

We did not obtain new Phase I environmental site assessments with respect to all of our initial properties in connection with the formation transactions. No assurances can be given that any of the prior Phase I environmental site assessments previously obtained by the prior owner

identify all environmental conditions impacting the properties because material environmental conditions may have developed since the Phase I environmental site assessments were conducted. The Phase I environmental site assessments are also of limited scope and do not include comprehensive asbestos, lead-based paint or lead in drinking water assessments. Therefore, the initial properties developed earlier than 1989 may contain such hazardous substances. Comprehensive mold and radon assessments also were not conducted and some of the initial properties were identified in areas with radon levels above action levels for residential buildings by the Environmental Protection Agency. We also cannot guarantee that a prior owner or tenant of our initial properties or that an adjacent property owner has not created a material environmental condition that is unknown to us or that there are no other unknown material environmental conditions as to any one or more of our initial properties. There also exists the risk that material environmental conditions, liabilities or compliance concerns may arise in the future. The realization of any or all of these risks may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

Table of Contents

***We have no direct operations and rely upon funds received from our Operating Partnership to meet our obligations.***

We conduct substantially all of our operations through our Operating Partnership. As of March 9, 2015, we owned approximately 94.4% of the OP Units and apart from this ownership interest, we will not have any independent operations. As a result, we rely upon distributions from our Operating Partnership to pay any distributions that we might declare on our common shares. We also rely upon distributions from our Operating Partnership to meet our obligations, including tax liability on taxable income allocated to us from our Operating Partnership (which might make distributions to us not equal to the tax on such allocated taxable income). Shareholders claims will consequently be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our Operating Partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, claims of our shareholders will be satisfied only after all of our and our Operating Partnership s and its subsidiaries liabilities and obligations have been paid in full.

***We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common shares less attractive to investors.***

The Jumpstart Our Business Startups Act, or the JOBS Act contains provisions that, among other things, relax certain reporting requirements for emerging growth companies, including certain requirements relating to accounting standards and compensation disclosure. We are classified as an emerging growth company. For as long as we are an emerging growth company, which may be up to five full fiscal years, we may take advantage of exemptions from various reporting and other requirements that are applicable to other public companies that are not emerging growth companies, including the requirements to:

- provide an auditor s attestation report on management s assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404;

- comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies;

- comply with any new requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, requiring mandatory audit firm rotation or a supplement to the auditor s report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer;

- comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise;

- provide certain disclosure regarding executive compensation required of larger public companies; or

- hold shareholder advisory votes on executive compensation.

We cannot predict if investors will find our common shares less attractive because we will not be subject to the same reporting and other requirements as other public companies. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares, the per share trading price of our common shares could decline and may be more volatile.

We expect that we will no longer be an emerging growth company next year.

***We incur new costs as a result of becoming a public company, and such costs may increase if and when we cease to be an emerging growth company.***

As a public company, we incur significant legal, accounting, insurance and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect compliance with these public reporting requirements and associated rules and regulations to increase expenses, particularly after we are no longer an emerging growth company, although we are currently unable to estimate theses costs with any degree of certainty. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, which could result in our incurring additional costs applicable to public companies that are not emerging growth companies. We expect that we will no longer be an emerging growth company next year.

Table of Contents

***We will be subject to the requirements of the Sarbanes-Oxley Act of 2002.***

As long as we remain an emerging growth company, we will be permitted to gradually comply with certain of the on-going reporting and disclosure obligations of public companies pursuant to the Sarbanes-Oxley Act of 2002. See Part I, Item 1A. Risk Factors We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common shares less attractive to investors.

However, after we are no longer an emerging growth company under the JOBS Act, management will be required to deliver a report that assesses the effectiveness of our internal controls over financial reporting, pursuant to Section 302 of the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act may require our auditors to deliver an attestation report on the effectiveness of our internal controls over financial reporting in conjunction with their opinion on our audited financial statements as of December 31 subsequent to the period covered by this report. Substantial work on our part is required to implement appropriate processes, document the system of internal control over key processes, assess their design, remediate any deficiencies identified and test their operation. This process is expected to be both costly and challenging. We cannot give any assurances that material weaknesses will not be identified in the future in connection with our compliance with the provisions of Section 302 and 404 of the Sarbanes-Oxley Act. The existence of any material weakness would preclude a conclusion by management and our independent auditors that we maintained effective internal control over financial reporting. Our management may be required to devote significant time and expense to remediate any material weaknesses that may be discovered and may not be able to remediate any material weakness in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, all of which could lead to a decline in the per share trading price of our common shares.

***Our business could be harmed if key personnel terminate their employment with us or if we are unsuccessful in integrating new personnel into our operations.***

Our success depends, to a significant extent, on the continued services of Mr. Thomas, our President and Chief Executive Officer, Mr. Theiler, our Executive Vice President and Chief Financial Officer, Mr. Sweet, our Executive Vice President and Chief Investment Officer, Mr. Lucey, our Senior Vice President Principal Accounting and Reporting Officer, Mr. Theine, our Senior Vice President of Asset and Investment Management and Mr. Page, our Senior Vice President and General Counsel. We do not maintain key person life insurance on any of our officers. Our ability to continue to acquire and develop healthcare properties depends upon the significant relationships that our senior management team has developed over many years.

Although we have entered into employment agreements with Messrs. Thomas, Theiler, Sweet, Lucey, Theine and Page, we cannot provide any assurance that any of them will remain employed by us. Our ability to retain our senior management team, or to attract suitable replacements should any member of the senior management team leave, is dependent on the competitive nature of the employment market. The loss of services of, or the failure to successfully integrate one or more new members of, our senior management team could adversely affect our business and our prospects.

***Our use of OP Units as currency to acquire properties could result in shareholder dilution and/or limit our ability to sell such properties, which could have a material adverse effect on us.***

We may continue to acquire some properties or portfolios of properties through tax deferred contribution transactions in exchange for OP Units, which may result in shareholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell properties at a time, or on terms, that would be favorable absent such restrictions.

***Conflicts of interest could arise as a result of our UPREIT structure.***

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our Operating Partnership or any partner thereof, on the other. Our trustees and officers have duties to us under applicable Maryland law in connection with their management of our company. At the same time, we, as general partner, have fiduciary duties to our Operating Partnership and to the limited partners under Delaware law in connection with the management of our Operating Partnership. Our duties, as general partner, to our Operating Partnership and its limited partners may come into conflict with the duties of our trustees and officers.

Table of Contents

Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness and loyalty and which generally prohibits such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits our liability by providing that we, as the general partner of the Operating Partnership, and our trustees and officers are not be liable or accountable in damages to our Operating Partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we or our trustees of officers acted in good faith. In addition, our Operating Partnership is required to indemnify us, our affiliates and each of our respective officers and trustees, to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities (whether joint or several), expenses (including, without limitation, attorneys fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Operating Partnership, provided that our Operating Partnership will not indemnify any such person for (1) acts or omissions committed in bad faith or that were the result of active and deliberate dishonesty, (2) any transaction for which such person received an improper personal benefit in money, property or services, or (3) in the case of a criminal proceeding, the person had reasonable cause to believe the act or omission was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement.

***Our declaration of trust restricts the ownership and transfer of our outstanding shares of beneficial interest which may have the effect of delaying, deferring or preventing a transaction or change of control of our company.***

In order for us to qualify as a REIT, no more than 50% of the value of our outstanding shares of beneficial interest may be owned, beneficially or constructively, by five or fewer individuals at any time during the last half of each taxable year other than our initial REIT taxable year. Subject to certain exceptions, our declaration of trust prohibits any shareholder from owning beneficially or constructively more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our shares of beneficial interest. The constructive ownership rules under the Code are complex and may cause the outstanding shares owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of our outstanding shares of any class or series by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding shares of any class or series of our shares of beneficial interest and to be subject to our declaration of trust s ownership limit. Our declaration of trust also prohibits, among other prohibitions, any person from owning our shares of beneficial interest that would result in our being closely held under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT. Any attempt to own or transfer shares of our beneficial interest in violation of these restrictions may result in the shares being automatically transferred to a charitable trust or may be void.

***Certain provisions of Maryland law could inhibit changes of control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common shares or that our shareholders otherwise believe to be in their best interests.***

Certain provisions of the Maryland General Corporation Law, or MGCL, applicable to Maryland real estate investment trusts may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise

could provide our common shareholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested shareholder (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our shares at any time within the two-year period immediately prior to the date in question) or an affiliate thereof for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes certain minimum price and/or supermajority shareholder voting requirements on these combinations; and

- control share provisions that provide that holders of control shares of our company (defined as shares that, when aggregated with all other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of issued and outstanding control shares, subject to certain exceptions) have no voting rights with respect to their control shares, except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Table of Contents

Pursuant to the statute, our board of trustees has by resolution exempted any business combination between us and any other person from the business combination provisions of the MGCL, provided that the business combination is first approved by our board of trustees (including a majority of trustees who are not affiliates or associates of such person). In addition, our bylaws contain a provision exempting any and all acquisitions of our shares from the control share provisions of the MGCL. However, our board of trustees may at any time alter or repeal the resolution exempting certain businesses from the business combination provisions of the MGCL and we may at any time amend or eliminate the provision of our bylaws exempting acquisitions of our shares from the control share provisions of the MGCL.

Certain provisions of the MGCL permit our board of trustees, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to implement certain corporate governance provisions, some of which (for example, a classified board) are not currently applicable to us. If implemented, these provisions may have the effect of limiting or precluding a third party from making an unsolicited acquisition proposal for us or of delaying, deferring or preventing a change in control of us under circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then current market price. Pursuant to our declaration of trust, we have elected to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of trustees.

***We could increase the number of authorized shares, classify and reclassify unissued shares and issue shares without shareholder approval.***

Our board of trustees, without shareholder approval, has the power under our declaration of trust to amend our declaration of trust to increase or decrease the aggregate number of shares or the number of shares of any class or series that we are authorized to issue, and to authorize us to issue authorized but unissued common shares or preferred shares. In addition, under our declaration of trust, our board of trustees has the power to classify or reclassify any unissued common or preferred shares into one or more classes or series of shares and set or change the preference, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications or terms or conditions of redemption for such newly classified or reclassified shares. As a result, we may issue series or classes of common shares or preferred shares with preferences, dividends, powers and rights, voting or otherwise, that are senior to, or otherwise conflict with, the rights of holders of our common shares. Although our board of trustees has no such intention at the present time, it could establish a class or series of preferred shares that could, depending on the terms of such class or series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common shares or that our shareholders otherwise believe to be in their best interests.

***We may change our business, investment and financing strategies without shareholder approval.***

We may change our business, investment and financing strategies without a vote of, or notice to, our shareholders, which could result in our making investments and engaging in business activities that are different from, and possibly riskier than, the investments and businesses described in this report. In particular, a change in our investment strategy, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to real estate market fluctuations. In addition, we may in the future increase the use of leverage at times and in amounts that we, in our discretion, deem prudent, and such decision would not be subject to shareholder approval. Furthermore, our board of trustees may determine that healthcare properties do not offer the potential for attractive risk-adjusted returns for an investment strategy. Changes to our strategies with regards to the foregoing could adversely affect our financial condition, results of operations and our ability to make distributions to our shareholders.

***Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit your recourse in the event that we take certain actions which are not in your best interests.***

Our declaration of trust eliminates the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or

- active and deliberate dishonesty by the trustee or officer that was established by a final judgment and is material to the cause of action adjudicated.

Table of Contents

Our declaration of trust authorizes us to indemnify our present and former trustees and officers for actions taken by them in those and other capacities to the maximum extent permitted by Maryland law. Our bylaws obligate us to indemnify each present and former trustee or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to advance the defense costs incurred by our trustee and officers. We have also entered into indemnification agreements with our officers and trustees granting them express indemnification rights. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist absent the current provisions in our declaration of trust, bylaws and indemnification agreements or that might exist with other companies.

Our declaration of trust contains provisions that make removal of our trustees difficult, which could make it difficult for our shareholders to effect changes to our management and may prevent a change in control of our company that is in the best interests of our shareholders. Our declaration of trust provides that a trustee may only be removed for cause upon the affirmative vote of holders of two-thirds of all the votes entitled to be cast generally in the election of trustees. Vacancies may be filled only by a majority of the remaining trustees in office, even if less than a quorum. These requirements make it more difficult to change our management by removing and replacing trustees and may prevent a change in control of our company that is in the best interests of our shareholders.

***Certain provisions in the partnership agreement of our Operating Partnership may delay or prevent unsolicited acquisitions of us.***

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

- redemption rights;

- a requirement that we may not be removed as the general partner of our Operating Partnership without our consent;

- transfer restrictions on OP Units;

- our ability, as general partner, in some cases, to amend the partnership agreement and to cause the Operating Partnership to issue units with terms that could delay, defer or prevent a merger or other change of control of us or our Operating Partnership without the consent of the limited partners; and

- the right of the limited partners to consent to direct or indirect transfers of the general partnership interest, including as a result of a merger or a sale of all or substantially all of our assets, in the event that such transfer requires approval by our common shareholders.

Our declaration of trust and bylaws, Maryland law and the partnership agreement of our Operating Partnership also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common shares or that our shareholders otherwise believe to be in their best interest.

***Compensation awards to our management may not correlate to or correspond with our financial results or share price.***

The compensation, nominating and governance committee of our board of trustees is responsible for overseeing our compensation and employee benefit plans and practices, including our incentive compensation and equity-based compensation plans. Our compensation, nominating and governance committee has significant discretion in structuring compensation packages and may make compensation decisions based upon any number of factors. As a result, compensation awards may not correlate to or correspond with our financial results or the share price of our common shares. We may give bonuses, grant equity awards and otherwise highly compensate our management even if we are performing poorly.

***Our Operating Partnership may issue additional OP Units to third parties without the consent of our shareholders, which would reduce our ownership percentage in our Operating Partnership and could have a dilutive effect on the amount of distributions made to us by our Operating Partnership and, therefore, the amount of distributions we can make to our shareholders.***

As of December 31, 2014, we owned 94.1% of the outstanding OP Units. Our Operating Partnership may, in connection with our acquisition of properties or otherwise, issue additional OP Units to third parties. Such issuances would reduce our ownership percentage in our Operating Partnership and could affect the amount of distributions made to us by our Operating Partnership and, therefore, the amount of distributions we can make to our shareholders. Our shareholders do not directly own OP Units, and thus, do not have any voting rights with respect to any such issuances or other partnership level activities of our Operating Partnership.

Table of Contents

**Risks Related to Our Qualification and Operation as a REIT**

***If we fail to qualify as a REIT in any taxable year, we will face serious tax consequences that would substantially reduce funds available for distributions to our shareholders.***

We were organized on April 9, 2013 as a Maryland real estate investment trust. We elected to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2013. Commencing with such taxable year, we were organized and operated in such a manner as to qualify for taxation as a REIT under the U.S. federal income tax laws, and we intend to continue to operate in such a manner, but no assurances can be given that we will operate in a manner so as to qualify or remain qualified as a REIT.

Failure to qualify as a REIT, or failure to remain qualified as a REIT, would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our shareholders. If we fail to qualify as a REIT in any taxable year, we would face serious tax consequences that will substantially reduce the funds available for distributions to our shareholders because:

- we would not be allowed a deduction for dividends paid to shareholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;

- we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

- unless we are entitled to relief under certain U.S. federal income tax laws, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

In addition, if we fail to qualify as a REIT, we will no longer be required to make distributions. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it would adversely affect the value of our shares of beneficial interest.

***Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.***

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, any taxable REIT subsidiary, or TRS, that we may form would be subject to regular corporate federal, state and local taxes. Any of these taxes would decrease cash available for distributions to shareholders.

***Failure to make required distributions would subject us to U.S. federal corporate income tax.***

We intend to operate in a manner so as to qualify as a REIT for U.S. federal income tax purposes. In order to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to our shareholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under the Code.

***Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.***

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our shareholders and the ownership of our shares of beneficial interest. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

Table of Contents

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities of TRSs and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities of TRSs and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by the securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

***The prohibited transactions tax may limit our ability to dispose of our properties.***

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

***We may pay taxable dividends in our common shares and cash, in which case shareholders may sell our common shares to pay tax on such dividends, placing downward pressure on the market price of our common shares.***

We may distribute taxable dividends that are payable in cash and common shares at the election of each shareholder. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in shares as taxable dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for U.S. federal income tax purposes. Those rulings may be relied upon only by taxpayers to whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS issued a revenue procedure creating a temporary safe harbor that authorized publicly traded REITs to make elective cash/share dividends, but that temporary safe harbor has expired. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and common shares.

If we made a taxable dividend payable in cash and common shares, taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. As a result, shareholders may be required to pay income tax with respect to such dividends in excess of the cash dividends received. If a U.S. shareholder sells the common shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common shares. If we made a taxable dividend payable in cash and our common shares and a significant number of our shareholders determine to sell our common shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common shares. We do not currently intend to pay taxable dividends using both our common shares and cash, although we may choose to do so in the future.

***The ability of our board of trustees to revoke our REIT qualification without shareholder approval may cause adverse consequences to our shareholders.***

Our declaration of trust provides that our board of trustees may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our shareholders, which may have adverse consequences on our total return to our shareholders.

Table of Contents

***Any ownership of a TRS we may form in the future will be subject to limitations and our transactions with a TRS will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm s-length terms.***

Overall, no more than 25% of the value of a REIT s assets may consist of stock or securities of one or more TRSs. In addition, the Code limits the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The Code also imposes a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm s-length basis. Furthermore, we will monitor the value of our respective investments in any TRS that we may form for the purpose of ensuring compliance with TRS ownership limitations and will structure our transactions with any TRS on terms that we believe are arm s-length to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% REIT subsidiaries limitation or to avoid application of the 100% excise tax.

***The formation of a TRS lessee would increase our overall tax liability.***

We may, in the future, form one or more TRS lessees to lease qualified health care properties from us. Any TRS lessee we may form would be subject to federal and state income tax on its taxable income, which would consist of the revenues from the qualified health care properties leased by the TRS lessee, net of the operating expenses for such properties and rent payments to us. Accordingly, although our ownership of a TRS lessee would allow us to participate in the operating income from our properties leased to the TRS lessee on an after tax basis in addition to receiving rent, that operating income would be fully subject to federal and state income tax. The after-tax net income of a TRS lessee would be available for distribution to us.

***If leases of our properties are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT and would be subject to higher taxes and have less cash available for distribution to our shareholders.***

To qualify as a REIT, we must satisfy two gross income tests, under which specified percentages of our gross income must be derived from certain sources, such as rents from real property. Rents paid to our Operating Partnership by third party lessees and any TRS lessee that we may form in the future pursuant to the leases of our properties will constitute substantially all of our gross income. In order for such rent to qualify as rents from real property for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. If our leases are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

***If a TRS lessee failed to qualify as a TRS or the facility operators engaged by a TRS lessee did not qualify as eligible independent contractors, we would fail to qualify as a REIT and would be subject to higher taxes and have less cash available for distribution to our shareholders.***

Rent paid by a lessee that is a related party tenant of ours would not be qualifying income for purposes of the two gross income tests applicable to REITs. We may, in the future, lease certain of our properties that qualify as qualified health care properties to a TRS lessee. So long as that TRS lessee qualifies as a TRS, it will not be treated as a related party tenant with respect to our properties that are managed by an independent facility operator that qualifies as an eligible independent contractor. We would seek to structure any future arrangements with a TRS lessee such that the TRS lessee would qualify to be treated as a TRS for federal income tax purposes, but there can be no assurance that the IRS would not

challenge the status of a TRS for federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in disqualifying a TRS lessee from treatment as a TRS, it is possible that we would fail to meet the asset tests applicable to REITs and a significant portion of our income would fail to qualify for the gross income tests. If we failed to meet either the asset or gross income tests, we would likely lose our REIT qualification for federal income tax purposes.

Additionally, if the facility operators engaged by a TRS lessee do not qualify as eligible independent contractors, we would fail to qualify as a REIT. Each of the facility operators that would enter into a management contract with any TRS lessee must qualify as an eligible independent contractor under the REIT rules in order for the rent paid to us by such a TRS lessee to be qualifying income for purposes of the REIT gross income tests. Among other requirements, in order to qualify as an eligible independent contractor a facility operator must not own, directly or indirectly, more than 35% of our outstanding shares and no person or group of persons can own 35% or more of our outstanding shares and more than 35% of the ownership interests of the facility operator, taking into account certain ownership attribution rules. The ownership attribution rules that apply for purposes of these 35% thresholds are complex. Although we would monitor ownership of our shares by any facility operators and their owners, there can be no assurance that these ownership levels will not be exceeded.

Table of Contents

***You may be restricted from acquiring or transferring certain amounts of our common shares.***

The share ownership restrictions of the Code for REITs and the 9.8% share ownership limit and other restrictions on ownership and transfer of our shares contained in our declaration of trust may inhibit market activity in our shares of beneficial interest and restrict our business combination opportunities.

In order to qualify as a REIT for each taxable year after 2013, five or fewer individuals, as defined in the Code, may not own, beneficially or constructively, more than 50% in value of our issued and outstanding shares of beneficial interest at any time during the last half of a taxable year. Attribution rules in the Code determine if any individual or entity beneficially or constructively owns our shares of beneficial interest under this requirement. Additionally, at least 100 persons must beneficially own our shares of beneficial interest during at least 335 days of a taxable year for each taxable year after 2013. To help insure that we meet these tests, our declaration of trust restricts the acquisition and ownership of shares of our beneficial interest.

Our declaration of trust, with certain exceptions, authorizes our trustees to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of trustees, our declaration of trust prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our shares of beneficial interest. Our board of trustees may not grant an exemption from this restriction to any proposed transferee whose ownership in excess of 9.8% of the number or value of our outstanding shares would result in our failing to qualify as a REIT. This as well as other restrictions on transferability and ownership will not apply, however, if our board of trustees determines that it is no longer in our best interests to continue to qualify as a REIT.

***Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.***

The maximum tax rate applicable to qualified dividend income payable to U.S. shareholders that are taxed at individual rates is 23.8%. Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

***We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common shares.***

At any time, the U.S. federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our shareholders could be adversely affected by any such change in the U.S. federal income tax laws, regulations or administrative interpretations.

***If our Operating Partnership fails to qualify as a partnership for federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.***

We believe that our Operating Partnership will be treated as a partnership for federal income tax purposes. As a partnership, our Operating Partnership will not be subject to federal income tax on its income. Instead, each of its partners, including us, will be allocated, and may be required to pay tax with respect to, its share of our Operating Partnership s income. We cannot assure you, however, that the IRS will not challenge the status of our Operating Partnership or any other subsidiary partnership in which we own an interest as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our Operating Partnership or any such other subsidiary partnership as an entity taxable as a corporation for federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, we would likely cease to qualify as a REIT. Also, the failure of our Operating Partnership or any subsidiary partnerships to qualify as a partnership could cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

Table of Contents

***The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to maintain our qualification as a REIT.***

In general, in order for a loan to be treated as a qualifying real estate asset producing qualifying income for purposes of the federal income tax asset and income tests applicable to REITs, the loan must be secured by real property. We may originate (in connection with a forward purchase or option to purchase contract) or acquire mezzanine loans that are not directly secured by real property but instead secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan that is not secured by real estate would, if it meets each of the requirements contained in the Revenue Procedure, be treated by the IRS as a qualifying real estate asset. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law and in many cases it may not be possible for us to meet all the requirements of the safe harbor. We cannot provide assurance that any mezzanine loan in which we invest, including our two outstanding mezzanine loans, would be treated as a qualifying asset producing qualifying income for REIT qualification purposes. If any such loan fails either the REIT income or asset tests, we may be disqualified as a REIT.

Furthermore, if we participate in any appreciation in value of real property securing a mortgage loan and the IRS characterizes such shared appreciation mortgage as equity rather than debt, for example, because of a large interest in cash flow of the borrower, we may be required to recognize income, gains, and other items with respect to the real property for U.S. federal income tax purposes. This could affect our ability to qualify as a REIT.

***We may be unable to make distributions which could result in a decrease in the market price of our common shares.***

While we expect to make regular quarterly distributions to the holders of our common shares, if sufficient cash is not available for distribution from our operations, we may have to fund distributions from working capital, borrow to provide funds for such distributions, or reduce the amount of such distributions. To the extent we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. If cash available for distribution generated by our assets is less than expected, or if such cash available for distribution decreases in future periods from expected levels, our inability to make distributions could result in a decrease in the market price of our common shares.

All distributions will be made at the discretion of our board of trustees and will be based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, maintenance of our REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such other matters as our board of trustees may deem relevant from time to time. We may not be able to make distributions in the future, and our inability to make distributions, or to make distributions at expected levels, could result in a decrease in the market price of our common shares.

