Physicians Realty Trust
Form 10-Q
May 04, 2018

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us-gaap:GeographicConcentrationRiskMember stpr:MN 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:GeographicConcentrationRiskMember stpr:NE 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:CustomerConcentrationRiskMember doc:TopfivetenantrelationshipsMember 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:CustomerConcentrationRiskMember doc:CHIPortfolioMember 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:CustomerConcentrationRiskMember doc:CHINebraskaMember 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:CustomerConcentrationRiskMember doc:NorthsideHospitalGAMember 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:CustomerConcentrationRiskMember doc:BaylorScottandWhiteHealthMember 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:CustomerConcentrationRiskMember doc:USOncologyMember 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:CustomerConcentrationRiskMember doc:RemainingPortfolioMember 2018-01-01 2018-03-31 0001574540 us-gaap:SalesRevenueServicesNetMember us-gaap:CustomerConcentrationRiskMember doc:CHIKentuckyOneHealthMember 2018-01-01 2018-03-31 0001574540 us-gaap:RestrictedStockMember 2017-01-01 2017-03-31 0001574540 us-gaap:RestrictedStockUnitsRSUMember 2017-01-01 2017-03-31 0001574540 us-gaap:RestrictedStockMember 2018-01-01 2018-03-31 0001574540 us-gaap:RestrictedStockUnitsRSUMember 2018-01-01 2018-03-31 0001574540 doc:PhysiciansRealtyLPMember us-gaap:RestrictedStockUnitsRSUMember 2018-01-01 2018-03-31 0001574540 doc:PhysiciansRealtyLPMember us-gaap:RestrictedStockUnitsRSUMember 2017-01-01 2017-03-31 0001574540 doc:PhysiciansRealtyLPMember us-gaap:RestrictedStockMember 2017-01-01 2017-03-31 0001574540 doc:PhysiciansRealtyLPMember us-gaap:RestrictedStockMember 2018-01-01 2018-03-31 0001574540 doc:MedicalOfficeFacilityKingsportTennesseeMember us-gaap:SubsequentEventMember 2018-04-03 2018-04-03 doc:instruments doc:properties doc:states iso4217:USD xbrli:shares doc:portfolio xbrli:pure doc:disposition_group doc:buildings doc:land xbrli:shares doc:segment iso4217:USD doc:mezzanine_loan doc:healthcareproperty utreg:Rate

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from to

Commission file number: 001-36007 (Physicians Realty Trust)
Commission file number: 333-205034-01 (Physicians Realty L.P.)

PHYSICIANS REALTY TRUST
PHYSICIANS REALTY L.P.

(Exact Name of Registrant as Specified in its Charter)

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

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

(414) 367-5600
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Physicians Realty Trust Yes ý No o Physicians Realty L.P. Yes ý 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Physicians Realty Trust Yes ý No o Physicians Realty L.P. Yes ý No o

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

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

Physicians Realty L.P. Large accelerated filer o Accelerated filer o Non-accelerated filer ý (Do not check if a smaller reporting company) Smaller reporting company o Emerging growth company o

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

Physicians Realty Trust o Physicians Realty L.P. o

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

Physicians Realty Trust Yes o No ý Physicians Realty L.P. Yes o No ý

The number of Physicians Realty Trust's common shares outstanding as ofApril 30, 2018 was 182,004,287.

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q combines the Quarterly Reports on Form 10-Q for the quarter ended March 31, 2018 of Physicians Realty Trust (the "Trust"), a Maryland real estate investment trust, and Physicians Realty L.P. (the "Operating Partnership"), a Delaware limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this report to "we," "us," "our," and the "Company," refer to the Trust, together with its consolidated subsidiaries, including the Operating Partnership. References to the "Operating Partnership" mean collectively the Operating Partnership, together with its consolidated subsidiaries. In this report, all references to "common shares" refer to the common shares of the Trust and references to "our shareholders" refer to shareholders of the common shares of the Trust, the term "OP Units" refers to partnership interests of the Operating Partnership and the term "Series A Preferred Units" refers to Series A Participating Redeemable Preferred Units of the Operating Partnership.

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

The Trust conducts substantially all of its operations through the Operating Partnership. As of March 31, 2018, the Trust held a 97.1% interest in the Operating Partnership and owns no Series A Preferred Units. Apart from this ownership interest, the Trust has no independent operations.

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

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

- a combined report enhances investors' understanding of the Trust and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- a combined report eliminates duplicative disclosure and provides a more streamlined and readable presentation, as a substantial portion of the Company's disclosure applies to both the Trust and the Operating Partnership; and
- a combined report creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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

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

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PHYSICIANS REALTY TRUST AND PHYSICIANS REALTY L.P.

Quarterly Report on Form 10-Q
for the Quarter Ended March 31, 2018

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- general economic conditions;
- adverse economic or real estate developments, either nationally or in the markets where our properties are located;
- our failure to generate sufficient cash flows to service our outstanding indebtedness, or our ability to pay down or refinance our indebtedness;
- fluctuations 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;
- general