***The consolidated and combined financial statements of our Predecessor may not be representative of our financial statements as an independent public company.***

The consolidated and combined financial statements of our Predecessor that are included in this report do not necessarily reflect what our financial position, results of operations or cash flows would have been had we been an independent entity during the periods presented. Furthermore, this financial information is not necessarily indicative of what our results of operations, financial position or cash flows will be in

the future. It is not possible for us to accurately estimate all adjustments needed to reflect all the significant changes that may occur in our future cost structure, funding and operations. See Part I, Item 6. Selected Financial Data, Part I, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Part I. Item 8. Financial Statements and Supplementary Data.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

Table of Contents

**ITEM 2. PROPERTIES**

**Properties**

The table below sets forth certain information regarding the 87 properties in our portfolio as of December 31, 2014:

| PROPERTY | PROPERTY TYPE | PROPERTY LOCATION | YEAR BUILT | % OWNED | NET LEASABLE SQUARE FOOTAGE | % LEASED | ANNUALIZED BASE RENT (thousands) | ANNUALIZED BASE RENT PER LEASED SQUARE FOOT | HEALTHCARE DELIVERY SYSTEM AFFILIATION | PRINCIPAL TENANTS |
|---|---|---|---|---|---|---|---|---|---|---|
| **INITIAL PROPERTIES (2)** | | | | | | | | | | |
| Arrowhead Commons | Medical Office Building | Phoenix, AZ | 2004 | 100.0% | 12,800 | 85.0% | $ 261 | $ 24.00 | N/A | Paseo Family Physicians |
| Aurora Medical Office Building | Medical Office Building | Green Bay, WI | 2010 | 100.0% | 9,112 | 100.0% | $ 191 | $ 20.96 | Aurora Health Care | Aurora Health Care |
| Austell Medical Office Building | Medical Office Building | Atlanta, GA | 1971 | 100.0% | 14,598 | 78.5% | $ 183 | $ 15.97 | Northside Hospital | Northside Hospital |
| Canton Medical Office Building | Medical Office Building | Atlanta, GA | 1994 | 51.0% | 38,098 | 100.0% | $ 817 | $ 21.44 | Northside Hospital | Northside Hospital |
| Decatur Medical Office Building | Medical Office Building | Atlanta, GA | 1974 | 100.0% | 13,300 | 100.0% | $ 357 | $ 26.84 | N/A | Georgia Urology, P.A. |
| El Paso Medical Office Building | Medical Office Building | El Paso, TX | 1987 | 100.0% | 21,777 | 100.0% | $ 374 | $ 17.17 | HCA | HCA Del Sol Medical Center |
| Farmington Professional Pavilion | Medical Office Building | Detroit, MI | 1972 | 100.0% | 21,338 | 57.5% | $ 189 | $ 15.40 | Botsford Hospital | Botsford Hospital, Farmington Dermatology |
| Firehouse Square | Medical Office Building | Milwaukee, WI | 2002 | 100.0% | 17,265 | 100.0% | $ 393 | $ 22.76 | Aurora Health Care | Aurora Health Care |
| Hackley Medical Center | Medical Office Building | Grand Rapids, MI | 1968 | 100.0% | 44,089 | 85.9% | $ 682 | $ 18.00 | Trinity Health | Hackley Hospital, Port City Pediatrics |
| Ingham Regional Medical Center | Medical Office Building | Lansing, MI | 1994 | 100.0% | 26,783 | 0.0% | $ | | N/A | N/A |
| MeadowView Professional Center | Medical Office Building | Kingsport, TN | 2005 | 100.0% | 64,200 | 100.0% | $ 1,539 | $ 23.97 | Holston Medical Group | Holston Medical Group |
| Mid Coast Hospital Medical Office Building | Medical Office Building | Portland, ME | 2008 | 66.3% | 44,677 | 100.0% | $ 1,205 | $ 26.97 | Mid Coast Hospital | Mid Coast Hospital |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| New Albany Professional Building | Medical Office Building | Columbus, OH | 2000 | 100.0% | 17,213 | 75.1% | $ 177 | $ 13.69 | N/A | Rainbow Pediatrics |
| Northpark Trail | Medical Office Building | Atlanta, GA | 2001 | 100.0% | 14,223 | 37.4% | $ 66 | $ 12.39 | N/A | Georgia Urology, P.A. |
| Remington Medical Commons | Medical Office Building | Chicago, IL | 2008 | 100.0% | 37,240 | 75.7% | $ 704 | $ 24.98 | Adventist | Fresenius Dialysis, Gateway Spine and Pain |
| Stonecreek Family Health Center | Medical Office Building | Columbus, OH | 1996 | 100.0% | 20,329 | 0.0% | $ | | N/A | N/A |
| Summit Healthplex | Medical Office Building | Atlanta, GA | 2002 | 100.0% | 67,333 | 100.0% | $ 1,720 | $ 25.54 | Piedmont | Georgia Bone and Joint, Piedmont Hospital |
| Valley West Hospital Medical Office Building | Medical Office Building | Chicago, IL | 2007 | 100.0% | 38,717 | 96.1% | $ 779 | $ 20.93 | Kish Health System | Valley West Hospital, Midwest Orthopedics |
| INITIAL PROPERTIES TOTAL/WEIGHTED AVERAGE | | | | | 523,092 | 82.6% | $ 9,637 | $ 22.31 | | |
| | | | | | | | | | | |
| **Completed Acquisitions Since the IPO (3)** | | | | | | | | | | |
| 21st Century Radiation Oncology Centers Sarasota | Medical Office Building | Sarasota, FL | 1975 | 100.0% | 21,400 | 100.0% | $ 660 | $ 30.84 | 21st Century Oncology | 21st Century Oncology |
| 21st Century Radiation Oncology Centers - Venice | Medical Office Building | Venice, FL | 1987 | 100.0% | 10,100 | 100.0% | $ 345 | $ 34.16 | 21st Century Oncology | 21st Century Oncology |
| 21st Century Radiation Oncology Centers - Engelwood | Medical Office Building | Engelwood, FL | 1992 | 100.0% | 7,000 | 100.0% | $ 213 | $ 30.43 | 21st Century Oncology | 21st Century Oncology |

Table of Contents

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 21st Century Radiation Oncology Centers Port Charlotte | Medical Office Building | Port Charlotte, FL | 1996 | 100.0% | 8,395 | 100.0% | $ 255 | $ 30.38 | 21st Century Oncology | 21st Century Oncology |
| Crescent City Surgical Centre | Hospital | New Orleans, LA | 2010 | 100.0% | 60,000 | 100.0% | $ 3,090 | $ 51.50 | Crescent City Surgical Centre | Crescent City Surgical Centre |
| Eagles Landing Family Practice Medical Office Building | Medical Office Building | Jackson, GA | 2006 | 100.0% | 14,269 | 100.0% | $ 324 | $ 22.71 | N/A | Eagles Landing Family Practice |
| Eagles Landing Family Practice Medical Office Building | Medical Office Building | McDonough, GA | 2010 | 100.0% | 18,695 | 100.0% | $ 424 | $ 22.68 | N/A | Eagles Landing Family Practice |
| East El Paso Surgical Hospital | Hospital | El Paso, TX | 2004 | 99.0% | 77,000 | 100.0% | $ 3,381 | $ 43.91 | Foundation Healthcare Inc. | East El Paso Physicians Medical Center, LLC |
| Foundation San Antonio Healthplex | Medical Office Building | San Antonio, TX | 2007 | 100.0% | 22,832 | 100.0% | $ 602 | $ 26.37 | Foundation Healthcare Inc. | Foundation Healthcare Inc. |
| Great Falls Ambulatory Surgery Center | Medical Office Building | Great Falls, MT | 1999 | 100.0% | 12,636 | 100.0% | $ 346 | $ 27.38 | N/A | Great Falls Clinic Surgery Center LLC |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| LifeCare LTACH Pittsburgh | Post-Acute Hospital | Pittsburgh, PA | 1987 | 100.0% | 154,910 | 100.0% | $ 1,040 | $ 6.71 | LifeCare Hospitals | LifeCare Holdings, LLC |
| Peachtree Dunwoody Medical Center | Medical Office Building | Atlanta, GA | 1987 | 100.0% | 131,368 | 94.7% | $ 3,651 | $ 29.34 | Northside | Northside Hospital |
| South Bend Orthopaedics Medical Office Building | Medical Office Building | Mishawaka, IN | 2007 | 100.0% | 45,198 | 100.0% | $ 1,195 | $ 26.44 | N/A | South Bend Orthopaedics |
| Pinnacle Health Medical Office Building | Medical Office Building | Carlisle, PA | 2002 | 100.0% | 10,485 | 100.0% | $ 265 | $ 25.27 | Pinnacle Health Hospitals | Pinnacle Health Hospitals |
| Mississippi Ortho Medical Office Building | Medical Office Building | Jackson, MS | 1987 | 100.0% | 44,269 | 100.0% | $ 1,319 | $ 29.80 | N/A | N/A |
| Renaissance Ambulatory Surgery Center | Medical Office Building | Oshkosh, WI | 2007 | 100.0% | 24,622 | 100.0% | $ 703 | $ 28.55 | ThedaCare | ThedaCare |
| Summit Urology | Medical Office Building | Bloomington, IN | 1996 | 100.0% | 15,946 | 100.0% | $ 386 | $ 24.21 | N/A | Surgicare, LLC |
| 550 Landmark | Medical Office Building | Bloomington, IN | 2000 | 100.0% | 15,000 | 100.0% | $ 282 | $ 18.80 | N/A | Premier Healthcare |

Table of Contents

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Carlisle II MOB | Medical Office Building | Carlisle, PA | 1996 | 100.0% | 13,245 | 100.0% | $ 251 | $ 18.95 | Carlisle Regional Medical Center | Carlisle Regional Medical Center |
| The Oaks @ Lady Lake | Medical Office Building | Lady Lake, FL | 2011 | 100.0% | 27,992 | 100.0% | $ 739 | $ 26.40 | Munroe Regional Health System | Munroe Regional Health System |
| Eye Center of Southern Indiana | Medical Office Building | Bloomington, IN | 1995 | 100.0% | 32,096 | 100.0% | $ 883 | $ 27.51 | N/A | Eye Center of Southern Indiana |
| Zangmeister | Medical Office Building | Columbus, OH | 2007 | 100.0% | 109,667 | 100.0% | $ 2,555 | $ 23.30 | | Mid Ohio Oncology |
| Ortho One - Westerville | Medical Office Building | Columbus, OH | 2007 | 100.0% | 19,876 | 100.0% | $ 382 | $ 19.22 | N/A | Orthopedic One |
| El Paso - Lee Trevino | Medical Office Building | El Paso, TX | 1983 | 100.0% | 75,484 | 92.8% | $ 1,092 | $ 15.59 | N/A | EPOSG Clinic |
| El Paso - Kenworthy | Medical Office Building | El Paso, TX | 1983 | 100.0% | 16,245 | 73.6% | $ 457 | $ 38.23 | N/A | EPOSG Clinic |
| Pinnacle - 4518 Union Deposit | Medical Office Building | Harrisburg, PA | 2000 | 100.0% | 39,009 | 89.5% | $ 651 | $ 18.65 | Pinnacle Health Systems | Pinnacle Health Systems |
| | | | 1980 | 100.0% | 19,446 | 100.0% | $ 370 | $ 19.03 | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Pinnacle - 240 Grandview | Medical Office Building | Harrisburg, PA | | | | | | | | Pinnacle Health Systems | Pinnacle Health Systems |
| CRHS - 2000 10th Avenue | Medical Office Building | Columbus, GA | 1989 | 100.0% | 40,341 | 83.2% | $ 471 | $ 14.04 | | Columbus Regional Health System | Columbus Regional Health System |
| CRHS - 920 18th Street | Medical Office Building | Columbus, GA | 1982 | 100.0% | 6,055 | 100.0% | $ 89 | $ 14.70 | | Columbus Regional Health System | Columbus Regional Health System |
| CRHS - 1800 10th Avenue | Medical Office Building | Columbus, GA | 1980 | 100.0% | 38,650 | 100.0% | $ 626 | $ 16.20 | | Columbus Regional Health System | Columbus Regional Health System |
| CRHS - 615 19th Street | Medical Office Building | Columbus, GA | 1976 | 100.0% | 9,048 | 100.0% | $ 95 | $ 10.50 | | Columbus Regional Health System | Columbus Regional Health System |
| CRHS - 633 19th Street | Medical Office Building | Columbus, GA | 1972 | 100.0% | 11,315 | 71.2% | $ 112 | $ 13.90 | | Columbus Regional Health System | Columbus Regional Health System |
| CRHS - 2200 Hamilton Road | Medical Office Building | Columbus, GA | 1992 | 100.0% | 17,805 | 84.9% | $ 254 | $ 16.81 | | Columbus Regional Health System | Columbus Regional Health System |
| Carle Danville MOB | Medical Office Building | Danville, IL | 2007 | 100.0% | 46,663 | 100.0% | $ 622 | $ 13.33 | | N/A | Carle Foundation |
| Middletown Medical - 2 Edgewater | Medical Office Building | Middletown, NY | 1992 | 100.0% | 8,162 | 100.0% | $ 212 | $ 25.97 | | N/A | Middletown Medical |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| West TN Bone & Joint - Physicians Drive | Medical Office Building | Jackson, TN | 1991 | 100.0% | 23,900 | 100.0% | $ 454 | $ 19.00 | N/A | West TN Bone & Joint Clinic |
| COMPLETED PROPERTIES TOTAL WEIGHTED AVERAGE | | | | | 2,577,609 | 97.1% | $ 56,525 | $ 22.59 | | |

Table of Contents

In the opinion of management, each of our properties is adequately covered by insurance. We currently have no plans for material renovations or other capital improvements at, or developments of, any of our properties.

**Scheduled Lease Expirations**

The following table provides a summary of lease expirations for our properties owned as of December 31, 2014 for the periods indicated.

| | NUMBER OF LEASES EXPIRING | NET RENTABLE SQUARE FEET | PERCENTAGE OF NET RENTABLE SQUARE FEET | ANNUALIZED RENT(1) (thousands) | PERCENTAGE OF ANNUALIZED RENT | ANNUALIZED RENT LEASED SQUARE FOOT(2) |
|---|---|---|---|---|---|---|
| 2015 | 29 | 86,971 | 2.8% | $ 1,795 | 2.7% | $ 20.64 |
| 2016 | 28 | 110,075 | 3.6% | 2,425 | 3.7% | $ 22.03 |
| 2017 | 21 | 68,298 | 2.2% | 1,647 | 2.5% | $ 24.11 |
| 2018 | 27 | 203,922 | 6.6% | 4,306 | 6.5% | $ 21.12 |
| 2019 | 25 | 202,606 | 6.5% | 4,057 | 6.1% | $ 20.02 |
| 2020 | 13 | 49,028 | 1.6% | 969 | 1.5% | $ 19.76 |
| 2021 | 11 | 73,855 | 2.4% | 1,784 | 2.7% | $ 24.16 |
| 2022 | 11 | 106,611 | 3.4% | 2,669 | 4.0% | $ 25.03 |
| 2023 | 17 | 178,001 | 5.7% | 3,941 | 6.0% | $ 22.14 |
| 2024 | 45 | 523,238 | 16.9% | 10,017 | 15.1% | $ 19.14 |
| Thereafter | 58 | 1,328,091 | 42.8% | 32,517 | 49.1% | $ 24.48 |
| Month to month | 2 | 3,323 | 0.1% | 35 | 0.1% | $ 10.53 |
| Vacant | | 166,682 | 5.4% | | | |
| **Total/ Weighted average** | 287 | 3,100,701 | 100.0% | $ 66,162 | 100.0% | $ 21.34 |

(1) Annualized base rent is calculated by multiplying (a) base rental payments for the month ended December 31, 2014, by (b) 12.

(2) Annualized rent leased square foot is calculated by dividing (a) annualized rent as of December 31, 2014, by (b) square footage under commenced leases as of December 31, 2014.

Table of Contents

**Tenants**

As of December 31, 2014, our properties were 94.6% leased. No single tenant accounts for more than 7.1% of our total annualized rent as of December 31, 2014.

The following table sets forth certain information about the 10 largest tenants in our portfolio based on total annualized rent as of December 31, 2014.

| Tenant | # of Properties | Property Location | Leased SF | % Leased GLA | Annualized Base Rent(1) (thousands) | % of Portfolio Annualized Rent(2) |
|---|---|---|---|---|---|---|
| LifeCare | 3 | TX, PA | 310,352 | 10.0% | $ 4,697 | 7.1% |
| East El Paso Physicians Medical Center | 1 | TX | 77,000 | 2.5% | $ 3,381 | 5.1% |
| Wayne State University Physician Group | 1 | MI | 176,000 | 5.7% | $ 3,168 | 4.8% |
| Crescent City Surgical Centre | 1 | LA | 60,000 | 1.9% | $ 3,090 | 4.7% |
| Foundation Hospital of San Antonio, LLC | 2 | TX | 68,786 | 2.2% | $ 2,902 | 4.4% |
| Northside Hospital | 3 | GA | 88,003 | 2.8% | $ 2,242 | 3.4% |
| Mid Ohio Oncology | 1 | OH | 98,325 | 3.2% | $ 2,233 | 3.4% |
| Pinnacle Health | 6 | PA | 105,199 | 3.4% | $ 2,011 | 3.0% |
| Columbus Regional Health System | 9 | GA | 125,189 | 4.0% | $ 1,909 | 2.9% |
| Premier Healthcare | 3 | IN | 90,000 | 2.9% | $ 1,788 | 2.7% |

(1) Calculated for each tenant as the monthly contracted base rent per the terms of such tenant s lease, as of December 31, 2014, multiplied by 12.

(2) Calculated as annualized base rent for such tenant as of December 31, 2014 divided by annualized base rent for the total portfolio as of December 31, 2014.

Before entering into a lease and during the lease term, we seek to manage our exposure to significant tenant credit issues. In most instances, we seek to obtain tenant financial information, including credit reports, financial statements and tax returns. Where appropriate, we seek to obtain financial commitments in the form of letters of credit and security deposits from tenants. On an ongoing basis, we monitor accounts receivable and payment history for both tenants and properties and seek to identify any credit concerns as quickly as possible. In addition, we keep in close contact with our tenants in an effort to identify and address negative changes to their businesses prior to such adverse changes affecting their ability to pay rent to us.

**Ground Leases**

We lease the land upon which six of our properties (Mid Coast Hospital, Valley West Hospital, Crescent City Surgical Centre, Ortho One Columbus, Berger Medical Center, and Carmel Medical Pavilion), representing approximately 9% of our total leasable square feet and 11% of our annualized revenue for the year ended December 31, 2014, are subject to ground leases that contain certain restrictions. These restrictions include limits on our ability to re-let such facilities to tenants not affiliated with the healthcare delivery system that owns the underlying land, and rights of first offer and refusal with respect to sales of the property and limits on the types of medical procedures that may be performed.

**ITEM 3. 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.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents

## PART II

### ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares are traded on the NYSE under the symbol DOC. As of March 9, 2015, we had 32 registered shareholders of record for our common shares.

The following table sets forth, for the periods indicated, the high and low sale prices of our common shares since completion of our IPO, as reported on the NYSE, and the dividends paid by us with respect to those periods.

| 2013 | High | Low | Dividends (1) |
|---|---|---|---|
| Third quarter (commencing July 19, 2013 to September 30, 2013) | $ 12.74 | $ 11.00 | $ 0.18(2) |
| Fourth quarter | $ 13.00 | $ 11.05 | $ 0.225(3) |

| 2014 | High | Low | Dividends (1) |
|---|---|---|---|
| First quarter | $ 14.00 | $ 11.99 | $ 0.225(4) |
| Second quarter | $ 14.63 | $ 12.39 | $ 0.225(5) |
| Third quarter | $ 15.00 | $ 13.51 | $ 0.225(6) |
| Fourth quarter | $ 16.97 | $ 13.56 | $ 0.225(7) |

(1) Dividend information is for dividends declared with respect to that quarter.

(2) On September 30, 2013, we declared an initial, prorated quarterly dividend of $0.18 per share for the partial quarterly period from July 19, 2013 (the date of our IPO) through September 30, 2013, which was equivalent to a full quarterly dividend of $0.225 per share. The dividend was paid on November 1, 2013 to common shareholders and common OP Unit holders of record on October 18, 2013, with the exception of the OP Units issued in the acquisition of Crescent City Surgical Centre.

(3) On December 30, 2013, we declared a cash dividend of $0.225 per share for the quarter ending December 31, 2013. The dividend was paid on February 7, 2014 to common shareholders and common OP Unit holders of record on January 24, 2014.

(4) On March 27, 2014, we declared a cash dividend of $0.225 per share for the quarterly period ended March 31, 2014. The dividend was paid on April 25, 2014 to common shareholders and common OP Unit holders of record on April 18, 2014.

(5) On June 26, 2014, we declared a cash dividend of $0.225 per share for the quarterly period ended June 30, 2014. The dividend was paid on August 1, 2014 to common shareholders and common OP Unit holders of record on July 18, 2014.

(6) On September 26, 2014, we declared a cash dividend of $0.225 per common share for the quarterly period ended September 30, 2014. The dividend was paid on October 30, 2014 to common shareholders and common OP Unit holders of record on October 17, 2014.

(7) On December 30, 2014, we declared a cash dividend of $0.225 per share for the quarter ending December 31, 2014. The dividend was paid on February 6, 2015 to common shareholders and common OP Unit holders of record on January 23, 2015.

It has been our policy to declare quarterly dividends to the shareholders so as to comply with applicable provisions of the Code governing REITs. The declaration and payment of quarterly dividends remains subject to the review and approval of the Board of Trustees.

Table of Contents

*Stock Performance Graph*

*This performance graph shall not be deemed soliciting material or to be filed with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Physicians Realty Trust under the Securities Act or the Exchange Act.*

The graph below compares the cumulative total return of our common shares, the S&P 500 and the MSCI US REIT Index (RMS), from July 19, 2013 (the date of our IPO) through December 31, 2014. The comparison assumes $100 was invested on July 19, 2013 in our common shares and in each of the foregoing indexes and assumes reinvestment of dividends, as applicable. The MSCI US REIT Index consists of equity REITs that are included in the MSCI US Investable Market 2500 Index, except for specialty equity REITS that do not generate a majority of their revenue and income from real estate rental and leasing operations. We have included the MSCI US REIT Index because we joined the MSCI US REIT Index in November 2014 and therefore, we believe that it is representative of the industry in which we compete and is relevant to an assessment of our performance.

| | Period Ending | | | | | | |
|---|---|---|---|---|---|---|---|
| **Index** | **07/19/13** | **09/30/13** | **12/31/13** | **03/31/14** | **06/30/14** | **09/30/14** | **12/31/14** |
| Physicians Realty Trust | 100.00 | 105.39 | 112.34 | 124.94 | 131.32 | 127.18 | 156.36 |
| S&P 500 | 100.00 | 99.80 | 110.29 | 112.29 | 118.16 | 119.50 | 125.39 |
| MSCI US REIT (RMS) | 100.00 | 92.33 | 91.70 | 100.86 | 107.92 | 104.57 | 119.56 |

Table of Contents

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data should be read together with the discussion under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated and combined financial statements and related notes thereto included elsewhere in this report.

We had no business operations prior to completion of the IPO and the formation transactions on July 24, 2013. As a result, the balance sheet data as of December 31, 2012 reflects the financial condition of the Predecessor and the balance sheet data as of December 31, 2013 and 2014 reflects our financial condition. References in the notes to the consolidated and combined financial statements refer to Physicians Realty Trust for the period July 24, 2013, the date of completion of the IPO and the related formation transactions through December 31, 2013, and to the Predecessor for all prior periods.

Our Predecessor, which is not a legal entity, is comprised of the four Ziegler Funds that owned directly or indirectly interests in entities that owned the initial properties, we acquired on July 24, 2013 in connection with completion of our IPO and related formation transactions.

Table of Contents

**Physicians Realty Trust and Predecessor**
***(In thousands, except share and per share data)***

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 (1) | Predecessor 2012 |
| **Statement of Operations Data:** | | | |
| **Revenues:** | | | |
| Rental revenues | $ 46,397 | $ 13,565 | $ 9,821 |
| Expense recoveries | 5,871 | 3,234 | 3,111 |
| Interest income on real estate loans and other | 1,066 | 246 | 137 |
| Total revenues | 53,334 | 17,045 | 13,069 |
| **Expenses:** | | | |
| Interest expense | 6,907 | 4,295 | 4,538 |
| General and administrative | 11,440 | 3,214 | 362 |
| Operating expenses | 10,154 | 4,650 | 4,758 |
| Depreciation and amortization | 16,731 | 5,107 | 4,150 |
| Impairment losses | 1,750 | | 937 |
| Acquisition expenses | 10,897 | 1,938 | |
| Management fees | | 475 | 951 |
| Total expenses | 57,879 | 19,679 | 15,696 |
| Loss before equity in income of unconsolidated entity, gain (loss) on sale of investment properties, discontinued operations, and noncontrolling interests: | (4,545) | (2,634) | (2,627) |
| Equity in income of unconsolidated entity | 95 | | |
| Gain (loss) on sale of investment properties | 32 | (2) | (228) |
| Net loss from continuing operations | (4,418) | (2,636) | (2,855) |
| Discontinued Operations | | | |
| Loss from discontinued operations | | | (198) |
| Gain on sale of discontinued investment properties | | | 1,519 |
| Income from discontinued operations | | | 1,321 |
| **Net loss** | (4,418) | $ (2,636) | $ (1,534) |
| Less: net loss attributable to Predecessor | | 576 | |
| Less: net loss attributable to noncontrolling interest Operating Partnership | 695 | 470 | |
| Less: net income attributable to noncontrolling interest partially owned properties | (314) | (71) | |
| Net loss attributable to common shareholders | $ (4,037) | $ (1,661) | |
| **Balance Sheet Data (as of end of period):** | | | |
| **Assets:** | | | |
| Net real estate investments | $ 773,650 | $ 227,539 | $ 99,897 |
| Cash and cash equivalents | 15,923 | 56,478 | 2,614 |
| Tenant receivables, net | 1,324 | 837 | 682 |
| Deferred costs, net | 4,870 | 2,105 | 1,107 |
| Other assets | 15,806 | 5,901 | 3,292 |
| Total assets | $ 811,573 | $ 292,860 | $ 107,592 |
| **Liabilities and Equity** | | | |
| Credit Facility | $ 138,000 | $ | $ |
| Mortgage debt | 78,105 | 42,821 | 84,489 |
| Accounts payable to related parties | | | 1,530 |
| Accounts payable | 700 | 836 | 802 |
| Dividends payable | 16,548 | 5,681 | |
| Accrued expenses and other liabilities | 6,140 | 2,685 | 1,674 |
| Acquired lease intangible, net | 2,871 | | |

| | | | |
|---|---|---|---|
| Total liabilities | 242,364 | 52,023 | 88,495 |
| Total shareholders and predecessor equity | 534,730 | 204,904 | 19,068 |
| Noncontrolling interest | 34,479 | 35,933 | 29 |
| Total liabilities and equity | $ 811,573 | $ 292,860 | $ 107,592 |

(1) Because our IPO and the formation transactions were completed on July 24, 2013 and we had no operations prior to completion of our IPO, the results of operations, for the year ended December 31, 2013 reflect the results of operations of the Predecessor Ziegler Funds from July 1, 2013 through July 23, 2013 and of the us from July 24, 2013 through December 31, 2013.

Table of Contents

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

***The following discussion should be read in conjunction with our financial statements, including the notes to those statements, included elsewhere in 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 I, Item 1A. Risk Factors and elsewhere in this 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. 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 6% to 10%. 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 entered into an unsecured credit facility in the maximum principal amount of $400 million and intend to use borrowings under the facility to finance future acquisitions and developments, fund tenant improvements, leasing commissions to third parties, capital expenditures, provide for working capital and for other general corporate purposes. The unsecured credit facility 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 $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $750 million. As of December 31, 2014, we had approximately $78.1 million of mortgage indebtedness outstanding secured by first mortgages on certain of our properties and $138.0 million of outstanding borrowings under our unsecured credit facility.

As of December 31, 2014, our portfolio consisted of 87 properties located in 19 states with approximately 3,100,701 net leasable square feet, which were approximately 94.6% leased with a weighted average remaining lease term of approximately 9.6 years and approximately 76.5% 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.

Table of Contents

We receive a cash rental stream from these healthcare providers under our leases. Approximately 85% of the annualized base rent payments from our properties as of December 31, 2014 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 15% of the annualized base rent payments from our properties as of December 31, 2014 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 five 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 December 31, 2014, leases representing a percentage of our portfolio on the basis of leasable square feet will expire as follows:

| Year | Portfolio Lease Expirations |
|---|---|
| 2015 | 2.8% |
| 2016 | 3.6% |
| 2017 | 2.2% |
| 2018 | 6.6% |
| 2019 | 6.5% |
| 2020 | 1.6% |
| 2021 | 2.4% |
| 2022 | 3.4% |
| 2023 | 5.7% |
| 2024 | 16.9% |
| Thereafter | 42.8% |

We completed our IPO in July 2013, pursuant to which we issued an aggregate of 11,753,597 common shares, including shares issued upon exercise of the underwriters overallotment option, and received approximately $123.8 million of net proceeds. We contributed the net proceeds of the IPO to our Operating Partnership in exchange for 11,753,597 OP Units. Simultaneously with the closing of our IPO, we completed a series of related formation transactions pursuant to which we acquired 19 medical office buildings located in ten states with approximately 524,048 net leasable square feet in exchange for 2,744,000 OP Units, and the assumption of approximately $84.3 million of debt related to such properties. We used the net proceeds of the IPO to repay approximately $36.9 million of such debt, to purchase the 50% interest in the Arrowhead Common property not owned by the Ziegler Funds for approximately $850,000, after which we became the 100% owner of that property, and to pay certain expenses related to the assumption of debt. In addition, at the completion of the IPO, we entered into a shared services agreement with Ziegler pursuant to which Ziegler provides office space, IT support, accounting support and other services to us in exchange for an annual fee. On July 31, 2014, we entered into the First Amendment to Shared Services Agreement with Ziegler, which amended certain terms of the Shared Services Agreement. Among other things, the First Amendment reduced the shared services to be provided by Ziegler, the term of the shared services agreement, and the monthly fee to be paid by us for the remainder of the term. In consideration of these changes, we were obligated to make a one-time payment to Ziegler in the amount of $1,800,000, which could be paid in cash or in unrestricted common shares, as determined by us in our sole discretion. On August 19, 2014, we made the amendment payment by issuing 124,913 common shares to Ziegler.

Following completion of our IPO and related formation transactions through December 31, 2013, we completed the acquisitions of eight healthcare properties located in six states containing an aggregate of 377,295 net leasable square feet for an aggregate of approximately $136.4 million using proceeds from the IPO, borrowings under our former senior secured revolving credit facility and issuance of OP Units. One of the eight healthcare property acquisitions was the Crescent City Surgical Centre in New Orleans, Louisiana, which was acquired in September 2013 for approximately $37.5 million. As partial payment of the purchase price for the property, we issued an aggregate of 954,877 OP Units to the sellers of that property valued at approximately $11.5 million. Also, during 2013, we acquired approximately 40% and 35% of the joint venture interests we did not own with respect to two of our existing properties, which resulted in our 100% ownership of those properties.

On December 11, 2013, we completed a follow-on public offering of 9,545,000 common shares of beneficial interest, including 1,245,000 shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to us of approximately $103.1 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for OP Units,

Table of Contents

and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our former senior secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

On May 27, 2014, we completed a follow-on public offering of 12,650,000 common shares of beneficial interest, including 1,650,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to us of approximately $149.9 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our former senior secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

On August 4, 2014, we filed a shelf registration statement on Form S-3 with the Commission, allowing us to offer up to $900 million of an indeterminate amount of common shares, preferred shares, convertible preferred shares, debt securities, convertible debt securities or other types of securities, from time to time (the Shelf Registration Statement ). The Commission declared the Shelf Registration Statement effective on August 19, 2014.

On August 19, 2014, we and the Operating Partnership entered into separate At Market Issuance Sales Agreements (the Sales Agreements ) with each of MLV & Co. LLC, KeyBanc Capital Markets Inc., JMP Securities LLC, and RBC Capital Markets, LLC (the Agents ), pursuant to which we may issue and sell common shares having an aggregate offering price of up to $150 million, from time to time, through the Agents pursuant to the Shelf Registration Statement (the ATM Program ). In accordance with the Sales Agreements, we may offer and sell our 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, which includes sales made directly on the NYSE, or other existing trading market, or sales made to or through a market maker. With our express written consent, sales also may be made in negotiated transactions or any other method permitted by law. The common shares are registered under the Securities Act pursuant to the Shelf Registration Statement, and are being offered pursuant to a prospectus dated August 19, 2014, as supplemented by a prospectus supplement dated August 19, 2014, filed with the Commission pursuant to Rule 424(b) of the Securities Act. During 2014, we sold 3,576,010 common shares pursuant to the ATM Program, at a weighted average price of $15.54 per share resulting in total proceeds of approximately $55.6 million, before $0.8 million in commissions. As of March 9, 2015, we sold 247,397 common shares during 2015 pursuant to the ATM Program, at a weighted average price of $16.96 per share resulting in total proceeds of approximately $4.2 million, before $55,696 in commissions. As March 9, 2015, we have $90.2 million remaining available under the ATM Program.

On September 12, 2014, we completed a follow-on public offering of 10,925,000 common shares of beneficial interest, including 1,425,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to us of approximately $145.7 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 10,925,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our former senior secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

We were included in the MSCI US REIT Index at the close of business on November 25, 2014.

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.

- 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 March 9, 2015, we have issued 2,540 common shares under our DRIP.

On December 30, 2014, our Board of Trustees authorized and we declared a cash distribution of $0.225 per common share and common OP Unit for the quarterly period ended December 31, 2014. The distribution was paid on February 6, 2015 to common shareholders and OP Unit holders of record as of the close of business on January 23, 2015.

Table of Contents

During 2014, we completed acquisitions of 61 operating healthcare properties located in 15 states for an aggregate purchase price of approximately $543.4 million as summarized below:

| Property(1) | Location | Acquisition Date | Purchase Price (in thousands) |
|---|---|---|---|
| Foundations San Antonio Surgical Hospital(2) | San Antonio, TX | February 19, 2014 | $ 25,556 |
| Eagles Landing Family Practice 4 MOBs(2) | Atlanta, GA | February 19, 2014 | 20,800 |
| 21st Century Oncology 4 MOBs(3) | Sarasota, FL | February 26, 2014 | 17,486 |
| Foundations San Antonio MOB(3) | San Antonio, TX | February 28, 2014 | 6,800 |
| Peachtree Dunwoody MOB(3) | Atlanta, GA | February 28, 2014 | 36,726 |
| LifeCare LTACH(2) | Fort Worth, TX | March 28, 2014 | 27,160 |
| LifeCare LTACH(2) | Pittsburgh, PA | March 28, 2014 | 12,840 |
| Pinnacle Health Cardiology Portfolio 2 MOBs (3) | Carlisle & Wormleyburg, PA | April 22, 2014 | 9,208 |
| South Bend Orthopedic MOB (3) | South Bend, IN | April 30, 2014 | 14,900 |
| Grenada Medical Complex MOB (3) | Grenada, MS | April 30,2014 | 7,100 |
| Mississippi Sports Medicine and Orthopaedics Center MOB (2)(4) | Jackson, MS | May 23, 2014 | 16,700 |
| Carmel Medical Pavilion MOB (3)(5) | Carmel, IN | May 28, 2014 | 4,664 |
| Summit Urology MOB (2) | Bloomington, IN | June 30, 2014 | 4,783 |
| Renaissance Center (3) | Oshkosh, WI | June 30, 2014 | 8,500 |
| Presbyterian Medical Plaza MOB (3) | Monroe, NC | June 30, 2014 | 7,750 |
| Landmark Medical Portfolio (Premier) 3 MOBs (2)(6) | Bloomington, IN | July 1, 2014 | 23,837 |
| Carlisle II MOB (3) | Carlisle, PA | July 25, 2014 | 4,500 |
| Surgical Institute of Monroe ASC (2) | Monroe, MI | July 28, 2014 | 6,000 |
| The Oaks Medical Building MOB (3) | Lady Lake, FL | July 31, 2014 | 10,600 |
| Baylor Surgicare ASC Mansfield (3) | Mansfield, TX | September 2, 2014 | 8,500 |
| Eye Center of Southern Indiana (2)(7) | Bloomington, IN | September 5, 2014 | 12,174 |
| Wayne State Medical Center and MOB (2) | Troy, MI | September 10, 2014 | 46,500 |
| El Paso Portfolio (specialty surgical hospital and 2 MOBs) (3)(8) | El Paso, TX | September 30, 2014 | 46,235 |
| The Mark H. Zangmeister Center (3) | Columbus, OH | September 30, 2014 | 36,600 |
| Berger Medical Center (3) | Orient, OH | September 30, 2014 | 6,785 |
| Orthopedic One 2 MOBs (3) | Columbus, OH Westerville, OH | September 30, 2014 | 24,500 |
| Pinnacle Health Portfolio 5 MOBs (3) | Harrisburg, PA | October 29, 2014 | 23,100 |
| Columbus Regional Health Portfolio 12 MOBs (3) Columbus Regional Health Portfolio 1 MOB (3) | Columbus, GA Phenix City, AL | November 20, 2014 | 27,997 |
| Middletown Medical 2 MOBs (2) | Middletown, NY | November 26. 2014 | 14,399 |
| Carle Danville Clinic MOB (3) | Danville, IL | November 26, 2014 | 10,300 |
| Napoleon Medical Building MOB (3) | New Orleans, LA | December 18, 2014 | 10,500 |
| West Tennessee Bone & Joint 1 MOB 1 ASC (2) | Jackson, TN | December 30, 2014 | 9,936 |
| Total | | | $ 543,436 |

(1) MOB means medical office building, LTACH means long-term acute care hospital and ASC means ambulatory surgical center.

(2) The Trust accounted for these acquisitions as asset acquisitions and capitalized $1.7 million of total acquisition costs to the basis of the properties.

(3) The Trust accounted for these acquisitions as business combinations pursuant to the acquisition method and expensed total acquisition costs of $10.9 million.

(4) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 147,659 OP Units valued at approximately $1.9 million in the aggregate on the date of issuance.

(5) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 96,099 OP Units valued at approximately $1.2 million in the aggregate on the date of issuance.

(6) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 576,040 OP Units valued at approximately $8.3 million in the aggregate on the date of issuance.

Table of Contents

(7) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 272,191 OP Units valued at approximately $4.0 million in the aggregate on the date of issuance.

(8) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 950,324 OP Units valued at approximately $13.2 million in the aggregate on the date of issuance.

In 2014, we originated two mezzanine. On January 2, 2014, we completed a $6.9 million mezzanine loan to affiliates controlled by MedProperties Holdings, LLC, a Dallas, Texas based private investor in medical facilities ( MedProperties ). The mezzanine loan is secured by MedProperties ownership interest in two special purpose entities that own a surgical hospital located in San Antonio, Texas and an inpatient rehabilitation facility located in Scottsdale, Arizona. The mezzanine loan has a five year, interest-only term and bears interest at a rate of 9.0% per annum. As part of the consideration for providing the mezzanine loan, we have an option to acquire the property at a formula purchase price during year four of the mezzanine loan based on a fixed capitalization rate**.**

On November 26, 2014, we made an $8.6 million term loan to fund the renovations and additions of two re-purposed buildings in Jacksonville, Florida. Upon completion of the expansion and renovations, the properties will be approximately 40,000 square feet in the aggregate. Upon completion of the construction of the buildings and them becoming fully occupied, which we expect to occur in the second half of 2015, we have the option to purchase the buildings. The term loan bears interest at a rate of 9.0%.

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 $819 million as of December 31, 2014. As of March 9, 2015 we have 70,237,520 common shares outstanding.

We did not conduct business operations prior to completion of our IPO on July 24, 2013, therefore, the financial information herein for periods prior to July 24, 2013 reflects the operations of the four healthcare real estate funds managed by Ziegler, which we refer to as the Ziegler Funds or the Predecessor, from whom we acquired the equity interests in the 19 properties that constituted our initial properties upon completion of our IPO and formation transactions. We determined the Ziegler Funds to be our accounting predecessor. The financial information herein since July 24, 2013 reflect our operations since completion of the IPO and formation transactions.

We are a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our short taxable year ended December 31, 2013. 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. We are the sole general partner of our Operating Partnership and, as of March 9, 2015, own approximately 94.4% of the OP Units.

**Recent Developments**

*January 2015 Follow-on Public Offering*

On January 21, 2015, we completed a follow-on public offering of 18,975,000 common shares of beneficial interest, including 2,475,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to us of approximately $297.2 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 18,975,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

*2015 Property Acquisitions*

Since January 1, 2015, we have completed six acquisitions of 16 healthcare properties located in six states containing an aggregate of 610,084 net leasable square feet for an aggregate of approximately $172.0 million as summarized below.

Columbus Regional Health Portfolio. On January 23, 2015, we closed on the final building of the previously announced $34.5 million portfolio of 13 on-campus medical office facilities located in Columbus, Georgia. This last building is an approximately 37,995 square foot facility and is 100% leased to the Columbus Clinic, a large multi-specialty physician group, and is attached to Columbus Regional Health s midtown hospital. The purchase price for the building was $6.5 million.

Methodist Sports Medicine. On January 28, 2015, through a subsidiary of our Operating Partnership, we completed the acquisition of an approximately 38,000 square foot orthopedic complex comprised of three medical office buildings in Greenwood, Indiana. The orthopedic complex is 100% occupied. As part of the transaction, approximately 420,963 OP Units were issued, which comprised an approximately $7.3 million portion of the purchase price for the properties.

Table of Contents

Minnesota Portfolio. During January and February 2015, we closed on the $116.3 million Minnesota portfolio:

- Through a subsidiary of our Operating Partnership, we entered into and closed a contribution agreement (the Contribution Agreement ) with Minnetonka Medical Building, LLC, an affiliate of The Davis Group ( MMB ), and another investor also associated with The Davis Group (together with MMB, the Contributors ), to acquire a medical office building in Minnetonka, Minnesota (the Minnetonka MOB ) in exchange for approximately $16.3 million in cash and approximately $9.7 million payable in newly designated Series A Participating Redeemable Preferred Units of the Operating Partnership (the Series A Preferred Units ). Pursuant to the Contribution Agreement, Mark Davis acquired a less than 1% minority interest in the property holding entity that was acquired by a subsidiary of the Operating Partnership. The Minnetonka MOB has approximately 63,500 square feet, and is 100% occupied by North Memorial Healthcare, a comprehensive health care system, on a long-term triple-net lease. Holders of the Series A Preferred Units issued in connection with the acquisition of the Minnetonka MOB are entitled to certain redemption rights under the partnership agreement of the Operating Partnership which allow them to cause the Operating Partnership to redeem the Series A Preferred Units in exchange for cash, or at our option, for our common shares, pursuant to a formula provided in the partnership agreement and currently on an approximately one-for-12.65 basis. Approximately 44,685 Series A Preferred Units were issued in the transaction to acquired the Minnetonka MOB. The investors in the Series A Preferred Units have agreed not cause the Operating Partnership to redeem their Series A Preferred Units prior to February 5, 2016.

- Through subsidiaries of our Operating Partnership, we entered into and closed purchase and sale or contribution agreements with other affiliates of The Davis Group and investors associated with The Davis Group to acquire six medical office facilities located in the Minneapolis-St. Paul Metropolitan area and one additional medical office facility located in Jamestown, North Dakota. The Davis Group acquired or retained a less than 1% minority interest in five property holding entities that otherwise were wholly acquired by subsidiaries of our Operating Partnership.

- In the aggregate the portfolio is approximately 362,654 square feet, and is 98% leased.

The Series A Preferred Units and OP Units issued in connection with the property acquisitions described above were issued (a) in private placements in reliance on Section 4(2) of the Securities Act and the rules and regulations promulgated thereunder and (b) to accredited investors within the meaning of Rule 501 of Regulation D under the Securities Act.

Indianapolis South Portfolio. On February 13, 2015, through a subsidiary of our Operating Partnership, we closed the acquisition of four medical office buildings in Greenwood, Indiana for a purchase price of approximately $17.2 million. The medical office buildings contain approximately 118,934 square feet in the aggregate and are 81.0% leased.

Bridgeport Medical Center. On February 27, 2015, through a subsidiary of our Operating Partnership, we closed the acquisition of a medical office building in Lakewood, Washington for a purchase price of approximately $13.8 million. The medical office building contains approximately 31,074 square feet and is 100% leased.

Baylor Cancer Center. On February 27, 2015, through a subsidiary of our Operating Partnership, we closed the acquisition of a medical office building in Dallas, Texas for a purchase price of approximately $8.2 million. The medical office building contains approximately 21,427 square feet and is 100% leased.

We expect to acquire between $500 million to $700 million of real estate during 2015, including the six acquisitions described above.

*Partnership Agreement of the Operating Partnership*

On February 5, 2015, we 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 Preferred Units. The Series A Preferred Units will have priority over all other partnership interests of the operating partnership with respect to distributions and liquidation. In addition, the Series A Preferred Units will be redeemable at the option of the holders on or after the one year anniversary of their issuance, which redemption obligation may be satisfied, at the our option, in cash or our common shares.

*Appointment of General Counsel*

On January 8, 2015, we announced that Bradley D. Page would join us as Senior Vice President and General Counsel, effective February 2, 2015. Mr. Page reports directly to our President and Chief Executive Officer, John T. Thomas. In connection with his appointment, we granted an award of 17,401 restricted common shares to Mr. Page.

Table of Contents

Mr. Page served as a shareholder and, most recently, as President of Milwaukee-based Davis & Kuelthau, s.c. until his resignation to accept this position with us. He joined Davis and Kuelthau in 1995, where he represented businesses in all areas of commercial real estate, commercial lending, corporate and construction transactions. Mr. Page s private practice included acquisition, development, leasing and sales of healthcare, retail, office, multifamily and industrial properties including our company. He has extensive experience negotiating contracts, leases, organizational documents, real estate documents, financing documents and other agreements with national retail tenants, healthcare providers, financial institutions, municipalities, and owners of real property. Mr. Page is a graduate of the University of Wisconsin Law School, with a B.B.A. from the University of Michigan.

*Amendment to Mr. Sweet s Employment Agreement*

On February 19, 2015, we and Mr. Sweet entered into an Amended and Restated Employment Agreement, effective January 1, 2015 (the Amended Employment Agreement ). The Amended Employment Agreement extends Mr. Sweet s service as Executive Vice President and Chief Investment Officer until January 1, 2017. Then, Mr. Sweet will be employed as a consultant to us until January 1, 2018.

The Amended Employment Agreement amends and restates the first amended and restated Employment Agreement between the Company and Mr. Sweet, dated May 6, 2014. Under the Amended Employment Agreement, until January 1, 2017, Mr. Sweet will receive a base salary of $245,000 per annum and will be eligible to receive an annual bonus of $50,000 to $100,000 based upon performance goals as established by our board of trustees or the compensation, nominating and governance committee of our board of trustees. For 2015 and 2016, Mr. Sweet also will be eligible to receive a one-time award of restricted share units under our 2013 Equity Incentive Plan for that number of underlying common shares that has a fair market value of at least $500,000, subject to vesting in 2017. When employed as a consultant between January 1, 2017 and January 1, 2018, Mr. Sweet will receive a consulting fee of $75,000 per annum.

**Components of Our Revenues, Expenses and Cash Flow**

The financial information of our Predecessor, the Ziegler Funds, prior to completion of the IPO, reflects a different structure than our operations following the inception of operations upon completion of our IPO and as a result, the results of operations of the Predecessor and our results since our inception of operations may not be comparable. While the financial presentation of revenues pursuant to the leases at the properties in our initial portfolio and certain expenses, such as depreciation and amortization, are substantially consistent for the Predecessor and for us, the expense structure of our company since completion of the IPO and the formation transactions differs from the historical expense structure of the Predecessor. During the periods of financial information for the Predecessor, the Ziegler Funds had no direct employees and paid a fixed annual management fee to Ziegler, which managed the operations of the Ziegler Funds. By contrast, as a self-managed REIT, we do not pay management fees to third parties (other than to third party property management companies with respect to certain of our properties) but rather we pay cash and other forms of compensation to our officers and employees. In addition, as a public reporting company, we have incurred and expect to continue to incur certain expenses, such as legal and accounting expenses relating to SEC reporting and other matters that were not incurred historically by the Predecessor, which was not a public reporting company.

***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.

*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.

Table of Contents

*Interest income on real estate loans and other*. Represents interest income on a mezzanine loan, term loan and change in fair value of derivative liability. Interest income on the loans are recognized as earned based on the terms of the loans subject to evaluation of collectability risks.

We have implemented Accounting Standards Codification (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 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. All of the changes in the fair market values of our derivative instruments are recorded in the consolidated and combined statements of operations.

***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, franchises taxes, corporate filing fees, exchange listing fees, officer and trustee insurance costs and other costs associated with being a public company. In addition, effective upon completion of the IPO, we entered into a Shared Services Agreement with Ziegler with respect to certain overhead expenses. On July 31, 2014, we entered into the First Amendment to Shared Services Agreement with Ziegler, which amended certain terms of the Shared Services Agreement. Among other things, the First Amendment reduced the shared services to be provided by Ziegler, the term of the shared services agreement, and the monthly fee to be paid by us for the remainder of the term. In consideration of these changes, we were obligated to make a one-time payment to Ziegler in the amount of $1,800,000, which could be paid in cash or in unrestricted common shares, as determined by us in our sole discretion. On August 19, 2014, we made the amendment payment by issuing 124,913 common shares to Ziegler. The fees paid under the Shared Services Agreement are included in general and administrative expenses.

*Operating Expenses.* Operating expenses include property operating expenses such as real estate taxes, property insurance, routine maintenance and repairs, utilities and property management expenses, some of which are reimbursed to us by tenants under the terms of triple-net 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.

*Management fees*. Ziegler and another subsidiary of the Ziegler Companies, Inc. historically charged a management fee to the Ziegler Funds. These management fees were discontinued in connection with the acquisition of our initial properties upon completion of our IPO and the formation transactions.

*Equity in income of unconsolidated entity.* We recognize our 40% share of earnings and losses from the entity that owns the land under Crescent City Surgical Centre.

***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.

Table of Contents

*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.

*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***

***Overview***

As described above, following the completion of the IPO and the formation transactions, our structure and operations differ from the historical structure and operations of the Ziegler Funds. For this and other reasons set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations, we do not believe that the Predecessor s historical results of operations are indicative of our future operating results.

***Year Ended December 31, 2014 compared to the Year Ended December 31, 2013***

The Trust was organized on April 9, 2013 and commenced operations on July 24, 2013. The 2013 results disclosed in this report include the Trust s results from July 24, 2013 through September 30, 2013, combined with the results of the Predecessor from January 1, 2013 through July 23, 2013.

The following table summarizes our results of operations for the year ended December 31, 2014 and 2013 (in thousands):

| | 2014 | 2013 | Change | % |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Rental revenues | $ 46,397 | $ 13,565 | $ 32,832 | 242.0 |
| Expense recoveries | 5,871 | 3,234 | 2,637 | 81.5 |
| Interest income on real estate loans and other | 1,066 | 246 | 820 | 333.3 |
| Total revenues | 53,334 | 17,045 | 36,289 | 212.9 |
| **Expenses:** | | | | |
| Interest expense | 6,907 | 4,295 | 2,612 | 60.8 |
| General and administrative | 11,440 | 3,214 | 8,226 | 255.9 |
| Operating expenses | 10,154 | 4,650 | 5,504 | 118.4 |
| Depreciation and amortization | 16,731 | 5,107 | 11,624 | 227.6 |

| | | | | |
|---|---|---|---|---|
| Acquisition expenses | 10,897 | 1,938 | 8,959 | 462.3 |
| Management fee | | 475 | (475) | -100.0 |
| Impairment loss | 1,750 | | 1,750 | NM |
| Total expenses | 57,879 | 19,679 | 38,200 | 194.1 |
| **Loss before equity in income of unconsolidated entity and gain (loss) on sale of investment properties:** | (4,545) | (2,634) | (1,911) | 72.6 |
| Equity in income of unconsolidated entity | 95 | | 95 | NM |
| Gain (loss) on sale of investment properties | 32 | (2) | 34 | NM |
| Net loss | $ (4,418) | $ (2,636) | $ (1,782) | 67.6 |

NM = Not Meaningful

**Revenues**

Total revenues increased $36.3 million, or 212.9%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. An analysis of selected revenues follows.

*Rental revenues.* Rental revenues increased $32.8 million, or 242.0%, from $13.6 million for the year ended December 31, 2013 to $46.4 million for the year ended December 31, 2014. The increase in rental revenues primarily resulted from our 2014 and 2013 acquisitions which resulted in additional rental revenue of $23.4 million and $9.8 million, respectively.

Table of Contents

*Expense recoveries.* Expense recoveries increased $2.6 million, or 81.5%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase in expense recoveries primarily resulted from our 2014 and 2013 acquisitions which resulted in additional expense recoveries of $2.5 million and $0.2 million, respectively.

*Interest income on real estate loans and other.* Interest income on real estate loans and other increased $0.8 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase was the result of a $0.7 million increase due to the mezzanine loan transaction completed on January 2, 2014 and an increase of $0.2 million of other income, which was partially offset by a $0.1 million decrease in the gain from the change in fair value of a derivative liability.

**Expenses**

Total expenses increased by $38.2 million, or 194.1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. An analysis of selected expenses follows.

*Interest expense*. Interest expense for the year ended December 31, 2014 was $6.9 million compared to $4.3 million for the year ended December 31, 2013, representing an increase of $2.6 million, or 60.8%. The $2.6 million increase was the result of a $1.9 million increase in interest on new mortgage debt and $2.3 million resulting from outstanding balances, non-use fees and amortization of deferred financing costs on our revolving line of credit, partially offset by a $1.5 million decrease in interest on mortgage debt due to the repayment of $36.9 million of mortgage notes payable in connection with the formation transactions using proceeds from our IPO and $0.1 million decrease relating to a mortgage re-finance and debt pay-downs.

*General and administrative*. General and administrative expenses increased $8.2 million or 255.9%, from $3.2 million during the year ended December 31, 2013 to $11.4 million during the year ended December 31, 2014. The increase included salaries and benefits of $3.8 million (including non-cash share compensation of $1.5 million), professional fees of $1.3 million and other administrative costs of $3.1 million (including one-time Amendment Payment of $1.8 million to Ziegler).

*Operating expenses*. Operating expenses increased $5.5 million or 118.4%, from $4.7 million during the year ended December 31, 2013 to $10.2 million during the year ended December 31, 2014. The increase in operating expense primarily resulted from our 2014 and 2013 acquisitions which resulted in additional operating expense of $5.2 million and $0.3 million, respectively.

*Depreciation and amortization*. Depreciation and amortization increased $11.6 million, or 227.6%, from $5.1 million during the year ended December 31, 2013 to $16.7 million during the year ended December 31, 2014. The increase in depreciation and amortization primarily resulted from our 2014 and 2013 acquisitions which resulted in additional depreciation and amortization of $8.0 million and $3.1 million, respectively.

*Acquisition expenses*. Acquisition expenses increased $9.0 million or 462.3%, from $1.9 million during the year ended December 31, 2013 to $10.9 million for the year ended December 31, 2014. During the year ended December 31, 2014 and 2013, we acquired $322.8 million and $132.4 million, respectively, of real estate that were considered business combinations and as such, the related acquisition costs were expensed.

*Impairment loss.* The Trust recognized a $1.8 million impairment loss on two medical office buildings purchased by the Predecessor for the year ended December 31, 2014. No such impairment loss was recorded for the year ended December 31, 2013.

*Management fees.* The Predecessor incurred $0.5 million of management fees in the year ended December 31, 2013. We do not incur these management fees. No management fees were incurred by the Trust in the year ended December 31, 2014.

*Equity in income of unconsolidated entity.* The change in equity in income from unconsolidated entity for the year ended December 31, 2014 was $0.1 million. The increase is the result of the acquisition of a 40% ownership interest in the entity that owns the land under Crescent City Surgical Centre for $1.3 million on February 21, 2014.

*Gain (loss) on sale of investment properties.* On September 19, 2014, the Trust sold a 2,000 square foot medical office building condominium unit located in Florida for approximately $0.3 million. During 2013, the Trust sold a 4,000 square foot medical office building condominium unit located in Florida for approximately $0.5 million.

Table of Contents

***Year Ended December 31, 2013 compared to the Year Ended December 31, 2012***

The Trust was organized on April 9, 2013 and commenced operations on July 24, 2013. The 2013 results disclosed in this report include the Trust s results from July 24, 2013 through September 30, 2013, combined with the results of the Predecessor from January 1, 2013 through July 23, 2013.

The following table summarizes our results of operations for the year ended December 31, 2013 and 2012 (in thousands):

| | 2013 | 2012 | Change | % |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Rental revenues | $ 13,565 | $ 9,821 | $ 3,744 | 38.1 |
| Expense recoveries | 3,234 | 3,111 | 123 | 4.0 |
| Interest income on real estate loans and other | 246 | 137 | 109 | 79.6 |
| Total revenues | 17,045 | 13,069 | 3,976 | 30.4 |
| **Expenses:** | | | | |
| Interest expense | 4,295 | 4,538 | (243) | (5.4) |
| General and administrative | 3,214 | 362 | 2,852 | 787.8 |
| Operating expenses | 4,650 | 4,758 | (108) | (2.3) |
| Depreciation and amortization | 5,107 | 4,150 | 957 | 23.1 |
| Acquisition expenses | 1,938 | | 1,938 | NM |
| Management fee | 475 | 951 | (476) | (50.1) |
| Impairment loss | | 937 | (937) | (100.0) |
| Total expenses | 19,679 | 15,696 | 3,983 | 25.4 |
| **Loss before loss on the sale of investment properties and discontinued operations:** | (2,634) | (2,627) | (7) | (0.3) |
| Loss on the sale of investment properties | (2) | (228) | 226 | (99.1) |
| Discontinued operations: | | | | |
| Loss from operations | | (198) | 198 | (100.0) |
| Gain on sale of investment properties | | 1,519 | (1,519) | (100.0) |
| **Income from discontinued operations** | | 1,321 | (1,321) | (100.0) |
| **Net loss** | $ (2,636) | $ (1,534) | $ (1,102) | 71.8 |

NM = Not Meaningful

***Revenues***

Total revenues increased $4.0 million, or 30.4%, for the year ended December 31, 2013 as compared to the Predecessor s year ended December 31, 2012.

*Rental revenues.* Rental revenues increased $3.7 million, or 38.1%, from $9.8 million for the year ended December 31, 2012 to $13.6 million for the year ended December 31, 2013. The increase in rental revenues primarily resulted from eight property acquisitions which closed in the

third and fourth quarters of 2013 and resulted in an additional $3.6 million in revenue for the year ended December 31, 2013. The remaining increase was the result of contract rent increases and new leases within the initial 19 properties.

*Expense recoveries.* Expense recoveries increased $0.1 million, or 4.0%, from $3.1 million for the year ended December 31, 2012 to $3.2 million for the year ended December 31, 2013, due primarily to an increase in property related operating expenses which are reimbursed to us by tenants under our triple-net leases.

*Interest income on real estate loans and other.* Interest income on real estate loans and other increased $0.1 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012. The increase was the result of a mark to market gain on interest rate swap.

Total expenses increased by $4.0 million, or 25.4%, for the year ended December 31, 2013 as compared to the Predecessor s year ended December 31, 2012.

Table of Contents

*Interest expense.* Interest expense for the year ended December 31, 2013 was $4.3 million compared to $4.5 million for the Predecessor for the year ended December 31, 2012, representing a decrease of $0.2 million, or 5.4%. The decrease of $0.2 million was the result of a decrease in interest on mortgage debt of $0.9 million due to the repayment of $36.9 million of mortgage notes payable in connection with the formation transactions using proceeds from our IPO and partially offset by an increase in interest expense of $0.5 million resulting from outstanding balances, non-use fees and amortization of deferred financing costs on our revolving line of credit. Also, partially offset by the accelerated amortization of deferred financing costs due to mortgage re-financings of $0.2 million.

*General and administrative.* General and administrative expenses increased $2.9 million or 787.8%, from $0.4 million during the year ended December 31, 2012 to $3.2 million during the year ended December 31, 2013. The increase was the result of our operating as a public company since completion of our IPO on July 24, 2013. The increases included salaries and benefits of $1.5 million (including non-cash share compensation of $0.4 million), professional fees of $1.0 million, office start-up costs of $0.2 million and other administrative costs of $0.2 million.

*Operating expenses.* Operating expenses decreased $0.1 million or 2.3%, from $4.8 million during the year ended December 31, 2012 to $4.7 million during the year ended December 31, 2013, due primarily to a decrease in bad debt expense of $0.2 million partially offset by an increase in property tax expense of $0.1 million.

*Depreciation and amortization.* Depreciation and amortization increased $1.0 million, or 23.1%, from $4.1 million during the year ended December 31, 2012 to $5.1 million during the year ended December 31, 2013. The increase in depreciation and amortization was primarily from eight acquisitions which closed in the third and fourth quarters of 2013 and resulted in an additional $1.1 million in depreciation and amortization for the year ended December 31, 2013.

*Acquisition expenses.* Acquisition expenses were $1.9 million for the year ended December 31, 2013. The Predecessor did not incur any acquisition expenses in the year ended December 31, 2012. During fiscal 2013, we acquired $132.4 million of real estate following completion of our IPO on July 24, 2013.

*Management fees.* The Predecessor incurred $1.0 million of management fees in the year ended December 31, 2012, compared to $0.5 million of management fees incurred by the Predecessor through July 23, 2013 in the year ended December 31, 2013. No management fees were incurred by us subsequent to the IPO.

*Impairment losses*. There were no impairment losses recorded in the year ended December 31, 2013. The Predecessor recorded an impairment loss of $0.9 million during the year ended December 31, 2012. Impairment losses are not a recurring expense as we periodically assess the carrying value of real estate investments and related intangible assets against the estimated fair value of the property.

*Loss on sale of investment properties.* We incurred a loss of $0.02 million on the sale of a medical office building condominium unit at the Summerfield Square property during the year ended December 31, 2013. Total proceeds of the sale were $0.5 million. During the year ended December 31, 2012, the Predecessor incurred a loss of $0.2 million on the sale of a condominium unit at the Summerfield Square property. Total proceeds on the sale were $0.3 million. We have 2,000 square feet remaining in the Summerfield Square property.

*Income from discontinued operations.* There were no discontinued operations in the year ended December 31, 2013. In fiscal 2012, the Predecessor recorded income from discontinued operations and recognized a gain on the sale of two properties totaling $1.5 million.

**Cash Flows**

***Year Ended December 31, 2014 compared to the Year Ended December 31, 2013 (In thousands):***

| | 2014 | 2013 |
|---|---|---|
| Net cash provided by operating activities | $ 13,295 | $ 1,168 |
| Net cash used in investing activities | (518,810) | (126,443) |
| Net cash provided by financing activities | 464,960 | 179,139 |
| (Decrease) increase in cash and cash equivalents | $ (40,555) | $ 53,864 |

*Cash flows from operating activities*. Cash flows provided by operating activities was $13.3 million during the year ended December 31, 2014 compared to cash flow provided by operating activities of $1.2 million during the year ended December 31, 2013, representing an increase of $12.1 million. This change is attributable to the increased operating cash flows resulting from the acquisition of 61 healthcare properties in 2014.

Table of Contents

*Cash flows from investing activities*. Cash flows used in investing activities was $518.8 million during the year ended December 31, 2014 compared to cash flows used in investing activities of $126.4 million during the year ended December 31, 2013, representing a change of $392.4 million. The increase in cash flows used in investing activities was primarily attributable to a $375.4 million increase in 2014 acquisitions compared to 2013, funding of two loans for $15.4 million, and $0.9 million increase in capital expenditures on investment properties.

*Cash flows from financing activities*. Cash flows provided by financing activities was $465.0 million during the year ended December 31, 2014 compared to cash flows provided by financing activities of $179.1 million during the year ended December 31, 2013, representing an increase of $285.5 million. The increase was primarily attributable to an increase of $124.5 million in net proceeds from follow-on public offerings, net increase of proceeds and payments on credit facility borrowings of $138.0 million, increase of $26.4 million in proceeds from issuance of mortgage debt and a decrease of $35.3 million of payments on mortgage debt, partially offset by an increase of $28.8 million of dividends and distributions paid, a $7.6 million increase in purchase of OP Units, and an increase of $2.5 million of debt issuance costs on our credit facility.

***Year Ended December 31, 2013 compared to Year Ended December 31, 2012 (In thousands):***

| | 2013 | 2012 |
|---|---|---|
| Cash provided by operating activities | $ 1,168 | $ 3,513 |
| Cash (used in)/provided by investing activities | (126,443) | 13,527 |
| Cash provided by/(used in) financing activities | 179,139 | (16,358) |
| Increase in cash and cash equivalents | $ 53,864 | $ 682 |

*Cash flows from operating activities.* Cash flows provided by operating activities was $1.2 million during the year ended December 31, 2013 compared to cash flow provided by operating activities of the Predecessor of $3.5 million during the year ended December 31, 2012, representing a decrease of $2.3 million. This change was primarily attributable to a $1.1 million decrease in net loss, a $1.8 million decrease in related party accounts payable and a $2.0 million increase in other assets, partially offset by a $1.5 million increase in gain on sale of investment property and a $1.0 million decrease in impairment loss.

*Cash flows from investing activities.* Cash flows used in investing activities was $126.4 million during the year ended December 31, 2013 compared to cash flow provided by investing activities of the Predecessor of $13.5 million during the year ended December 31, 2012, representing a change of $139.9 million. The increase in cash flows used in investing activities was primarily attributable to the acquisition of eight properties for $125.7 million in 2013 and a $14.1 million decrease in proceeds from the Predecessor s sale of property in fiscal 2012.

*Cash flows from financing activities.* Cash flows provided by financing activities was $179.1 million during the year ended December 31, 2013 compared to cash flows used in financing activities for the Predecessor of $16.4 million during the year ended December 31, 2012, representing an increase of $195.5 million. The increase was primarily attributable to $135.2 million in proceeds from our IPO, $109.8 million in proceeds from our December 2013 public offering, partially offset by $27.7 million in increased debt repayments, $12.3 million in IPO costs and $6.7 million in December 2013 public offering costs.

Table of Contents

**Non-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. Because real estate values have historically increased or decreased with market conditions, we believe that FFO provides a more meaningful and accurate indication of our performance. We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, ( NAREIT ). NAREIT defines FFO as net income (computed in accordance with GAAP) before noncontrolling interests of holders of OP units, excluding gains (or losses) on sales of depreciable operating property, impairment write-downs on depreciable assets and extraordinary items (computed in accordance with GAAP), 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 (loss), 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 (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-related expenses, acceleration of deferred financing costs, and other normalizing items (Ziegler shared service amendment payment). 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 attributable to controlling interest (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor its 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.

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

| | | Year Ended December 31, 2014 |
|---|---|---|
| Net loss | $ | (4,418) |
| Depreciation and amortization expense | | 16,731 |
| Gain on the sale of investment properties | | (32) |
| Impairment loss | | 1,750 |
| FFO | $ | 14,031 |
| FFO per share and unit | $ | 0.38 |
| Net change in fair value of derivative | | (161) |
| Acquisition-related expenses | | 10,897 |
| Acceleration of deferred financing costs | | 178 |
| Other normalizing items | | 1,800 |

| | | |
|---|---|---|
| Normalized FFO | $ | 26,745 |
| Normalized FFO per share and unit | $ | 0.72 |
| | | |
| Weighted average number of shares and units outstanding | | 37,196,043 |

Table of Contents

***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-related 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. Additionally, 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. 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. However, 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.

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

| | | |
|---|---|---|
| Net loss | $ | (4,418) |
| Acquisition-related expenses | | 10,897 |
| Interest expense | | 6,907 |
| Gain on the sale of investment properties | | (32) |
| NOI | $ | 43,114 |
| NOI | $ | 43,114 |
| Amortization of acquired above/below market leases | | 378 |
| Cash NOI | $ | 39,424 |

Table of Contents

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

We define EBITDA as net (loss) income 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 (loss) income computed in accordance with GAAP plus depreciation and amortization, interest expense and net change in the fair value of derivative financial instruments, acquisition-related expenses, non-cash share compensation, and other non-recurring items, such as impairment loss and shared service amendment payment. 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 net loss, the most direct financial measure calculated and presented in accordance with GAAP, to EBITDA and Adjusted EBITDA (in thousands):

| | | Year Ended December 31, 2014 |
|---|---|---|
| Net loss | $ | (4,418) |
| | | |
| Depreciation and amortization | | 16,731 |
| Interest expense | | 6,907 |
| Net change in fair value of derivatives | | (161) |
| **EBITDA** | $ | 19,059 |
| Acquisition-related expenses | | 10,897 |
| Non-cash share compensation | | 1,977 |
| Impairment loss | | 1,750 |
| Shared service amendment payment | | 1,800 |
| **Adjusted EBITDA** | $ | 35,483 |

**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.

Table of Contents

As of December 31, 2014, we had a total of $16.0 million of cash and cash equivalents and $189.0 million of near-term availability on our unsecured revolving credit facility. Also, we had an additional $73.0 million of availability under our unsecured revolving credit facility as of December 31, 2014 which is subject to customary property underwriting standards. 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 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.

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 common or preferred shares, issuances of OP Units or other securities.

On August 4, 2014, we filed the Shelf Registration Statement with the Commission, which the Commission declared effective on August 19, 2014.

On August 19, 2014, we and the Operating Partnership entered into separate At Market Issuance Sales Agreements (the Sales Agreements ) with each of MLV & Co. LLC, KeyBanc Capital Markets Inc., JMP Securities LLC, and RBC Capital Markets, LLC (the Agents ), pursuant to which we may issue and sell common shares having an aggregate offering price of up to $150 million, from time to time, through the Agents pursuant to the Shelf Registration Statement (the ATM Program ). In accordance with the Sales Agreements, we may offer and sell our 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, which includes sales made directly on the NYSE, or other existing trading market, or sales made to or through a market maker. With our express written consent, sales also may be made in negotiated transactions or any other method permitted by law. The common shares are registered under the Securities Act pursuant to the Shelf Registration Statement, and are being offered pursuant to a prospectus dated August 19, 2014, as supplemented by a prospectus supplement dated August 19, 2014, filed with the Commission pursuant to Rule 424(b) of the Securities Act. During 014, we sold 3,576,010 common shares pursuant to the ATM Program, at a weighted average price of $15.54 per share resulting in total proceeds of approximately $55.6 million, before $0.8 million in commissions. As of March 9, 2015, we sold 247,397 common shares during 2015 pursuant to the ATM Program, at a weighted average price of $16.96 per share resulting in total proceeds of approximately $4.2 million, before $55,696 in commissions. As of March 9, 2015, we have $90.2 million remaining available under the ATM Program.

On September 12, 2014, we completed a follow-on public offering of 10,925,000 common shares of beneficial interest, including 1,425,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to us of approximately $145.7 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 10,925,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our former senior secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

On January 21, 2015, we completed a follow-on public offering of 18,975,000 common shares of beneficial interest, including 2,475,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to us of approximately $297.2 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 18,975,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

Table of Contents

Effective September 18, 2014, the Credit Agreement, dated as of August 29, 2013 (as amended, restated, increased, extended, supplemented or otherwise modified from time to time, the Prior Credit Agreement ), among the Operating Partnership, as borrower, the Company, certain subsidiaries and other affiliates of the Operating Partnership, as guarantors, Regions Bank, as administrative agent, Regions Capital Markets, as sole lead arranger and sole book runner, and the lenders party thereto, and all commitments provided thereunder, were terminated. All amounts due and outstanding under the Prior Credit Agreement were repaid on or prior to such date.

On September 18, 2014, the Operating Partnership, as borrower, and the Company and certain subsidiaries and other affiliates of the Company, as guarantors, entered into a Credit Agreement (the Credit Agreement ) with KeyBank National Association as administrative agent, KeyBanc Capital Markets Inc., Regions Capital Markets and BMO Capital Markets, as joint lead arrangers and joint bookrunners, Regions Capital Markets and BMO Capital Markets, as co-syndication agents, and the lenders party thereto in connection with an unsecured revolving credit facility in the maximum principal amount of $400 million. The Credit Agreement 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 $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $750 million. The Credit Agreement replaced our senior secured revolving credit facility in the maximum principal amount of $200 million under the Prior Credit Agreement.

The Credit Agreement has a maturity date of September 18, 2018 and includes a one-year extension option. Borrowings under the Credit Agreement bear interest on the outstanding principal amount at a rate equal to LIBOR plus 1.50% to 2.20% depending on the consolidated leverage ratio. In addition, the Credit Agreement includes an unused fee equal to 0.15% or 0.25% per annum, which is determined by usage under the Credit Agreement. Any additional indebtedness incurred or issued by us may be secured or unsecured, may have a short, medium, or long term fixed or variable interest rate and may be subject to other terms and conditions. We may also enter into financing arrangements on terms that we might not otherwise accept if we were in need of liquidity and had limited options.

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 and the Operating Partnership s ability to incur additional debt or make distributions. We may, at any time, voluntarily prepay any loan under the Credit Agreement in whole or in part without premium or penalty. As of December 31, 2014, we were in compliance with all financial covenants.

The Credit Agreement includes customary representations and warranties by the Operating Partnership, us and each other guarantor and imposes customary covenants on the Operating Partnership, us and each other guarantor. 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.

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 intend to refinance at maturity the mortgage notes payable that have balloon payments at maturity.

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

***Critical Accounting Policies***

Our consolidated and combined financial statements are prepared in conformity with GAAP, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of our accounting policies that we believe are critical to the preparation of our consolidated and combined financial statements.

***Principles of Consolidation and Combination***

Concurrently with the completion of the IPO, we entered into a series of contribution transactions with the Zeigler Funds acquiring 19 properties that comprise our initial properties, as well as certain operating assets and liabilities.

We did not conduct business operations prior to completion of the IPO on July 24, 2013, so the financial information herein for periods prior to July 24, 2013 reflects the operations of the Ziegler Funds, from whom we acquired the equity interests in the 19 properties that constituted our initial portfolio upon completion of the IPO and formation transactions. We determined the Ziegler Funds to be our accounting Predecessor. The financial information herein since July 24, 2013 reflect the operations of Physicians Realty Trust since completion of the IPO and formation transactions.

Table of Contents

Our Predecessor, which is not a legal entity, is comprised of the four Ziegler Funds that owned directly or indirectly interests in entities that owned our initial 19 properties. Upon completion of the IPO and formation transactions, we acquired the interests in these entities from the Ziegler Funds. The combined historical data for our Predecessor is not indicative of our financial position or results of operations.

The accompanying consolidated and combined financial statements include the accounts of all controlled subsidiaries and joint ventures. The portion of the net income or loss attributed to third parties is reported as net income allocable to noncontrolling interests on the consolidated and combined statements of operations, and such parties portion of the net equity in such subsidiaries is reported on the consolidated balance sheets as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation and combination.

We consider ourselves to control an entity under ASC Topic 810 *Consolidation ( ASC 810 ),* if we are the majority owner of and have voting control over such entity. We also assess control through means other than voting rights ( variable interest entities or VIEs ) and determine which business entity is the primary beneficiary of the VIE. A VIE is broadly defined as an entity where either the equity investors as a group, if any, do not have a controlling financial interest or the equity investment at risk is insufficient to finance that entity s activities without additional subordinated financial support. We consolidate VIEs when it is determined that we are the primary beneficiary of the VIE at either the date we became involved with the variable interest entity or upon the occurrence of a reconsideration event.

***Real Estate Investment Properties and Identified Intangible Assets***

We are required to make subjective assessments of the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in real estate. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in real estate we would depreciate such investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis. Real estate investment properties and identified intangible assets are carried at cost, net of accumulated depreciation and amortization. Medical office buildings are depreciated over their estimated useful lives ranging up to 50 years using the straight-line method. Tenant improvements and in-place leases are amortized over the lease life of the in-place leases or the tenant s respective lease term. Cost of maintenance and repairs are charged to expense when incurred.

We periodically assess the carrying value of real estate investments and related intangible assets in accordance with ASC Topic 360, *Property, Plant & Equipment ( ASC 360 )* to determine if facts and circumstances exist that would suggest that the recorded amount of an asset might be impaired or that the estimated useful live should be modified. In the event impairment in value occurs and a portion of the carrying amount of the real estate investment will not be recovered in part or in whole, a provision will be recorded to reduce the carrying basis of the real estate investment and related intangibles to their estimated fair value. The estimated fair value of our real estate investments is determined by use of a number of customary industry standard methods that include discounted cash flow modeling using appropriate discount and capitalization rates and/or estimated cash proceeds received upon the anticipated disposition of the asset from market comparables. Estimates of future cash flows is based on a number of factors including the historical operating results, leases in place, known trends, and other market or economic factors affecting the real estate investment. The evaluation of anticipated cash flows is subjective and is based on assumptions regarding future occupancy, lease rates and capital requirements that could differ materially from actual results. If our anticipated holding periods change or estimated cash flows decline based on market conditions or other unforeseen factors, impairment may be recognized. Long-lived assets to be disposed of are recorded at the lower of carrying value or fair value less costs to sell.

***Revenue***

We recognize rental revenues in accordance with ASC 840, *Leases ( ASC 840 )*. ASC 840 requires that rental revenue and adjustments relating to lease inducements and above and below market leases, be recognized on a straight-line basis over the term of the lease 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 are included in other assets on the consolidated balance sheets. If we determine the collectability of straight-line rents is not reasonable assured, we limit future recognition to amounts contractually owed and, where appropriate, establish an allowance for estimated losses.

Expense recoveries related to tenant reimbursement for real estate taxes, insurance, and other operating expenses are recognized as expense recoveries revenue in the period the applicable expenses are incurred. The reimbursements are recognized at gross, as we are generally the primary obligor with respect to real estate taxes and purchasing goods and services from third party suppliers, and have discretion in selecting the supplier, and bear the credit risk.

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 expense recoveries.

Table of Contents

***Lease Accounting***

We, as lessor, make a determination with respect to each of our leases whether they should be accounted for as operating leases or direct financing leases. The classification criteria is based on estimates regarding the fair value of the leased facilities, minimum lease payments, effective cost of funds, the economic life of the facilities, the existence of a bargain purchase option, and certain other terms in the lease agreements. We believe all of our leases should be accounted for as operating leases. Payments received under operating leases are accounted for in the consolidated and combined statements of operations as rental revenue for actual rent collected plus or minus a straight-line adjustment for estimated minimum lease escalators, adjustments relating to amortization of lease inducements, above and below market leases. Assets subject to operating leases are reported as real estate investments in the consolidated balance sheets.

Substantially all of our leases contain fixed or formula-based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease.

***Purchase 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 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 Trust 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 may include the assistance of a third party appraiser. We estimate the fair value of buildings acquired on an as-if-vacant basis and depreciate the building value over its estimated remaining life. We determine 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 our 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.

In determining the value of in-place leases and tenant relationships, 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 and tenant relationships are amortized 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.

The values assigned to all lease intangible assets and liabilities are amortized 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.

We calculate 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 we approximate based on the rate at which it would expect to incur a replacement instrument on the date of acquisition, and recognize any fair value adjustments related to long-term debt as effective yield adjustments over the remaining term of the instrument.

Based on these estimates, we recognize the acquired assets and assumed liabilities at their estimated fair values, which generally are 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. We expense transaction costs associated with acquisitions accounted for as business combinations in the period incurred.

Table of Contents

***Use of Estimates***

The preparation of the consolidated and combined 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 at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made for the valuation of real estate and related intangibles, valuation of financial instruments, impairment assessments and fair value assessments with respect to purchase price allocations. Actual results could differ from those estimates.

***Jumpstart Our Business Startups Act of 2012***

The Jumpstart Our Business Startups Act of 2012, or JOBS Act, permits us, as an emerging growth company, to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to opt out of this provision and, as a result, we will be required to comply with new or revised accounting standards as required when they are adopted. The decision to opt out of the extended transition period under the JOBS Act is irrevocable.

***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.

***Real Estate Taxes***

As owner of our properties, we are ultimately liable for the real estate taxes on our properties. Pursuant to our triple-net lease agreements, tenants generally are responsible, directly or indirectly, for the payment of all real estate taxes assessed on our properties, which are subject to triple-net leases.

***Credit Facility***

Effective September 18, 2014, the Prior Credit Agreement, and all commitments provided thereunder, were terminated. All amounts due and outstanding under the Prior Credit Agreement were repaid on or prior to such date.

On September 18, 2014, the Operating Partnership, as borrower, and the Trust and certain subsidiaries and other affiliates of the Trust, as guarantors, entered into the Credit Agreement with KeyBank National Association as administrative agent, KeyBanc Capital Markets Inc., Regions Capital Markets and BMO Capital Markets, as joint lead arrangers and joint bookrunners, Regions Capital Markets and BMO Capital Markets, as co-syndication agents, and the lenders party thereto in connection with an unsecured revolving credit facility in the maximum principal amount of $400 million. The Credit Agreement 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 $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $750 million. The Credit Agreement replaced the Trust s senior secured revolving credit facility in the maximum principal amount of $200 million under the Prior Credit Agreement.

The Credit Agreement has a maturity date of September 18, 2018 and includes a one year extension option. Borrowings under the Credit Agreement bear interest on the outstanding principal amount at a rate equal to LIBOR plus 1.50% to 2.20% depending on the consolidated leverage ratio. In addition, the Credit Agreement includes an unused fee equal to 0.15% or 0.25% per annum, which is determined by usage under the Credit Agreement.

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 Trust may, at any time, voluntarily prepay any loan under the Credit Agreement in whole or in part without premium or penalty. As of December 31, 2014, the Trust was in compliance with all financial covenants.

The Credit Agreement includes customary representations and warranties by the Operating Partnership, the Trust and each other guarantor and imposes customary covenants on the Operating Partnership, the Trust and each other guarantor. The Credit Agreement also contains customary events of default, and if an event of default occurs and continues, the Operating Partnership is

Table of Contents

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 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 consolidated leverage ratio of the Trust, the Operating Partnership and its subsidiaries as follows:

| Consolidated Leverage Ratio | Adjusted LIBOR Rate Loans and Letter of Credit Fee | Base Rate Loans |
|---|---|---|
| ≤35% | LIBOR + 1.50% | 0.50% |
| >35% and ≤45% | LIBOR + 1.65% | 0.65% |
| >45% and ≤45% | LIBOR + 1.75% | 0.75% |
| >45% and ≤50% | LIBOR + 1.85% | 0.85% |
| >50% and ≤55% | LIBOR + 2.00% | 1.00% |
| >55% | LIBOR + 2.20% | 1.20% |

***Off-Balance Sheet Arrangements***

As of December 31, 2014, we had no off-balance sheet debt.

***Contractual Obligations***

The following table summarizes our material contractual payment obligations and commitments as of December 31, 2014:

| | Payments by Period (in thousands) | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 2016 - 2017 | 2018 - 2019 | 2020 and Thereafter |
| Principal payments(1) | $ 216,105 | $ 1,864 | $ 38,171 | $ 159,006 | $ 17,064 |
| Interest payments fixed rate debt(1) | 13,700 | 3,832 | 5,972 | 2,770 | 1,126 |
| Interest payments variable rate debt(1) | 9,061 | 2,471 | 4,868 | 1,722 | |
| Ground lease payments | 30,750 | 1,426 | 2,922 | 3,085 | 23,317 |
| Total | $ 269,616 | $ 9,593 | $ 51,933 | $ 166,583 | $ 41,507 |

(1) Payments shown above represent 100% of debt service and does not reflect joint venture interests.

***Inflation***

Historically, inflation has not had a significant impact on the operating performance of our properties. Many of our lease agreements contain provisions designed to mitigate the adverse impact of inflation. These provisions include clauses that enable us to receive payment of increased rent pursuant to escalation clauses which generally increase rental rates during the terms of the leases. These escalation clauses often provide for fixed rent increases or indexed escalations (based upon changes in the consumer price index or other measures). However, some of these contractual rent increases may be less than the actual rate of inflation. Most of our lease agreements require the tenant to pay an allocable share of operating expenses, including common area maintenance costs, real estate taxes and insurance. This requirement reduces our exposure to increases in these costs and operating expenses resulting from inflation.

***Seasonality***

Our business has not been and we do not expect it to become subject to material seasonal fluctuations.

Table of Contents

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. 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 instrument consists solely of an interest rate swap that is not traded on an exchange and is recorded on the consolidated balance sheet at its fair value. See Note 2 to our consolidated and combined financial statements included in Item 1 to this report.

An interest rate swap is a contractual agreement entered into by two counterparties under which each agrees to make periodic payments to the other for an agreed period of time based on a notional amount of principal. Under the most common form of interest rate swap, known from our perspective as a floating-to-fixed interest rate swap, a series of floating, or variable, rate payments on a notional amount of principal is exchanged for a series of fixed interest rate payments on such notional amount.

No assurance can be given that any future hedging activities by us will have the desired beneficial effect on our results of operations or financial condition.

The variable rate component of our consolidated indebtedness at December 31, 2014 is LIBOR based. Assuming no increase in the amount of our variable rate debt, if LIBOR were to increase by 100 basis points, interest expense on our variable rate debt at December 31, 2014, would increase by approximately $1.4 million annually, and if LIBOR were to decrease by 100 basis points, interest expense on our variable rate debt at December 31, 2014, would decrease by approximately $1.4 million annually.

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.

***Indebtedness***

As of December 31, 2014, we had total consolidated indebtedness of approximately $216.1 million. The weighted average interest rate on our consolidated indebtedness was 2.92% (based on the 30-day LIBOR rate as of December 31, 2014, of 0.164%). As of December 31, 2014, we had approximately $142.4 million, or approximately 65.9%, of our outstanding long-term debt exposed to fluctuations in short-term interest rates.

The following table sets forth certain information with respect to our consolidated indebtedness outstanding as of December 31, 2014.

| (in thousands) | | Principal | Fixed/Floating Rate | Rate | Maturity |
|---|---|---|---|---|---|
| Unsecured Revolving Credit Facility | $ | 138,000 | Floating | LIBOR + 1.50% | 09/18/18 |
| Canton Medical Office Building(1) | | 6,207 | Fixed | 5.94% | 06/06/17 |
| Firehouse Square | | 2,765 | Fixed | 6.58% | 09/06/17 |
| Hackley Medical Center | | 5,397 | Fixed | 5.93% | 01/06/17 |
| MeadowView Professional Center | | 10,409 | Fixed | 5.81% | 06/06/17 |
| Mid Coast Hospital Medical Office Building(2) | | 7,869 | Fixed | 4.82%(3) | 05/16/16 |
| Remington Medical Commons | | 4,399 | Floating | LIBOR + 2.75% | 09/28/17 |
| Valley West Hospital Medical Office Building | | 4,879 | Fixed | 4.83% | 12/01/20 |
| Oklahoma City, OK Medical Office Building | | 7,647 | Fixed | 4.71% | 01/10/21 |
| Crescent City Surgical Center | | 18,750 | Fixed | 5.00% | 01/23/19 |
| San Antonio, TX Hospital | | 9,783 | Fixed | 5.00%(4) | 06/26/22 |
| Total | $ | 216,105 | | | |

(1) We own a 51.0% interest in the joint venture that owns this property. Debt shown in this schedule is the full amount of the mortgage indebtedness on this property.

(2) We own a 66.3% interest in the joint venture that owns this property. Debt shown in this schedule is the full amount of the mortgage indebtedness on this property.

Table of Contents

(3) This loan bears interest at a rate of LIBOR + 2.75%. We have entered into an interest rate swap to effectively fix the rate on this loan at 4.82% through the date of maturity.

(4) This loan bears interest at a fixed rate of 5.00% until July 2018, then the interest rate is the higher of the prime rate plus 1.75% or 5.00%.

Table of Contents

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Index to Consolidated Financial Statements**

**Physicians Realty Trust and Predecessor**


| | |
|---|---|
| Reports of Independent Registered Public Accounting Firms | 71 |
| Consolidated Balance Sheets at December 31, 2014 and 2013 | 73 |
| Consolidated and Combined Statements of Operations for the Years Ended December 31, 2014, 2013 and 2012 | 74 |
| Consolidated and Combined Statements of Equity for the Year Ended December 31, 2014, 2013 and 2012 | 75 |
| Consolidated and Combined Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012 | 76 |
| Notes to Consolidated and Combined Financial Statements | 77 |

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Trustees of Physicians Realty Trust

We have audited the accompanying consolidated balance sheet of Physicians Realty Trust (the Company ) as of December 31, 2014, and the related consolidated statements of operations, equity and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Physicians Realty Trust at December 31, 2014, and the consolidated results of its operations and its cash flows for year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP
March 12, 2015

Chicago, Illinois

Table of Contents

**Report of Independent Registered Public Accounting Firm**

To The Board of Trustees and Shareholders of

Physicians Realty Trust

Milwaukee, Wisconsin

We have audited the accompanying consolidated balance sheets of Physicians Realty Trust (the Company ) as of December 31, 2013, and the related consolidated and combined statements of operations, shareholders equity and cash flows for each of the two years in the period ended December 31, 2013. These consolidated and combined financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated and combined financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Physicians Realty Trust as of December 31, 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

Chicago, Illinois

March 21, 2014

Table of Contents

**Physicians Realty Trust**

**Consolidated Balance Sheets**

***(In thousands, except share and per share data)***

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Investment properties: | | |
| Land and improvements | $ 79,334 | $ 26,088 |
| Building and improvements | 644,086 | 193,184 |
| Tenant improvements | 5,614 | 5,458 |
| Acquired lease intangibles | 72,985 | 31,236 |
| | 802,019 | 255,966 |
| Accumulated depreciation | (45,569) | (28,427) |
| Net real estate property | 756,450 | 227,539 |
| Real estate loans receivable | 15,876 | |
| Investment in unconsolidated entity | 1,324 | |
| Net real estate investments | 773,650 | 227,539 |
| Cash and cash equivalents | 15,923 | 56,478 |
| Tenant receivables, net | 1,324 | 837 |
| Deferred costs, net | 4,870 | 2,105 |
| Other assets | 15,806 | 5,901 |
| Total assets | $ 811,573 | $ 292,860 |
| **LIABILITIES AND EQUITY** | | |
| Liabilities: | | |
| Credit facility | $ 138,000 | $ |
| Mortgage debt | 78,105 | 42,821 |
| Accounts payable | 700 | 836 |
| Dividend payable | 16,548 | 5,681 |
| Accrued expenses and other liabilities | 6,140 | 2,685 |
| Acquired lease intangibles, net | 2,871 | |
| Total liabilities | 242,364 | 52,023 |
| Equity: | | |
| Common shares, $0.01 par value, 500,000,000 shares authorized, 50,640,863 and 21,548,597 shares issued and outstanding as of December 31, 2014 and December 31, 2013, respectively. | 510 | 215 |
| Additional paid-in capital | 586,017 | 213,359 |
| Accumulated deficit | (51,797) | (8,670) |
| Total shareholders equity | 534,730 | 204,904 |
| Noncontrolling interests: | | |
| Operating Partnership | 33,727 | 35,310 |
| Partially owned properties | 752 | 623 |
| Total noncontrolling interests | 34,479 | 35,933 |
| Total equity | 569,209 | 240,837 |
| Total liabilities and equity | $ 811,573 | $ 292,860 |

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

Table of Contents

**Physicians Realty Trust and Predecessor**

**Consolidated and Combined Statements of Operations**

***(In thousands, except share and per share data)***

| | December 31, | | Predecessor |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| **Revenues:** | | | |
| Rental revenues | $ 46,397 | $ 13,565 | $ 9,821 |
| Expense recoveries | 5,871 | 3,234 | 3,111 |
| Interest income on real estate loans and other | 1,066 | 246 | 137 |
| Total revenues | 53,334 | 17,045 | 13,069 |
| **Expenses:** | | | |
| Interest expense | 6,907 | 4,295 | 4,538 |
| General and administrative | 11,440 | 3,214 | 362 |
| Operating expenses | 10,154 | 4,650 | 4,758 |
| Depreciation and amortization | 16,731 | 5,107 | 4,150 |
| Acquisition expenses | 10,897 | 1,938 | |
| Management fees | | 475 | 951 |
| Impairment loss | 1,750 | | 937 |
| Total expenses | 57,879 | 19,679 | 15,696 |
| Loss before equity in income of unconsolidated entity, gain(loss) on sale of investment properties, discontinued operations, and noncontrolling interests | (4,545) | (2,634) | (2,627) |
| Equity in income of unconsolidated entity | 95 | | |
| Gain (loss) on sale of investment properties | 32 | (2) | (228) |
| Loss from continuing operations | (4,418) | (2,636) | (2,855) |
| Discontinued operations: | | | |
| Loss from operations on discontinued investment properties | | | (198) |
| Gain on sale of discontinued investment properties | | | 1,519 |
| Income from discontinued operations | | | 1,321 |
| **Net loss** | (4,418) | (2,636) | $ (1,534) |
| Less: Net loss attributable to Predecessor | | 576 | |
| Less: Net loss attributable to noncontrolling interests Operating Partnership | 695 | 470 | |
| Less: Net income attributable to noncontrolling interests partially owned properties | (314) | (71) | |
| **Net loss attributable to common shareholders** | $ (4,037) | $ (1,661) | |
| Net loss per share: | | | |
| Basic and diluted | $ (0.12) | $ (0.13) | |
| Weighted average common shares: | | | |
| Basic and diluted | 33,063,093 | 12,883,917 | |
| Dividends/distributions declared per common share and unit | $ 0.90 | $ 0.41 | |

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

Table of Contents

**Physicians Realty Trust and Predecessor**

**Consolidated and Combined Statements of Equity**

***(In thousands, except shares)***

| | Par Value | Additional Paid in Capital | Accumulated Deficit | Predecessor Equity | Total Shareholders and Predecessor Equity | Operating Partnership Noncontrolling interest | Partially Owned Properties Noncontrolling Interest | Total Non-Controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Predecessor Balance** | | | | | | | | | |
| Balance at December 31, 2011 | $ | $ | $ | $ 22,503 | $ 22,503 | $ | $ 112 | $ 112 | $ 22,615 |
| Net (loss) income | | | | (1,659) | (1,659) | | 125 | 125 | (1,534) |
| Transfer | | | | (105) | (105) | | 105 | 105 | |
| Distributions | | | | (1,671) | (1,671) | | (313) | (313) | (1,984) |
| Balance at December 31, 2012 | | | | 19,068 | 19,068 | | 29 | 29 | 19,097 |
| Net (loss) income | | | | (712) | (712) | | 136 | 136 | (576) |
| Transfer | | | | 36 | 36 | | (36) | (36) | |
| Distributions | | | | (211) | (211) | | (209) | (209) | (420) |
| Balance at July 24, 2013 | | | | 18,181 | 18,181 | | (80) | (80) | 18,101 |
| **Physicians Realty Trust** | | | | | | | | | |
| Net proceeds from sale of common shares | 213 | 225,707 | | | 225,920 | | | | 225,920 |
| Formation transactions | | 35 | | (18,181) | (18,146) | 18,181 | (389) | 17,792 | (354) |
| Restricted share award grants | 2 | 431 | | | 433 | | | | 433 |
| Dividends declared | | | (7,009) | | (7,009) | (1,326) | | (1,326) | (8,335) |
| Adjustment for noncontrolling interests ownership in Operating Partnership | | (7,391) | | | (7,391) | 7,391 | | 7,391 | |
| Contributions | | (5,423) | | | (5,423) | 11,534 | 1,276 | 12,810 | 7,387 |
| Distributions | | | | | | | (255) | (255) | (255) |
| Net (loss) income | | | (1,661) | | (1,661) | (470) | 71 | (399) | (2,060) |
| Balance at December 31, 2013 | 215 | 213,359 | (8,670) | | 204,904 | 35,310 | 623 | 35,933 | 240,837 |
| Net proceeds from sale of common shares | 272 | 350,113 | | | 350,385 | | | | 350,385 |
| Restricted share award grants, net | 2 | 2,100 | (42) | | 2,060 | | | | 2,060 |
| Issuance of common shares in connection with the Ziegler shared service amendment payment | 1 | 1,799 | | | 1,800 | | | | 1,800 |
| Purchase of OP Units | | | | | | (7,546) | | (7,546) | (7,546) |
| Conversion of OP Units | 20 | 13,266 | | | 13,286 | (13,286) | | (13,286) | |
| Dividends/distributions declared | | | (39,048) | | (39,048) | (3,265) | | (3,265) | (42,313) |
| Adjustment for Noncontrolling Interests ownership in Operating | | 5,380 | | | 5,380 | (5,380) | | (5,380) | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Partnership | | | | | | | | | |
| Issuance of OP Units in connection with acquisitions | | | | | 28,589 | | 28,589 | 28,589 |
| Distributions | | | | | | (185) | (185) | (185) |
| Net (loss) income | | | (4,037) | (4,037) | (695) | 314 | (381) | (4,418) |
| Balance at December 31, 2014 | $ 510 | $ 586,017 | $ (51,797) | $ | $ 534,730 | $ 33,727 | $ 752 | $ 34,479 | $ 569,209 |

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

Table of Contents

**Physicians Realty Trust and Predecessor**

**Consolidated and Combined Statements of Cash Flows**

***(In thousands)***

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | Predecessor 2012 |
| **Cash Flows from Operating Activities:** | | | |
| Net loss | $ (4,418) | $ (2,636) | $ (1,534) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | | |
| Depreciation and amortization | 16,731 | 5,107 | 4,150 |
| Amortization of deferred financing costs | 1,097 | 510 | 268 |
| Amortization of lease inducements and above/below market lease intangibles | 571 | 141 | 70 |
| Straight-line rental revenue/expense | (4,366) | (675) | (100) |
| (Gain) loss on sale of investment properties | (32) | 2 | (1,291) |
| Equity in income of unconsolidated entity | (95) | | |
| Distribution from unconsolidated entity | 71 | | |
| Change in fair value of derivatives | (161) | (246) | (122) |
| Provision for bad debts | 9 | 30 | 320 |
| Non-cash share compensation | 2,422 | 433 | |
| Ziegler shared service amendment payment | 1,800 | | |
| Impairment on investment properties | 1,750 | | 937 |
| Change in operating assets and liabilities: | | | |
| Tenant receivables | (986) | (184) | 33 |
| Other assets | (3,518) | (1,074) | 379 |
| Accounts payable to related parties | | (1,530) | 255 |
| Accounts payable | (136) | 34 | 204 |
| Accrued expenses and other liabilities | 2,556 | 1,256 | (56) |
| **Net cash provided by operating activities** | 13,295 | 1,168 | 3,513 |
| **Cash Flows from Investing Activities:** | | | |
| Proceeds on sales of investment properties | 235 | 448 | 14,525 |
| Acquisition of investment properties, net | (501,127) | (125,728) | |
| Capital expenditures on existing investment properties | (900) | | (845) |
| Real estate loans receivable | (15,386) | | |
| Leasing commissions | (100) | (163) | (153) |
| Lease inducements | (1,532) | (1,000) | |
| **Net cash (used in) provided by investing activities** | (518,810) | (126,443) | 13,527 |
| **Cash Flows from Financing Activities:** | | | |
| Net proceeds from sale of common shares | 350,384 | 225,920 | |
| Formation transactions | | (354) | |
| Proceeds from credit facility borrowings | 395,200 | 52,350 | |
| Payment on credit facility borrowings | (257,200) | (52,350) | |
| Proceeds from issuance of mortgage debt | 26,550 | 162 | 45 |
| Principal payments on mortgage debt | (6,549) | (41,832) | (14,149) |
| Debt issuance costs | (3,887) | (1,428) | (270) |
| Dividends paid shareholders | (28,104) | (2,161) | |
| Distributions to noncontrolling interest Operating Partnership | (3,382) | (493) | |
| Distributions to members and partners | | (211) | (1,671) |
| Distributions to noncontrolling interest partially owned properties | (185) | (464) | (313) |
| Purchase of OP Units | (7,546) | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Common shares repurchased and retired | | | (321) | | | |
| **Net cash provided by (used in) financing activities** | | | 464,960 | | 179,139 | (16,358) |
| Net (decrease) increase in cash and cash equivalents | | | (40,555) | | 53,864 | 682 |
| Cash and cash equivalents, beginning of year | | | 56,478 | | 2,614 | 1,932 |
| **Cash and cash equivalents, end of year** | | $ | 15,923 | $ | 56,478 | $ 2,614 |
| Supplemental disclosure of cash flow information during the period | interest paid | $ | 5,606 | $ | 3,942 | $ 5,126 |
| Supplemental disclosure of noncash activity | assumed debt | $ | 15,283 | $ | | $ |
| Supplemental disclosure of noncash activity in connection with acquisitions | issuance of OP Units | $ | 28,589 | $ | 11,535 | $ |
| Supplemental disclosure of noncash activity consideration | contingent | $ | 840 | $ | | $ |

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

Table of Contents

**Physicians Realty Trust and Predecessor**

**Notes to Consolidated and Combined Financial Statements**

**Note 1 Organization and Business**

Physicians Realty Trust (the Trust ) was organized in the state of Maryland on April 9, 2013. As of December 31, 2014, 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 ), a Delaware limited partnership, and is the sole general partner of 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.

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.

**Initial Public Offering and Formation Transactions**

Pursuant to the IPO, the Trust issued an aggregate of 11,753,597 common shares, including common shares issued upon exercise of the underwriters overallotment option, and received approximately $123.8 million of net proceeds (after deducting the underwriting discount and expenses of the IPO and the formation transactions payable by the Trust). The Trust contributed the net proceeds of the IPO to the Operating Partnership in exchange for 11,753,597 common units of partnership interest ( OP Units ) on July 24, 2013. Concurrently with the completion of the IPO, the Trust acquired, through a series of contribution transactions, the entities that own the 19 properties that comprised the Trust s initial properties from four healthcare real estate funds (the Ziegler Funds ), as well as certain operating assets and liabilities, including the assumption of approximately $84.3 million of debt related to such properties. The Trust determined that the Ziegler Funds constitute the Trust s accounting predecessor (the Predecessor ). The Predecessor, which is not a legal entity, is comprised of the four Ziegler Funds that owned directly or indirectly interests in entities that owned the initial 19 properties in the Trust s portfolio. The combined historical data for the Predecessor is not necessarily indicative of the Trust s future financial position or results of operations. In addition, at the completion of the IPO, the Trust entered into a shared services agreement with B.C. Ziegler & Company ( Ziegler ) pursuant to which Ziegler provides office space, IT support, accounting support and other services to the Trust in exchange for an annual fee.

To acquire the ownership interests in the entities that own the 19 properties included in the Trust s initial properties, and certain other operating assets and liabilities, from the Ziegler Funds, the Operating Partnership issued to the Ziegler Funds an aggregate of 2,744,000 OP Units, having an aggregate value of approximately $31.6 million based on the price per share to the public in the IPO. These formation transactions were

effected concurrently with the completion of the IPO.

Upon closing of the IPO, the Trust owned a 79.6% interest in the Operating Partnership. The Operating Partnership used a portion of the IPO proceeds received from the Trust to purchase the 50% interest in the Arrowhead Commons property not owned by the Ziegler Funds for approximately $850,000, after which the Operating Partnership became the 100% owner of the property, and to pay certain expenses related to debt assumptions and the Trust s former senior secured revolving credit facility. The balance of the net proceeds was subsequently invested in healthcare properties.

Because the IPO and the formation transactions were completed on July 24, 2013, the Trust had no operations prior to that date. References in these notes to the consolidated and combined financial statements of Physicians Realty Trust signify the Trust for the period from July 24, 2013, the date of completion of the IPO and the formation transactions, and of the Predecessor for all prior periods.

**Follow-On Public Offerings**

On December 11, 2013, the Trust completed a public offering of 9,545,000 common shares, including 1,245,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to the Trust of approximately $103.1 million. The Trust contributed the net proceeds of this offering to the Operating Partnership in exchange for 9,545,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under the Trust s former senior secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

Table of Contents

On May 27, 2014, the Trust completed a public offering of 12,650,000 common shares, including 1,650,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to the Trust of approximately $149.9 million. The Trust contributed the net proceeds of this offering to the Operating Partnership in exchange for 12,650,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under the Trust s former senior secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

On August 19, 2014, the Trust s Registration Statement on Form S-3 (File No. 333-197842) (the Shelf Registration Statement ), filed with the Commission on August 4, 2014, was declared effective by the Commission. The Shelf Registration Statement covers the offering, from time to time, of various securities with an aggregate value of up to $900 million and the secondary offering of common shares by certain selling shareholders.

On August 19, 2014, the Trust and the Operating Partnership entered into separate At Market Issuance Sales Agreements (the Sales Agreements ) with each of MLV & Co. LLC, KeyBanc Capital Markets Inc., JMP Securities LLC, and RBC Capital Markets, LLC (the Agents ), pursuant to which the Trust may issue and sell common shares having an aggregate offering price of up to $150 million, from time to time, through the Agents pursuant to the Shelf Registration Statement (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 (the Securities Act ), which includes sales made directly on the New York Stock Exchange (the NYSE ), or other existing trading market, or sales made to or through a market maker. With the Trust s express written consent, sales also may be made in negotiated transactions or any other method permitted by law. During 2014, the Trust sold 3,576,010 common shares pursuant to the ATM Program, at a weighted average price of $15.54 per share resulting in total proceeds of approximately $55.6 million, before $0.8 million in commissions.

On September 12, 2014, the Trust completed a public offering of 10,925,000 common shares, including 1,425,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to the Trust of approximately $145.7 million. The Trust contributed the net proceeds of this offering to the Operating Partnership in exchange for 10,925,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under the Trust s former senior secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

**Note 2 Summary of Significant Accounting Policies**

*Principles of Consolidation*

Property holding entities and other subsidiaries of which the Trust or the Operating Partnership owns 100% of the equity or has a controlling financial interest evidenced by ownership of a majority voting interest are consolidated. All inter-company balances and transactions are eliminated in consolidation. For entities in which the Trust owns less than 100% of the equity interest, the Trust 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 Trust records a non-controlling interest representing equity held by non-controlling interests.

U.S. generally accepted accounting principles ( GAAP ) requires the Trust 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 ). A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity s activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity s activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. The Trust consolidates its investment in a VIE when it determines that it is its primary beneficiary. The Trust may change its original assessment of a VIE upon subsequent events such as the modification of contractual arrangements that affects 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.

The Trust identifies the primary beneficiary of a VIE as the enterprise that has both: (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 the right to receive benefits of the VIE that could be significant to the entity. The Trust performs this analysis on an ongoing basis.

Table of Contents

*Noncontrolling Interests*

The Trust 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 Trust s total shareholders equity, on the consolidated balance sheets.

Operating Partnership: Net income or loss is allocated to noncontrolling interests 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.

In connection with the closing of the IPO, the Trust and the Operating Partnership completed related formation transactions pursuant to which the Operating Partnership acquired from the Ziegler Funds, the Ziegler Funds ownership interests in 19 medical office buildings located in ten states in exchange for an aggregate of 2,744,000 OP Units and the payment of approximately $36.9 million of debt related to such properties.

In connection with the acquisition of a surgical center hospital in the New Orleans, Louisiana metropolitan area for approximately $37.5 million, on September 30, 2013, the Trust partially funded the purchase price by issuing 954,877 OP Units valued at approximately $11.5 million on the date of issuance.

During the year ended December 31, 2014, the Operating Partnership partially funded five property acquisitions by issuing an aggregate of 2,042,313 OP Units valued at approximately $28.6 million on the date of issuance. The five acquisitions had a total purchase price of approximately $103.6 million.

Noncontrolling interests in the Trust represent OP Units held by the Predecessor s prior investors and other investors. As of December 31, 2014, the Trust held a 94.1% interest in the Operating Partnership. As the sole general partner and the majority interest holder, the Trust consolidates the financial position and results of operation of the Operating Partnership.

Holders of OP Units may not transfer their 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 the Predecessor s prior investors and other investors as noncontrolling interests within equity in the consolidated balance sheet.

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

operations.

*Dividends and Distributions*

| Declaration Date | Record Date | Payment Date | | Cash Dividend per Share/Unit |
|---|---|---|---|---|
| December 30, 2014 | January 23, 2015 | February 6, 2015 | $ | 0.225 |
| September 26, 2014 | October 17, 2014 | October 30, 2014 | $ | 0.225 |
| June 26, 2014 | July 18, 2014 | August 1, 2014 | $ | 0.225 |
| March 27, 2014 | April 11, 2014 | April 25, 2014 | $ | 0.225 |
| December 30, 2013 | January 24, 2014 | February 7, 2014 | $ | 0.225 |
| September 30, 2013 | October 18, 2013 | November 1, 2013 | $ | 0.18(1) |

(1) Prorated cash dividend of $0.18 per share for the quarterly period from July 19, 2013 (the date of the IPO) through September 30, 2013, which was equivalent to a full quarterly dividend of $0.225 per share. The dividend was paid on November 1, 2013 to common shareholders and common OP Unit holders of record on October 18, 2013, with the exception of the OP Units issued in the acquisition of Crescent City Surgical Centre.

Table of Contents

*Purchase 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 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 Trust 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 may include the assistance of a third party appraiser. The Trust 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 Trust 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 Trust 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.

In determining the value of in-place leases and tenant relationships, 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 and tenant relationships are amortized over the estimated remaining term of the lease.

The values assigned to all lease intangible assets and liabilities are amortized 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.

The Trust 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 Trust approximates based on the rate at which it would expect to incur on a replacement instrument on the date of acquisition, and recognize 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 Trust 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 Trust expenses transaction costs associated with acquisitions accounted for as business combinations in the period incurred.

*Impairment of Intangible and Long-Lived Assets*

The Trust 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 Trust 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 Trust 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 Trust recognizes an impairment loss at the time it makes any such determination. If the Trust 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 Trust recorded real estate impairment charges of $1.8 million and $0 for the years ended December 31, 2014 and 2013, respectively. The Predecessor recognized impairments totaling $0.9 million for the year ended December 31, 2012.

Table of Contents

*Assets Held for Sale and Discontinued Operations*

The Trust may sell properties from time to time for various reasons, including favorable market conditions. The Trust 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.

In 2014, the FASB issued 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. A discontinued operation is defined as: (1) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity s operations and financial results; or (2) an acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. The application of this guidance is prospective from the date of adoption and applies only to disposals (or new classifications to held for sale) that have not been reported as discontinued operations in the Trust s previously issued financial statements. The Trust early adopted ASU 2014-08 for the quarter ended March 31, 2014. Such adoption has had no impact on the Trust s financial statements as no dispositions have occurred during the year ended December 31, 2014.

Prior to the adoption of ASU 2014-08, the results of operations for assets meeting the definition of discontinued operations are reflected in the consolidated and combined statements of operations as discontinued operations for all periods presented. The Trust allocates estimated interest expense to discontinued operations based on property values and either the weighted average interest rate of the Trust or the property s actual mortgage interest.

*Investments in Unconsolidated Entities*

The Trust 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 Trust s share of the investee s earnings or losses is included in its consolidated and combined statements of operations. The initial carrying value of investments in unconsolidated entities is based on the amount paid to purchase the equity interest.

During 2014, the Trust completed the acquisition of a 40% limited liability company membership interest in Jeff-Orleans Medical Development Real Estate, L.L.C, the entity that owns and leases to us the land on which the Crescent City Surgical Centre is situated, for $1.3 million.

*Real Estate Loans Receivable*

Real estate loans receivable consists of a mezzanine loan and a term loan which are collateralized by an equity interest in a two medical office building developments. Interest income on the loans are recognized as earned based on the terms of the loans subject to evaluation of collectability risks and are included in the Trust s consolidated and combined statement of operations.

On January 2, 2014, the Trust completed a $6.9 million mezzanine loan to affiliates controlled by MedProperties Holdings, LLC, a Dallas, Texas based private investor in medical facilities ( MedProperties ). The mezzanine loan is secured by MedProperties ownership interest in two special purpose entities that own a surgical hospital located in San Antonio, Texas and an inpatient rehabilitation facility located in Scottsdale, Arizona. The mezzanine loan has a five year, interest-only term and bears interest at a rate of 9.0% per annum. As part of the consideration for providing the mezzanine loan, the Trust has an option to acquire the property at a formula purchase price during year four of the mezzanine loan based on a fixed capitalization rate**.**

On November 26, 2014, the Trust made an $8.6 million term loan to fund the renovations and additions of two re-purposed buildings in Jacksonville, Florida. Upon completion of the expansion and renovations, the properties will be approximately 40,000 square feet in the aggregate. Upon completion of the construction of the buildings and them becoming fully occupied, the Trust has the option to purchase the buildings. The term loan bears interest at a rate of 9.0%.

Table of Contents

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and short-term investments with maturities of three months or less from the date of purchase.

The Trust is subject to concentrations of credit risk as a result of its temporary cash investments. The Trust places its temporary cash investments with high credit quality financial institutions in order to mitigate that risk.

*Escrow reserves*

The Trust 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 December 31, 2014 and 2013 are $1.9 million and $1.6 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 lease on real estate properties. After the purchase of a property, lease commissions incurred to extend in-place leases or generate new lease are added to deferred lease costs. Deferred lease costs are amortized on a straight-line basis over the terms of their respective agreements. The Trust 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.

*Derivatives*

Derivatives consist of an interest rate swap and is recognized as a liability on the consolidated balance sheets and is measured at fair value. Any change in the fair value is recognized immediately in earnings unless the derivative qualified as a hedge. No derivatives have been designated as hedges.

The Trust is exposed to certain risks in the normal course of its business operations. One risk relating to the variability of interest on variable rate debt is managed through the use of derivatives. All derivative financial instruments are measured and reported in the consolidated balance sheets at fair value. The Trust has elected not to apply hedge accounting to its derivative financial instruments and as such, any changes in the fair values of its derivatives are recognized immediately in earnings. Generally, the Trust enters into swap relationships such that changes in the fair value or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives. The Trust holds one swap to pay fixed/receive variable interest rates with a total notional amount of $7.7 million and $7.9 million as of December 31, 2014 and 2013, respectively. The interest rate swap liability is reported in accrued expenses and other liabilities on the

consolidated balance sheet, as of December 31, 2014 and 2013, the interest rate swap liability was $0.2 million and $0.4 million, respectively. Gains recognized on the interest rate swaps of $(0.2) million, $(0.2) million and $(0.1) million were included in interest income on real estate loans and other in the consolidated and combined statements of operations for the years ended December 31, 2014, 2013 and 2012, respectively.

*Tenant receivables, net*

Tenant accounts receivable are stated net of the applicable allowance. Rental payments under these contracts are primarily due monthly. The Trust assesses the collectability of tenant receivables, including straight-line rent receivables, and defers recognition of revenue if collectability is not reasonably assured. The Trust 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 Trust will be unable to recover the full value of the receivable, the Trust provides a reserve against the portion of the receivable that it estimates may not be recovered. At December 31, 2014 and 2013, the allowance for doubtful accounts was $0.1 million.

Table of Contents

*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 are included in other assets and were approximately $6.4 million and $2.0 million as of December 31, 2014 and 2013, respectively. If the Trust determines that collectability of straight-line rents is not reasonably assured, the Trust limits future recognition to amounts contractually owed and, where appropriate, establishes an allowance for estimated losses. 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 average 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 Trust is generally the primary obligor with respect to real estate taxes and purchasing goods and services from third-party suppliers and has discretion in selecting the supplier and bears the credit risk of tenant reimbursement.

The Trust 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 Trust does not recognize expense recoveries

*Income taxes*

Prior to completion of the IPO, the Trust elected to be taxed as an S corporation for federal income tax purposes beginning with the first day of its existence with such election thereafter being revoked effective on the date of completion of the IPO. The Trust filed a Form 1120-REIT for its short taxable year beginning on the effective date of such revocation and ending on December 31, 2013, thereby effectuating its election to be taxed as a real estate investment trust ( REIT ) for federal income tax purposes commencing with such short taxable year. 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 generally accepted accounting principles). 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 organize and operate in such a manner as to qualify for treatment as a REIT. Even if the Trust qualifies for taxation as a REIT, the Trust may be subject to state and local taxes on its income and property and federal income and excise taxes on its undistributed income.

*Management Estimates*

The preparation of consolidated and combined 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 and combined 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.

*Contingent Liability*

The Trust records a liability for contingent consideration (included in accrued expenses and other liabilities on its consolidated balance sheets) at fair value as of the acquisition date and reassess 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 financial position or consolidated and combined results of operations.

*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.

Table of Contents

*New Accounting Pronouncements*

In May 2014, the FASB issued ASU No. 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, 2016 and allows for either full retrospective or modified retrospective adoption. Early adoption of this standard is not allowed. The Trust is currently evaluating the impact the adoption of Topic 606 will have on its financial statements, if any.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern,* to address financial reporting considerations about an entity s ability to continue as a going concern. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and for interim periods within annual periods beginning after December 15, 2016.

Table of Contents

**Note 3 Acquisitions and Dispositions**

During 2014, the Trust completed acquisitions of 61 healthcare properties located in 15 states for an aggregate purchase price of approximately $543.4 million as summarized below:

| Property(1) | Location | Acquisition Date | Purchase Price (in thousands) |
|---|---|---|---|
| Foundations San Antonio Surgical Hospital(2) | San Antonio, TX | February 19, 2014 | $ 25,556 |
| Eagles Landing Family Practice 4 MOBs(2) | Atlanta, GA | February 19, 2014 | 20,800 |
| 21st Century Oncology 4 MOBs(3) | Sarasota, FL | February 26, 2014 | 17,486 |
| Foundations San Antonio MOB(3) | San Antonio, TX | February 28, 2014 | 6,800 |
| Peachtree Dunwoody MOB(3) | Atlanta, GA | February 28, 2014 | 36,726 |
| LifeCare LTACH(2) | Fort Worth, TX | March 28, 2014 | 27,160 |
| LifeCare LTACH(2) | Pittsburgh, PA | March 28, 2014 | 12,840 |
| Pinnacle Health Cardiology Portfolio 2 MOBs (3) | Carlisle & Wormleyburg, PA | April 22, 2014 | 9,208 |
| South Bend Orthopedic MOB (3) | South Bend, IN | April 30, 2014 | 14,900 |
| Grenada Medical Complex MOB (3) | Grenada, MS | April 30,2014 | 7,100 |
| Mississippi Sports Medicine and Orthopaedics Center MOB (2)(4) | Jackson, MS | May 23, 2014 | 16,700 |
| Carmel Medical Pavilion MOB (3)(5) | Carmel, IN | May 28, 2014 | 4,664 |
| Summit Urology MOB (2) | Bloomington, IN | June 30, 2014 | 4,783 |
| Renaissance Center (3) | Oshkosh, WI | June 30, 2014 | 8,500 |
| Presbyterian Medical Plaza MOB (3) | Monroe, NC | June 30, 2014 | 7,750 |
| Landmark Medical Portfolio (Premier) 3 MOBs (2)(6) | Bloomington, IN | July 1, 2014 | 23,837 |
| Carlisle II MOB (3) | Carlisle, PA | July 25, 2014 | 4,500 |
| Surgical Institute of Monroe ASC (2) | Monroe, MI | July 28, 2014 | 6,000 |
| The Oaks Medical Building MOB (3) | Lady Lake, FL | July 31, 2014 | 10,600 |
| Baylor Surgicare ASC Mansfield (3) | Mansfield, TX | September 2, 2014 | 8,500 |
| Eye Center of Southern Indiana (2)(7) | Bloomington, IN | September 5, 2014 | 12,174 |
| Wayne State Medical Center and MOB (2) | Troy, MI | September 10, 2014 | 46,500 |
| El Paso Portfolio (specialty surgical hospital and 2 MOBs) (3)(8) | El Paso, TX | September 30, 2014 | 46,235 |
| The Mark H. Zangmeister Center (3) | Columbus, OH | September 30, 2014 | 36,600 |
| Berger Medical Center (3) | Orient, OH | September 30, 2014 | 6,785 |
| Orthopedic One 2 MOBs (3) | Columbus, OH Westerville, OH | September 30, 2014 | 24,500 |
| Pinnacle Health Portfolio 5 MOBs (3) | Harrisburg, PA | October 29, 2014 | 23,100 |
| Columbus Regional Health Portfolio 12 MOBs (3) Columbus Regional Health Portfolio 1 MOB (3) | Columbus, GA Phenix City, AL | November 20, 2014 | 27,997 |
| Middletown Medical 2 MOBs (2) | Middletown, NY | November 26. 2014 | 14,399 |
| Carle Danville Clinic MOB(3) | Danville, IL | November 26, 2014 | 10,300 |
| Napoleon Medical Building MOB (3) | New Orleans, LA | December 18, 2014 | 10,500 |
| West Tennessee Bone & Joint 1 MOB 1 ASC (2) | Jackson, TN | December 30, 2014 | 9,936 |
| Total | | | $ 543,436 |

(1) MOB means medical office building, LTACH means long-term acute care hospital and ASC means ambulatory surgical center.

(2) The Trust accounted for these acquisitions as asset acquisitions and capitalized $1.7 million of total acquisition costs to the basis of the properties.

(3) The Trust accounted for these acquisitions as business combinations pursuant to the acquisition method and expensed total acquisition costs of $10.9 million.

(4) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 147,659 OP Units valued at approximately $1.9 million in the aggregate on the date of issuance.

(5) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 96,099 OP Units valued at approximately $1.2 million in the aggregate on the date of issuance.

Table of Contents

(6) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 576,040 OP Units valued at approximately $8.3 million in the aggregate on the date of issuance.

(7) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 272,191 OP Units valued at approximately $4.0 million in the aggregate on the date of issuance.

(8) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 950,324 OP Units valued at approximately $13.2 million in the aggregate on the date of issuance.

For 2014, the Trust recorded revenues and net income of $26.0 million and $3.7 million, respectively, from its 2014 acquisitions.

The following table summarizes the preliminary purchase price allocations of the assets acquired and the liabilities assumed, which the Trust determined using Level 2 and Level 3 inputs (in thousands):

| | | |
|---|---|---|
| Land | $ | 53,687 |
| Building and improvements | | 451,691 |
| In-place lease intangibles | | 35,720 |
| Above market in-place lease intangibles | | 5,270 |
| Below market in-place lease intangibles | | (2,330) |
| Above market in-place ground lease | | (701) |
| Investment in unconsolidated entity | | 1,300 |
| Issuance of OP units | | (28,589) |
| Mortgage debt assumed | | (15,283) |
| Lease inducement | | 1,532 |
| Derivative liability assumed | | (197) |
| Contingent consideration | | (840) |
| Leasehold interest | | 759 |
| Receivable | | 640 |
| Net assets acquired | $ | 502,659 |

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

*Unaudited Pro Forma Financial Information*

The following table illustrates the pro forma combined revenue, net income, and earnings per share basic and diluted as if the Trust had acquired the above acquisitions as of January 1, 2013 (in thousands, except per share amounts):

| | Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |

| | | | | |
|---|---|---|---|---|
| Revenue | $ | 81,507 | $ | 71,183 |
| Net income | | 17,948 | | 11,461 |
| Net income available to common shareholders | | 14,925 | | 11,053 |
| Earnings per share - basic and diluted | $ | 0.29 | $ | 0.22 |
| Common shares issued and outstanding | | 50,640,863 | | 50,640,863 |

Table of Contents

**Note 4 Intangibles**

The following is a summary of the carrying amount of intangible assets and liabilities as of 2014 and 2013 (in thousands):

| | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net | Cost | Accumulated Amortization | Net |
| **Assets** | | | | | | |
| In-place leases | $ 64,777 | $ (12,213) | $ 52,564 | $ 29,056 | $ (8,080) | $ 20,976 |
| Above market leases | 7,449 | (578) | 6,871 | 2,180 | (48) | 2,132 |
| Leasehold interest | 759 | (5) | 754 | | | |
| Total | $ 72,985 | $ (12,796) | $ 60,189 | $ 31,236 | $ (8,128) | $ 23,108 |
| **Liability** | | | | | | |
| Below market lease | $ 2,330 | $ (156) | $ 2,174 | | | |
| Above market ground lease | 701 | (4) | 697 | | | |
| Total | $ 3,031 | $ (160) | $ 2,871 | | | |

The following is a summary of the acquired lease intangible amortization for the years ended December 31, 2014, 2013 and 2012 (in thousands):

| | December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Amortization expense related to in-place leases | $ 4,133 | $ 1,252 | $ 900 |
| Decrease of rental income related to above-market leases | 530 | 48 | |
| Decrease of rental income related to leasehold interest | 5 | | |
| Increase of rental income related to below-market leases | 156 | | |
| Decrease of operating expense related to above market ground leases | 4 | | |

Future aggregate net amortization of the acquired lease intangibles as of December 31, 2014, is as follows (in thousands):

| | Net Decrease in Revenue | Net Increase in Expenses |
|---|---|---|
| 2015 | $ (667) | $ 7,446 |
| 2016 | (689) | 7,384 |
| 2017 | (567) | 7,165 |
| 2018 | (560) | 6,628 |
| 2019 | (458) | 4,625 |
| Thereafter | (2,511) | 18,618 |
| Total | $ (5,452) | $ 51,866 |

For the year ended December 31, 2014, the weighted average amortization period for asset lease intangibles and liability lease intangible is nine years and 17 years, respectively.

87

Table of Contents

**Note 5 Other Assets**

Other assets consisted of the following as of December 31, 2014 and 2013 (in thousands):

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Straight line rent receivable | $ 6,431 | $ 2,018 |
| Lease inducements, net | 2,845 | 1,509 |
| Escrows | 1,906 | 1,552 |
| Earnest deposits | 2,343 | |
| Prepaid expenses and other | 2,281 | 822 |
| Total | $ 15,806 | $ 5,901 |

**Note 6 Debt**

The following is a summary of debt as of December 31, 2014 and 2013 (in thousands):

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Mortgage notes, bearing fixed interest from 4.71% to 6.58%, with a weighted average interest rate of 5.26%, and due in 2016, 2017, 2018, 2019, 2021 and 2022 collateralized by nine properties with a net book value of $118,247 | $ 73,706 | $ 38,288 |
| Mortgage note, bearing variable interest of LIBOR plus 2.75% and due in 2017, collateralized by one property with a net book value of $6,249 | 4,399 | 4,533 |
| Total mortgage debt | 78,105 | 42,821 |
| $400 million unsecured revolving credit facility bearing variable interest of LIBOR plus 1.50%, due September 2018 | 138,000 | |
| Total debt | $ 216,105 | $ 42,821 |

Effective September 18, 2014, the Credit Agreement, dated as of August 29, 2013 (as amended, restated, increased, extended, supplemented or otherwise modified from time to time, the Prior Credit Agreement ), among the Operating Partnership, as borrower, the Trust, certain subsidiaries and other affiliates of the Operating Partnership, as guarantors, Regions Bank, as administrative agent, Regions Capital Markets, as sole lead arranger and sole book runner, and the lenders party thereto, and all commitments provided thereunder, were terminated. All amounts due and outstanding under the Prior Credit Agreement were repaid on or prior to such date.

On September 18, 2014, the Operating Partnership, as borrower, and the Trust and certain subsidiaries and other affiliates of the Trust, as guarantors, entered into a Credit Agreement with KeyBank National Association as administrative agent, KeyBanc Capital Markets Inc., Regions Capital Markets and BMO Capital Markets, as joint lead arrangers and joint bookrunners, Regions Capital Markets and BMO Capital Markets, as co-syndication agents, and the lenders party thereto in connection with an unsecured revolving credit facility in the maximum principal amount of $400 million ( Credit Agreement ). The Credit Agreement 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 $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $750 million. The Credit Agreement replaced

the Trust s senior secured revolving credit facility in the maximum principal amount of $200 million under the Prior Credit Agreement.

The Credit Agreement has a maturity date of September 18, 2018 and includes a one year extension option. Borrowings under the Credit Agreement bear interest on the outstanding principal amount at a rate equal to LIBOR plus 1.50% to 2.20% depending on the Trust s consolidated leverage ratio. In addition, the Credit Agreement includes an unused fee equal to 0.15% or 0.25% per annum, which is determined by usage under the Credit Agreement. As of December 31, 2014, the weighted average interest rate on borrowings outstanding was 1.68%.

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 Trust may, at any time, voluntarily prepay any loan under the Credit Agreement in whole or in part without premium or penalty. As of December 31, 2014, the Trust was in compliance with all financial covenants.

Table of Contents

The Credit Agreement includes customary representations and warranties by the Operating Partnership, the Trust and each other guarantor and imposes customary covenants on the Operating Partnership, the Trust and each other guarantor. 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 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 consolidated leverage ratio of the Trust, the Operating Partnership and its subsidiaries as follows:

| **Consolidated Leverage Ratio** | **Adjusted LIBOR Rate Loans and Letter of Credit Fee** | **Base Rate Loans** |
|---|---|---|
| ≤35% | LIBOR + 1.50% | 0.50% |
| >35% and ≤45% | LIBOR + 1.65% | 0.65% |
| >45% and <45% | LIBOR + 1.75% | 0.75% |
| >45% and ≤50% | LIBOR + 1.85% | 0.85% |
| >50% and ≤55% | LIBOR + 2.00% | 1.00% |
| >55% | LIBOR + 2.20% | 1.20% |

As of December 31, 2014, there were $138 million of borrowings outstanding under our unsecured revolving credit facility and $189 million available for us to borrow without adding additional properties to the unencumbered borrowing base of assets, as defined by the Credit Agreement.

Certain properties have mortgage debt that contains financial covenants. As of December 31, 2014, the Trust was in compliance with all mortgage debt financial covenants.

Scheduled principal payments due on debt as of December 31, 2014, are as follows (in thousands):

| | | |
|---|---|---|
| 2015 | $ | 1,864 |
| 2016 | | 9,421 |
| 2017 | | 28,750 |
| 2018 | | 139,100 |
| 2019 | | 19,906 |
| Thereafter | | 17,064 |
| Total Payments | $ | 216,105 |

For the years ended December 31, 2014 and 2013, the Trust incurred interest expense on its debt of $5.8 million and $3.9 million, respectively.

**Note 7 Stock-based Compensation**

The Trust 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.

Certain of the Trust 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 Trust 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. Additionally, the Trust must make estimates regarding employee forfeitures in determining compensation expense. 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

Table of Contents

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.

The committee has broad discretion in administering the terms of the 2013 Plan. Restricted shares granted under the 2013 Plan are eligible for dividends as well as the right to vote. The Trust granted to management and the Board of Trustees 250,000 restricted common shares upon completion of the IPO under the Trust s 2013 Plan at a value per share of $11.50 and total value of $2.9 million with a vesting period of three years. During 2014, a total of 152,987 restricted common shares with a total value of $2.1 million were granted to Trust employees and the Board of Trustees.

A summary of the status of the Trust s nonvested restricted common shares as of December 31, 2014 and changes during the year then ended follow:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at December 31, 2013 | 250,000 | $ 11.50 |
| Granted | 152,987 | 13.79 |
| Vested | (61,179) | 11.50 |
| Share repurchase | (22,154) | 14.49 |
| Non-vested at December 31, 2014 | 319,654 | $ 12.60 |

For all service awards, the Trust records compensation expense for the entire award on a straight-line basis (or, if applicable, on the accelerated method) over the requisite service period. For the years ended December 31, 2014, and 2013, the Trust recognized non-cash share compensation of $2.2 million, $0.4 million, respectively. Unrecognized compensation expense at December 31, 2014 and 2013 was $2.4 million and $2.5 million, respectively. The Trust s compensation expense recorded in connection with grants of restricted stock reflects an initial estimated cumulative forfeiture rate of 0% over the requisite service period of the awards. That estimate will be revised if subsequent information indicates that the actual number of awards expected to vest is likely to differ from previous estimates.

*Restricted Share Units:*

In March 2014, under the Trust s 2013 Plan, the Trust granted 55,680 restricted share units at target level to management, which are subject to certain performance and market conditions and a three-year service period. 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.

The market conditions were valued with the assistance of independent valuation specialists. The Trust, utilized a Monte Carlo simulation to calculate the weighted average grant date fair value of $19.25 per unit using the following assumptions:

| | |
|---|---|
| Volatility | 18.8% - 34.2% |
| Dividend assumption | reinvested |
| Expected term in years | 2.83 |
| Risk-free rate | 0.65% |
| Stock price (per share) | 13.47 |

With respect to the performance conditions, the grant date fair value of $13.47 per unit was calculated on the grant date. The restricted stock units combined weighted average grant date fair value is $16.94 per unit.

Table of Contents

The following is a summary of the activity in the Trust s restricted share units during 2014:

| | Restricted Share Units | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at December 31, 2013 | | $ |
| Granted | 55,680 | 16.94 |
| Vested | | |
| Forfeited | | |
| Non-vested at December 31, 2014 | 55,680 | $ 16.94 |

The Trust recognized $0.3 million of non-cash share unit compensation expense for the year ended December 31, 2014. Unrecognized compensation expense at December 31, 2014 was $0.7 million.

**Note 8 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 Trust 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 derivative instrument consists solely of one interest rate swap that is not traded on an exchange and is 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 Trust measures its interest rate swap at fair value on a recurring basis. The fair values are based on Level 2 inputs described above.

The Trust also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. The following table sets forth by level the fair value hierarchy of the Trust s assets that were accounted for on a non-recurring basis as of December 31, 2014.

| | | Non-recurring Fair Value Measurements At Report Date using: | | | |
|---|---|---|---|---|---|
| | Carrying Value as of December 31, 2013 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Losses for Year Ended December 31, 2014 |
| Investment properties | $ 4,551 | $ 1,529 | $ | $ 1,272 | $ (1,750) |

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level 3 for the fair value hierarchy as of December 31, 2014 (in thousands).

| Asset Category | Fair Value at December 31, 2014 | Valuation Technique | Unobservable Inputs | Rate |
|---|---|---|---|---|
| Investment properties | $ 1,272 | Market comparable/ | Discount rate | 11.00% |
| | | Discounted cash flow | Capitalization rate | 8.00% |

Table of Contents

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 on Level 2 inputs.

The following table presents the fair value of the Trust s financial instruments (in thousands).

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Real estate loans receivable | $ 15,876 | $ 15,876 | $ | $ |
| Credit facility | $ (138,000) | $ (138,000) | | |
| Mortgage debt | $ (78,105) | $ (78,642) | $ (42,821) | $ (44,130) |
| Derivative liabilities | $ (233) | $ (233) | $ (397) | $ (397) |

**Note 9 Tenant Operating Leases**

The Trust is lessor of medical office buildings and other healthcare facilities. Leases have expirations from 2015 through 2028. As of December 31, 2014, the future minimum rental payments on non-cancelable leases, exclusive of expense recoveries, were as follows (in thousands):

| | |
|---|---|
| 2015 | $ 65,905 |
| 2016 | 65,323 |
| 2017 | 65,179 |
| 2018 | 62,637 |
| 2019 | 59,464 |
| Thereafter | 418,400 |
| Total | $ 736,908 |

**Note 10 Rent Expense**

The Trust leases the rights to a parking structure at one of its properties and the land upon which seven of its properties are located from third party land owners pursuant to separate ground and parking leases. The parking and ground leases require fixed annual rental payments and may also include escalation clauses and renewal options. These leases have terms up to 67 years remaining, excluding extension options. As of December 31, 2014, the future minimum lease obligations under non-cancelable parking and ground leases were as follows (in thousands):

| | |
|---|---|
| 2015 | $ 1,426 |
| 2016 | 1,442 |
| 2017 | 1,480 |
| 2018 | 1,521 |

| | | |
|---|---|---|
| 2019 | | 1,564 |
| Thereafter | | 23,317 |
| Total | $ | 30,750 |

Rent expense for the parking and ground leases of $0.9 million, $0.02 million and $0.02 million for the years ended December 31, 2014, 2013 and 2012, respectively, are reported in operating expenses in the consolidated and combined statements of operations.

Table of Contents

**Note 11 Earnings Per Share**

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):

| | Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| **Numerator for earnings per share basic and diluted:** | | |
| Net loss | $ (4,418) | $ (2,636) |
| Less: Net loss attributable to Predecessor | | 576 |
| Less: Net loss attributable to noncontrolling interests Operating Partnership | 695 | 470 |
| Less: Net income attributable to noncontrolling interests partially owned properties | (314) | (71) |
| Numerator for earnings per share basic and diluted | $ (4,037) | $ (1,661) |
| **Denominator for earnings per share - basic and diluted shares:** | 33,063,093 | 12,883,917 |
| **Basic and diluted earnings per share** | $ (0.12) | $ (0.13) |

There were 375,334 and 250,000 restricted common shares and units outstanding related to the 2013 Plan during the years ended December 31, 2014 and 2013, respectively. However, these restricted common shares and units are not dilutive due to the net loss.

**Note 12 Related Party Transactions**

The Trust entered into a shared services agreement with Ziegler pursuant to which Ziegler provides office space, IT support, accounting support and other services to the Trust in exchange for an annual fee. The shared service fee amounted to $0.4 million and $0.3 million for years ended December 31, 2014 and 2013, respectively, and is recorded in general and administrative expense in the consolidated and combined statements of operations.

Ziegler charged the Predecessor an annual management fee equal to 2 percent of the total capital commitments. Total management fees charged to the Predecessor was $0.5 million and $1.0 million for the years ended December 31, 2013 and 2012, respectively. Total other fees charged to the Predecessor were $0.03 million for the year ended December 31, 2012. The other fees include fees for accounting expenses and other expenses owed to Ziegler. The Trust did not incur a management fee for the year ended December 31, 2014.

The Operating Partnership and the Trust entered into the First Amendment to Shared Services Agreement, dated July 31, 2014 (the First Amendment ), with Ziegler, which amended certain terms of the shared services agreement. Among other things, the First Amendment reduced the shared services to be provided by Ziegler, the term of the shared services agreement, and the monthly fee to be paid by the Trust for the

remainder of the term. In consideration of these changes, the Trust was obligated to make a one-time payment to Ziegler in the amount of $1.8 million (the Amendment Payment ), which could be paid in cash or in unrestricted common shares of the Trust as determined by the Trust in its sole discretion. On August 19, 2014, the Trust made the Amendment Payment by issuing 124,913 common shares to Ziegler. The $1.8 million one-time payment is included in general and administrative expense in the consolidated statement of operations for the year ended December 31, 2014.

Table of Contents

**Note 13 Subsequent Events**

The Trust, through subsidiaries of its Operating Partnership, closed on the below acquisitions:

| Property(1) | Location | Acquisition Date | Purchase Price (in thousands) | |
|---|---|---|---|---|
| Edina MOB | Edina, MN | January 22, 2015 | $ | 14,190 |
| Savage MOB | Savage, MN | January 22, 2015 | | 12,800 |
| Crystal MOB | Crystal, MN | January 22, 2015 | | 14,782 |
| Dell Rd MOB | Chanhassen, MN | January 22, 2015 | | 6,410 |
| Columbus MOB | Columbus, GA | January 23, 2015 | | 6,540 |
| Methodist Sports MOB (2) | Greenwood, IN | January 28, 2015 | | 10,000 |
| Vadnais Heights MOB | Vadnais Heights, MN | January 29, 2015 | | 18,422 |
| Minnetonka MOB (3) | Minnetonka, MN | February 5, 2015 | | 26,000 |
| Jamestown MOB | Jamestown, ND | February 5, 2015 | | 12,819 |
| Indianapolis South 4 MOBs | Greenwood, IN | February 13, 2015 | | 17,183 |
| Minnesota Eye MOB | Minnetonka, MN | February 17, 2015 | | 10,882 |
| Bridgeport Medical Center | Lakewood, WA | February 27, 2015 | | 13,750 |
| Baylor Cancer Center | Dallas, TX | February 27, 2015 | | 8,200 |
| | | | $ | 171,978 |

(1) MOB means medical office building.

(2) The Operating Partnership partially funded the purchase price of this acquisition by issuing a total of 420,963 OP Units valued at approximately $7.3 million in the aggregate on the date of issuance.

(3) The Operating Partnership partially funded the purchase price of this acquisition by issuing a total of 44,685 Series A Preferred Units valued at approximately $9.7 million in the aggregate on the date of issuance.

On February 5, 2015, the Trust 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 ). The Series A Preferred Units will have priority over all other partnership interests of the Operating Partnership with respect to distributions and liquidation. In addition, the Series A Preferred Units will be redeemable at the option of the holders on or after the one year anniversary of their issuance, which redemption obligation may be satisfied, at the Trust s option, in cash or shares of its common stock.

On January 21, 2015, the Trust repaid the outstanding balance of $138.0 million on the unsecured revolving credit facility.

On January 21, 2015, the Trust completed a follow-on public offering of 18,975,000 common shares of beneficial interest, including 2,475,000 common shares issued upon exercise of the underwriters overallotment option, resulting in net proceeds to it of approximately $297.2 million. The Trust contributed the net proceeds of this offering to its Operating Partnership in exchange for 18,975,000 OP Units, and its Operating

Partnership used the net proceeds of the public offering to repay borrowings under its unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

During 2015, the Trust sold 247,397 common shares pursuant to the ATM Program, at a weighted average price of $16.96 per share resulting in total proceeds of approximately $4.2 million, before $55,696 in commissions. As of the date of this prospectus supplement, the Trust has $90.2 million remaining available under the ATM Program.

See Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments for a further discussion of these acquisitions.

Table of Contents

**Note 14 Quarterly Data**

The following unaudited quarterly data has been prepared on the basis of a December 31 year-end. Amounts are in thousands, except for common share and per share amounts.

| | Quarter Ended | | | |
|---|---|---|---|---|
| **2014** | **March 31** | **June 30** | **September 30** | **December 31** |
| Total revenues | $ 8,032 | $ 11,447 | $ 14,161 | $ 19,694 |
| Operating (loss) income | (3,575) | (626) | (2,311) | 1,967 |
| Net (loss) income | (3,558) | (600) | (2,251) | 1,991 |
| Net (loss) income attributable to common shareholders | (3,093) | (561) | (2,094) | 1,711 |
| Earnings per share basic: | | | | |
| Net (loss) income available to common shareholder | $ (0.15) | $ (0.02) | $ (0.06) | $ 0.04 |
| Weighted average common shares outstanding | 21,298,597 | 26,163,982 | 36,313,644 | 48,145,409 |
| Earnings per share diluted: | | | | |
| Net (loss) income available to common shareholder | $ (0.15) | $ (0.02) | $ (0.06) | $ 0.04 |
| Weighted average common shares outstanding | 21,298,597 | 26,163,982 | 36,313,644 | 48,354,493 |

As a result of the acquisition activity and equity offerings throughout 2014, the quarterly periods are not comparable quarter over quarter.

| | Quarter Ended | | | |
|---|---|---|---|---|
| **2013** | **March 31 (1)** | **June 30 (1)** | **September 30** | **December 31** |
| Total revenues | $ 3,390 | $ 3,437 | $ 3,729 | $ 6,488 |
| Operating loss | (301) | (283) | (1,414) | (638) |
| Net loss | (301) | (283) | (1,416) | (638) |
| Net loss available to common shareholder | | | (1,160) | (501) |
| Earnings per share basic and diluted: | | | | |
| Net income available to common shareholder | $ | $ | $ (0.10) | $ (0.04) |
| Weighted average common shares outstanding | | | 11,486,011 | 13,932,347 |

(1) Because the IPO and the formation transactions were completed on July 24, 2013, the Trust had no operations prior to that date. References in these notes to the consolidated and combined financial statements of Physicians Realty Trust signify the Trust for the period from July 24, 2013, the date of completion of the IPO and the formation transactions, and of the Predecessor for all prior periods.

Table of Contents

**PHYSICIANS REALTY TRUST**

**SCHEDULE III REAL ESTATE AND**

**ACCUMULATED DEPRECIATION**

| | | | Initial Cost to Company | | Cost Capitalized Subsequent to Acquisition | Gross Amount at Which Carried as of Close of Period | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Description | Location | Encumbrances | Land | Buildings and Improvements | | Land | Buildings and Improvements | Total | Accumulated Depreciation | Date of Construction | Date Acquired | Life on Which Building Depreciation in Income Statement is Computed |
| Arrowhead Commons | Phoenix, AZ | | $ 740 | $ 2,551 | $ 1 | $ 740 | $ 2,552 | $ 3,292 | (366) | 2004 | 5/31/2008 | 46 |
| Aurora Medical Office Building | Green Bay, WI | | 500 | 1,566 | | 500 | 1,566 | 2,066 | (149) | 2010 | 4/15/2010 | 50 |
| Austell Medical Office Building | Atlanta, GA | | 289 | 1,992 | 313 | 289 | 2305 | 2,594 | (397) | 1971 | 6/30/2008 | 36 |
| Canton Medical Office Building | Atlanta, GA | 6,207 | 710 | 7,225 | 97 | 710 | 7,322 | 8,032 | (1,851) | 1994 | 5/25/2007 | 30 |
| Decatur Medical Office Building | Atlanta, GA | | 740 | 2,604 | 45 | 740 | 2,649 | 3,389 | (679) | 1974 | 10/12/2007 | 28 |
| El Paso Medical Office Building | El Paso, TX | | 860 | 2,866 | 357 | 860 | 3,223 | 4,083 | (1,293) | 1987 | 8/24/2006 | 21 |
| Farmington Professional Pavillion | Detroit, MI | | 580 | 1,793 | 87 | 580 | 1,880 | 2,460 | (1,081) | 1972 | 1/5/2006 | 15 |
| Firehouse Square | Milwaukee, WI | 2,765 | 1,120 | 2,768 | | 1,120 | 2,768 | 3,888 | (684) | 2002 | 8/15/2007 | 30 |
| Hackley Medical Center | Grand Rapids, MI | 5,397 | 1,840 | 6,402 | 24 | 1,840 | 6,426 | 8,266 | (1,674) | 1968 | 12/22/2006 | 30 |
| Ingham Regional Medical Center | Lansing, MI | | 310 | 2,893 | (1,134) | 310 | 1,759 | 2,069 | (800) | 1994 | 7/26/2006 | 39 |
| Meadow View Professional Center | Kingsport, TN | 10,410 | 2,270 | 11,344 | | 2,270 | 11,344 | 13,614 | (2,923) | 2005 | 5/10/2007 | 30 |
| Mid Coast Hospital Office Building | Portland, ME | 7,869 | | 11,247 | 8 | | 11,255 | 11,255 | (2,477) | 2008 | 5/1/2008 | 30 |
| | | | 237 | 2,767 | 20 | 237 | 2,787 | 3,024 | (472) | 2000 | 1/4/2008 | 42 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| New Albany Professional Building | Columbus, OH | | | | | | | | | | | |
| Northpark Trail | Atlanta, GA | | 839 | 1,245 | 235 | 839 | 1,480 | 2,319 | (539) | 2001 | 12/28/2005 | 35 |
| Remington Medical Commons | Chicago, IL | 4,399 | 895 | 6,499 | 319 | 895 | 6,818 | 7,713 | (1,464) | 2008 | 6/1/2008 | 30 |
| Stonecreek Family Health Center | Columbus, OH | | 459 | 1,898 | (153) | 459 | 1,745 | 2,204 | (687) | 1996 | 9/15/2006 | 23 |
| Summit Healthplex | Atlanta, GA | | 2,633 | 15,574 | 4,412 | 2,633 | 19,988 | 22,621 | (3,735) | 2002 | 7/3/2008 | 44 |
| Valley West Hospital Medical Office Building | Chicago, IL | 4,878 | | 6,275 | 611 | | 6,886 | 6,886 | (1,588) | 2007 | 11/1/2007 | 30 |
| East El Paso MOB | El Paso, TX | | 710 | 4,500 | | 710 | 4,500 | 5,210 | (171) | 2004 | 8/30/2013 | 35 |
| East El Paso Surgery Center | El Paso, TX | | 3,070 | 23,627 | | 3,070 | 23,627 | 26,697 | (875) | 2004 | 8/30/2013 | 36 |
| LifeCare Plano LTACH | Plano, TX | | 3,370 | 11,689 | 455 | 3,370 | 12,144 | 15,514 | (613) | 1987 | 9/18/2013 | 25 |
| Crescent City Surgical Centre | New Orleans, LA | 18,750 | | 34,208 | | | 34,208 | 34,208 | (891) | 2010 | 9/30/2013 | 48 |
| Foundation Surgical Affiliates MOB | Oklahoma City, OK | 7,647 | 1,300 | 12,724 | | 1,300 | 12,724 | 14,024 | (370) | 2004 | 9/30/2013 | 43 |
| Pensacola Medical Office Building | Pensacola, FL | | 990 | 5,005 | 6 | 990 | 5,011 | 6,001 | (128) | 2012 | 10/4/2013 | 49 |
| Central Ohio Neurosurgical Surgeons MOB (CONS) | Columbus, OH | | 981 | 7,620 | | 981 | 7,620 | 8,601 | (188) | 2007 | 11/27/2013 | 44 |
| Great Falls Ambulatory Surgery Center | Great Falls, MT | | 203 | 3,224 | | 203 | 3,224 | 3,427 | (102) | 1999 | 12/11/2013 | 33 |
| Eagles Landing Family Practice Medical Office Building | Conyers, GA | | 1,000 | 3,345 | | 1,000 | 3,345 | 4,345 | (78) | 2008 | 2/19/2014 | 37 |
| Eagles Landing Family Practice Medical Office Building | McDonough, GA | | 800 | 4,893 | | 800 | 4,893 | 5,693 | (116) | 2007 | 2/19/2014 | 36 |
| Eagles Landing Family Practice | McDonough, GA | | 400 | 5,086 | | 400 | 5,086 | 5,486 | (116) | 2006 | 2/19/2014 | 37 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Medical Office Building | | | | | | | | | | | |
| Eagles Landing Family Practice Medical Office Building | Jackson, GA | | 800 | 4,600 | 800 | 4,600 | 5,400 | (103) | 2010 | 2/19/2014 | 38 |
| Foundation Surgical Hospital of San Antonio | San Antonio, TX | 9,783 | 2,230 | 23,346 | 2,230 | 23,346 | 25,576 | (634) | 2007 | 2/19/2014 | 35 |
| Foundation Healthplex of San Antonio | San Antonio, TX | | 911 | 4,189 | 911 | 4,189 | 5,100 | (104) | 2007 | 2/16/2014 | 35 |
| 21st Century Radiation Oncology Sarasota | Sarasota, FL | | 633 | 6,557 | 633 | 6,557 | 7,190 | (211) | 1975 | 2/26/2014 | 27 |

Table of Contents

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 21st Century Radiation Oncology Venice | Venice, FL | 814 | 2,952 | | 814 | 2,952 | 3,766 | (79) | 1987 | 2/26/2014 | 35 |
| 21st Century Radiation Oncology Englewood | Englewood, FL | 350 | 1,878 | | 350 | 1,878 | 2,228 | (45) | 1992 | 2/26/2014 | 38 |
| 21st Century Radiation Oncology Port Charlotte | Port Charlotte, FL | 269 | 2,326 | | 269 | 2,326 | 2,595 | (57) | 1996 | 2/26/2014 | 36 |
| Peachtree Dunwoody Medical Office Building Center | Atlanta, GA | 6,046 | 27,435 | 7 | 6,046 | 27,442 | 33,488 | (936) | 1987 | 2/28/2014 | 25 |
| Lifecare LTACH Pittsburgh | Pittsburgh, PA | 1,142 | 11,737 | | 1,142 | 11,737 | 12,879 | (315) | 1987 | 3/28/2014 | 30 |
| Lifecare LTACH Ft Worth | Ft. Worth, TX | 2,730 | 24,639 | | 2,730 | 24,639 | 27,369 | (632) | 1987 | 3/28/2014 | 30 |
| Pinnacle Health Medical Office Building | Carlisle, PA | 424 | 2,232 | | 424 | 2,232 | 2,656 | (46) | 2002 | 4/22/2014 | 35 |
| Pinnacle Health Medical Office Building | Harrisburg, PA | 795 | 4,601 | | 795 | 4,601 | 5,396 | (133) | 1990 | 4/22/2014 | 25 |
| South Bend Orthopaedics Medical Office Building | South Bend, IN | 2,418 | 11,355 | | 2,418 | 11,355 | 13,773 | (217) | 2007 | 4/30/2014 | 40 |
| Grenada Medical Complex | Grenada, MS | 185 | 5,820 | | 185 | 5,820 | 6,005 | (151) | 1975 | 4/30/2014 | 30 |
| Mississippi Ortho Medical Office Building | Jackson, MS | 1,272 | 14,177 | | 1,272 | 14,177 | 15,449 | (248) | 1987 | 5/23/2014 | 35 |
| Carmel Medical Pavilion | Carmel, IN | | 3,917 | | | 3,917 | 3,917 | (97) | 1993 | 5/28/2014 | 25 |
| Presbyterian Medical Plaza | Monroe, NC | 1,195 | 5,681 | | 1,195 | 5,681 | 6,876 | (67) | 2008 | 6/30/2014 | 45 |
| Renaissance Ambulatory Surgery Center | Oshkosh, WI | 228 | 7,658 | | 228 | 7,658 | 7,886 | (99) | 2007 | 6/30/2014 | 40 |
| Summit Urology | Bloomington, IN | 125 | 4,792 | | 125 | 4,792 | 4,917 | (82) | 1996 | 6/30/2014 | 30 |
| 500 Landmark | Bloomington, IN | 627 | 3,549 | | 627 | 3,549 | 4,176 | (53) | 2000 | 7/1/2014 | 35 |
| 550 Landmark | Bloomington, IN | 2,717 | 15,224 | | 2,717 | 15,224 | 17,941 | (227) | 2000 | 7/1/2014 | 35 |
| 574 Landmark | Bloomington, IN | 418 | 1,493 | | 418 | 1,493 | 1,911 | (23) | 2004 | 7/1/2014 | 35 |
| Carlisle II MOB | Carlisle, PA | 412 | 3,962 | | 412 | 3,962 | 4,374 | (39) | 1996 | 7/25/2014 | 45 |
| Surgical Institute of Monroe | Monroe, MI | 410 | 5,743 | | 410 | 5,743 | 6,153 | (80) | 2010 | 7/28/2014 | 35 |
| The Oaks at Lady Lake | Lady Lake, FL | 1,065 | 8,642 | | 1,065 | 8,642 | 9,707 | (87) | 2011 | 7/31/2014 | 42 |
| Mansfield ASC | Mansfield, TX | 1,491 | 6,471 | | 1,491 | 6,471 | 7,962 | (52) | 2010 | 9/2/2014 | 46 |
| Eye Center of Southern Indiana | Bloomington, IN | 910 | 11,477 | | 910 | 11,477 | 12,387 | (113) | 1995 | 9/5/2014 | 35 |
| Wayne State | Troy, MI | 3,560 | 43,052 | | 3,560 | 43,052 | 46,612 | (392) | 1986 | 9/10/2014 | 38 |
| Zangmesiter | Columbus, OH | 1,610 | 31,120 | | 1,610 | 31,120 | 32,730 | (203) | 2007 | 9/30/2014 | 40 |
| El Paso Lee Trevino | El Paso, TX | 2,294 | 11,316 | 183 | 2,294 | 11,499 | 13,793 | (101) | 1983 | 9/30/2014 | 30 |
| El Paso Kenworthy | El Paso, TX | 728 | 2,178 | | 728 | 2,178 | 2,906 | (17) | 1983 | 9/30/2014 | 35 |
| El Paso Murchison | El Paso, TX | 2,283 | 24,543 | | 2,283 | 24,543 | 26,826 | (211) | 1970 | 9/30/2014 | 30 |
| Berger Medical Center | Columbus, OH | | 5,950 | | | 5,950 | 5,950 | (43) | 2007 | 9/30/2014 | 38 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Ortho One Columbus | Columbus, OH | | 16,234 | | 16,234 | 16,234 | (100) | 2009 | 9/30/2014 | 45 |
| Ortho One Westerville | Westerville, OH | 362 | 3,944 | 362 | 3,944 | 4,306 | (25) | 2007 | 9/30/2014 | 43 |
| Pinnacle 32 Northeast | Hershey, PA | 408 | 3,232 | 408 | 3,232 | 3,640 | (18) | 1994 | 10/29/2014 | 33 |
| Pinnacle 240 Grandview | Camp Hill, PA | 321 | 4,242 | 321 | 4,242 | 4,563 | (22) | 1980 | 10/29/2014 | 35 |
| Pinnacle 4518 Union Deposit | Harrisburg, PA | 617 | 7,305 | 617 | 7,305 | 7,922 | (42) | 2004 | 10/29/2014 | 31 |
| Pinnacle 4520 Union Deposit | Harrisburg, PA | 169 | 2,055 | 169 | 2,055 | 2,224 | (13) | 1997 | 10/29/2014 | 28 |
| Pinnacle Market Place Way | Harrisburg, PA | 808 | 2,383 | 808 | 2,383 | 3,191 | (11) | 2004 | 10/29/2014 | 35 |
| Columbus 2000 10th Avenue | Columbus, GA | 380 | 2,737 | 380 | 2,737 | 3,117 | (12) | 1989 | 11/20/2014 | 22 |
| Columbus 1942 North Avenue | Columbus, GA | 91 | 273 | 91 | 273 | 364 | (2) | 1971 | 11/20/2014 | 12 |
| Columbus 920 18th Street | Columbus, GA | 110 | 281 | 110 | 281 | 391 | (3) | 1982 | 11/20/2014 | 8 |
| Columbus 1900 10th Ave | Columbus, GA | 474 | 5,580 | 474 | 5,580 | 6,054 | (19) | 1976 | 11/20/2014 | 26 |
| Columbus 1800 10th Ave | Columbus, GA | 539 | 5,238 | 539 | 5,238 | 5,777 | (17) | 1976 | 11/20/2014 | 28 |
| Columbus 705 17th Street | Columbus, GA | 372 | 2,346 | 372 | 2,346 | 2,718 | (14) | 1994 | 11/20/2014 | 15 |
| Columbus 615 19th Street | Columbus, GA | 75 | 113 | 75 | 113 | 188 | (3) | 1976 | 11/20/2014 | 3 |
| Columbus 1968 North Avenue | Columbus, GA | 89 | 32 | 89 | 32 | 121 | (1) | 1966 | 11/20/2014 | 4 |
| Columbus 633 19th Street | Columbus, GA | 99 | 255 | 99 | 255 | 354 | (3) | 1972 | 11/20/2014 | 9 |
| Columbus 500 18th Street | Columbus, GA | 430 | 170 | 430 | 170 | 600 | (3) | 1982 | 11/20/2014 | 8 |
| Columbus 2200 Hamilton Rd | Columbus, GA | 267 | 1,579 | 267 | 1,579 | 1,846 | (7) | 1992 | 11/20/2014 | 22 |
| Columbus 1810 Stadium Drive | Phenix City, AL | 202 | 149 | 202 | 149 | 351 | (2) | 1999 | 11/20/2014 | 30 |
| Middletown Medical 111 Maltese | Wallkill, NY | 670 | 9,921 | 670 | 9,921 | 10,591 | (24) | 1988 | 11/26/2014 | 35 |
| Middletown Medical 2 Edgewater | Wallkill, NY | 200 | 2,966 | 200 | 2,966 | 3,166 | (7) | 1992 | 11/26/2014 | 35 |
| Carle Danville MOB | Danville, IL | 607 | 7,136 | 607 | 7,136 | 7,743 | (20) | 2007 | 11/26/2014 | 33 |

Table of Contents

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Napoleon MOB | New Orleans, LA | | 1,202 | 7,412 | 5 | 1,202 | 7,417 | 8,619 | | 1974 | 12/18/2014 | 25 |
| West TN Bone & Joint Physicians Drive | Jackson, TN | | 650 | 2,960 | | 650 | 2,960 | 3,610 | | 1996 | 12/30/2014 | 35 |
| West TN Bone & Joint | Jackson, TN | | 1,254 | 5,215 | | 1,254 | 5,215 | 6,469 | | 1991 | 12/30/2014 | 31 |
| | | $ 78,105 | $ 79,334 | $ 643,802 | $ 5,898 | $ 79,334 | $ 649,700 | $ 729,034 | $ (32,772) | | | |

The cost capitalized subsequent to acquisitions is net of dispositions.

Table of Contents

The changes in total real estate for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Balance as of the beginning of the year | $ 224,730 | $ 111,149 | $ 124,333 |
| Acquisitions | 505,379 | 113,225 | |
| Additions | 900 | 806 | 786 |
| Impairment | (1,750) | | (937) |
| Dispositions | (225) | (450) | (13,033) |
| Balance as of the end of the year | $ 729,034 | $ 224,730 | $ 111,149 |

The changes in accumulated depreciation for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Balance as of the beginning of the year | $ 20,299 | $ 16,495 | $ 14,484 |
| Acquisitions | 6,575 | 694 | |
| Additions | 5,898 | 3,110 | 3,024 |
| Dispositions | | | (1,013) |
| Balance as of the end of the year | $ 32,772 | $ 20,299 | $ 16,495 |

Table of Contents

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our 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, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2014, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control over Financial Reporting.*

There have been no changes in our system of internal control over financial reporting during the quarter ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Management s Report on Internal Control over Financial Reporting.*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, management has concluded that its internal control over financial reporting was effective as of December 31, 2014 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

*Limitations on Effectiveness of Controls and Procedures.*

In designing and evaluating the disclosure controls and procedures, 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 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.

**ITEM 9B. OTHER INFORMATION**

None.

Table of Contents

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated herein by reference are Board of Trustees and Nominees, Section 16(a) Beneficial Ownership Reporting Compliance, Trustee Nomination Procedure , Audit Committee and Report of the Audit Committee of the Board of Trustees to be included in our 2015 Proxy Statement, which will be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

***Code of Business Conduct and Ethics***

Information regarding our Code of Business Conduct and Ethics is provided in Part I., Item 1. Business Available Information and is incorporated herein by reference.

### ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference are Summary Compensation Table, Employment Agreements with NEOs, Outstanding Equity Awards at Fiscal Year-End, 401(k) Plan, Trustee Compensation and Compensation Committee Interlocks and Insider Participation to be included in our 2015 Proxy Statement, which will be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated herein by reference are Security Ownership of Certain Beneficial Owners and Management to be included in our 2015 Proxy Statement, which will be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

***Equity Compensation Plan Information***

The table below presents information as of December 31, 2014 for the 2013 Equity Incentive Plan. We do not have any equity compensation plans that have not been approved by shareholders.

| Plan category | Number of securities to be issued upon exercise of outstanding options warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 55,680(1) | | 1,991,333 |
| Equity compensation plans not approved by security holders | | | |

(1) Performance-based restricted stock units at target level granted to our officers under the 2013 Equity Incentive Plan, which will vest, if at all, based on achievement of performance criteria over a performance period, subject to the terms of the grant.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated herein by reference are Certain Relationships and Related Transactions and Trustee Independence to be included in our 2015 Proxy Statement, which will be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Incorporated herein by reference are Fees Paid to Independent Registered Public Accounting Firm and Audit Committee Pre-Approval Policies and Procedures to be included in our 2015 Proxy Statement, which will be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

Table of Contents

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this report:

(1) *Financial Statements*:

**Physicians Realty Trust and Predecessor**


| | |
|---|---|
| Report of Independent Registered Public Accounting Firm | 71 |
| Consolidated Balance Sheets at December 31, 2014 and 2013 | 73 |
| Consolidated and Combined Statements of Operations for the Years Ended December 31, 2014, 2013 and 2012 | 74 |
| Consolidated and Combined Statements of Equity for the Year Ended December 31, 2014, 2013 and 2012 | 75 |
| Consolidated and Combined Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012 | 76 |
| Notes to Consolidated and Combined Financial Statements | 77 |


(2) *Financial Statement Schedules*:


| | |
|---|---|
| Schedule III Real Estate and Accumulated Depreciation | 96 |


All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because they are not required under the related instructions or are not applicable, or because the required information is shown in the consolidated financial statements or notes thereto.

(3) *Exhibits*:

See the Exhibit Index immediately following the signature page of this report on Form 10-K.

Table of Contents

**SIGNATURES**

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

**PHYSICIANS REALTY TRUST**

Dated: March 12, 2015

/s/ JOHN T. THOMAS
John T. Thomas
Chief Executive Officer and President
(Principal Executive Officer)

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John T. Thomas and Jeffrey N. Theiler and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully and for all intents and purposes as he or she might do or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

| Signature | Title | Date |
|---|---|---|
| /s/ JOHN T. THOMAS<br>John T. Thomas | Chief Executive Officer and President and Trustee<br>(Principal Executive Officer) | March 12, 2015 |
| /s/JEFFREY N. THEILER<br>Jeffrey N. Theiler | Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) | March 12, 2015 |
| /s/JOHN W. LUCEY<br>John W. Lucey | Senior Vice President-Principal Accounting and Reporting Officer (Principal Accounting Officer) | March 12, 2015 |
| /s/STANTON D. ANDERSON<br>Stanton D. Anderson | Trustee | March 12, 2015 |
| /s/MARK A. BAUMGARTNER<br>Mark A. Baumgartner | Trustee | March 12, 2015 |

| | | |
|---|---|---|
| /s/ALBERT C. BLACK, JR.<br>Albert C. Black, Jr. | Trustee | March 12, 2015 |
| /s/WILLIAM A. EBINGER, M.D.<br>William A. Ebinger, M.D. | Trustee | March 12, 2015 |
| /s/TOMMY G. THOMPSON<br>Tommy G. Thompson | Chairman | March 12, 2015 |
| /s/ RICHARD A. WEISS<br>Richard A. Weiss | Trustee | March 12, 2015 |

Table of Contents

**EXHIBIT INDEX**

| Exhibit No. | | Title |
|---|---|---|
| 3.1 | (1) | Articles of Amendment and Restatement of Physicians Realty Trust |
| 3.2 | (1) | Bylaws of Physicians Realty Trust |
| 4.1 | (1) | Form of Certificate of Common Shares of Physicians Realty Trust |
| 10.1 | (14) | Second Amended and Restated Agreement of Limited Partnership of Physicians Realty L.P., dated February 5, 2015 |
| 10.2 | (2) | Form of Restricted Shares Award Agreement (Time Vesting) |
| 10.3 | (1) | Form of Indemnification Agreement between Physicians Realty Trust and its trustees and officers |
| 10.4 | (2) | Contribution Agreement by and among Physicians Realty L.P., Physicians Realty Trust and Ziegler Healthcare Real Estate Fund I, dated as of June 19, 2013 |
| 10.5 | (2) | Contribution Agreement by and among Physicians Realty L.P., Physicians Realty Trust and Ziegler Healthcare Real Estate Fund II, dated as of June 19, 2013 |
| 10.6 | (2) | Contribution Agreement by and among Physicians Realty L.P., Physicians Realty Trust and Ziegler Healthcare Real Estate Fund III, dated as of June 19, 2013 |
| 10.7 | (2) | Contribution Agreement by and among Physicians Realty L.P., Physicians Realty Trust and Ziegler Healthcare Real Estate Fund IV, LP, dated as of June 19, 2013 |
| 10.8 | (3) | Form of Shared Services Agreement by and among Physicians Realty Trust, Physicians Realty L.P. and B.C. Ziegler and Company |
| 10.9 | (3) | Membership Interest Purchase Agreement for the Arrowhead Commons property by and among Physicians Realty L.P., Birdie Zone, L.L.C., Ziegler Healthcare Real Estate Fund I and Ziegler-Arizona 23, LLC dated as of June 24, 2013 |
| 10.10 | (4) | Agreement of Sale and Purchase, by and between Physicians Realty L.P., a Delaware Limited Partnership, and 6800 Preston Limited, a Texas Limited Partnership, dated August 21, 2013 |
| 10.11 | (5) | Assignment and Assumption Agreement of Sale and Purchase by and between Foundation Surgical Hospital Affiliates, L.L.C., a Nevada limited liability company, and DOC-FSH El Paso Medical Center, LLC, a Wisconsin limited liability company, as of August 30, 2013 |
| 10.12 | (5) | Agreement of Sale and Purchase by and between HCRI Texas Properties, Ltd., a Texas limited partnership, Health Care REIT, Inc., a Delaware Corporation and Foundation Surgical Hospital Affiliates, L.L.C., a Nevada limited liability company, as of August 30, 2013 |
| 10.13 | (5) | Membership Interest Contribution Agreement by and among DOC-CCSC Crescent City Surgical Centre, LLC, Crescent City Surgical Centre Facility, LLC, Physicians Realty L.P. and the Members of Crescent City Surgical Centre Facility, LLC, dated as of September 30, 2013 |
| 10.14 | (6) | Assignment and Assumption of Agreement of Sale and Purchase by and between Graymark Healthcare, Inc. and DOC-Greymark HQ OKC MOB, LLC, dated September 30, 2013 |
| 10.15 | (6) | Agreement of Sale and Purchase, dated as of November 7, 2013, by and among Steele Properties I, LLC, a Nevada limited liability company, Collyn Williams and Physicians Realty L.P. |
| 10.16 | (7) | Agreement of Sale and Purchase, dated as of January 29, 2014, by and between Octopods, LLC, an Indiana limited liability company, and Physicians Realty L.P., a Delaware limited Partnership |
| 10.17 | (7) | Amendment to Agreement of Sale and Purchase, dated as of February 28, 2014, by and between Octopods, LLC, an Indiana limited liability company, and Physicians Realty L.P., a Delaware limited Partnership |
| 10.18 | (7) | Second Amendment to Agreement of Sale and Purchase, dated as of April 30, 2014, by and between Octopods, LLC, an Indiana limited liability company, and Physicians Realty L.P., a Delaware limited Partnership |
| 10.19 | (7) | Agreement of Sale and Purchase, dated as of February 10, 2014, by and between those Sellers set forth on Exhibit A thereto and Physicians Realty L.P., a Delaware limited partnership |
| 10.20 | (7) | Agreement of Sale and Purchase, dated as of February 19, 2014, by and between Foundation Bariatric Real Estate of San Antonio, LLLP, a Texas limited liability limited partnership, and DOC-FSH San Antonio Hospital, LLC, a Wisconsin limited liability company |
| 10.21 | (7) | Agreement of Sale and Purchase, dated as of February 28, 2014, by and between North American Property Corporation, a British Columbia corporation, and DOC-PDMC Atlanta, LLC, a Wisconsin limited liability company |
| 10.22 | (7) | Agreement of Sale and Purchase, dated as of March 28, 2014, by and between New LifeCare Hospitals of Pittsburgh, LLC, a Delaware limited liability company, and New LifeCare Hospitals of North Texas, LLC a Delaware limited liability company, and DOC-LifeCare Ft. Worth Ltach, LLC, a Wisconsin limited liability company, and |

| | | |
|---|---|---|
| | | DOC-LifeCare Pittsburgh Ltach, LLC, a Wisconsin limited liability company |
| 10.23 | (8) | Amended and Restated Employment Agreement dated as of May 6, 2014, between the Company and John T. Thomas** |
| 10.24 | (8) | Amended and Restated Employment Agreement dated as of May 6, 2014, between the Company and John W. Lucey** |
| 10.25 | (8) | Amended and Restated Employment Agreement dated as of May 6, 2014, between the Company and Mark D. Theine** |
| 10.26 | (8) | Physicians Realty Trust Incentive Bonus Plan** |
| 10.27 | (8) | Form of Restricted Share Award Agreement - Executive (Time Vesting)** |
| 10.28 | (8) | Form of Restricted Share Award Agreement - Trustees (Time Vesting)** |
| 10.29 | (8) | Form of Restricted Share Unit Award Agreement (Performance Units)** |
| 10.30 | (9) | Employment Agreement dated as of May 13, 2014, between the Company and Jeffrey Theiler** |
| 10.31 | (10) | First Amendment to Shared Services Agreement dated July 31, 2014, among B.C. Ziegler and Company, Physicians Realty Trust, and Physicians Realty L.P. |
| 10.32 | (11) | Physicians Realty Trust 2013 Equity Incentive Plan, as amended effective August 7, 2014** |

Table of Contents

| | | |
|---|---|---|
| 10.33 | (12) | Credit Agreement, dated September 18, 2014, among Physicians Realty L.P., Physicians Realty Trust and certain subsidiaries and other affiliates party thereto, KeyBank National Association, KeyBanc Capital Markets Inc., Regions Capital Markets, BMO Capital Markets, and the lenders party thereto |
| 10.34 | (13) | Agreement of Sale and Purchase, dated as of September 8, 2014, by and between Cassady Gateway Partners, LLC, an Ohio limited liability company, and DOC-3100 Plaza Properties Boulevard MOB, LLC, a Wisconsin limited liability company |
| 10.35 | (13) | Contribution Agreement, dated as of September 8, 2014, by and between Curie Building, LLC, a Texas limited liability company, as successor by conversion to Cure Building, Ltd., a Texas limited partnership, and DOC-1755 Curie Drive MOB, LLC, a Wisconsin limited liability company |
| 10.36 | (13) | Agreement of Sale and Purchase, dated as of September 8, 2014, by and between University Physician Group, d/b/a Wayne State University Physician Group, a Michigan nonprofit corporation, and DOC-WSUPG Troy MOB, LLC, a Wisconsin limited liability company |
| 10.37 | | Agreement of Sale and Purchase, dated as of November 18, 2014, by and between Kennewick Trios 2014 LLC, a Wisconsin limited liability company and Physicians Realty L.P., a Delaware limited partnership* |
| 10.38 | | Contribution Agreement, dated as of February 5, 2015, by and among United Properties Investment, LLC, a Minnesota limited liability company, Minnetonka Medical Building, LLC, a Minnesota limited liability company and DOC-15450 State Highway 7 MOB, LLC, a Wisconsin limited liability company* |
| 10.39 | | Employment Agreement dated January 8, 2015, between the Company and Bradley D. Page* ** |
| 10.40 | (15) | Amended and Restated Employment Agreement dated as of February 19, 2015, between the Company and John Sweet** |
| 10.41 | | Form of Restricted Share Award Agreement - Executive (Time Vesting)* ** |
| 10.42 | | Form of Restricted Share Unit Award Agreement - Executive (Performance Vesting)* ** |
| 10.43 | | Form of Restricted Share Unit Award Agreement - Trustees (Time Vesting)* ** |
| 16.1 | (16) | Letter from Plante & Moran, PLLC to the Securities and Exchange Commission, dated April 4, 2014 |
| 21.1 | | List of Subsidiaries of the Registrant* |
| 23.1 | | Consent of Plante & Moran, PLLC* |
| 23.2 | | Consent of Ernst & Young LLP* |
| 24.1 | | Power of Attorney (included on signature page)* |
| 31.1 | | Certification of John T. Thomas, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2 | | Certification of Jeffrey N. Theiler, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 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)* |
| 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

** Indicates a management contract or compensatory plan or arrangement.

(1) Incorporated by reference to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 filed with the SEC on June 14, 2013 (File No. 333-188862).

(2) Incorporated by reference to Amendment No. 3 to the Registrant s Registration Statement on Form S-11 filed with the SEC on June 20, 2013 (File No. 333-188862).

(3) Incorporated by reference to Amendment No. 4 to the Registrant s Registration Statement on Form S-11 filed with the SEC on July 3, 2013 (File No. 333-188862).

(4) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the SEC on August 30, 2013 (File No. 001-36007).

(5) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the SEC on November 12, 2013 (File No. 001-36007).

(6) Incorporated by reference to the Registrant s Annual Report on Form 10-K filed with the SEC on March 21, 2014 (File No. 001-36007).

(7) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the SEC on May 7, 2014 (File No. 001-36007).

(8) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the SEC on May 7, 2014.

(9) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the SEC on May 14, 2014.

(10) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the SEC on August 6, 2014.

(11) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the SEC on August 7, 2014.

(12) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the SEC on September 23, 2014.

(13) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q filed with the SEC on November 13, 2014 (File No. 001-36007).

Table of Contents

(14) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the SEC on February 6, 2015.

(15) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the SEC on February 20, 2015.

(16) Incorporated by reference to the Registrant s Current Report on Form 8-K filed with the SEC on April 7, 2014.

(+) 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.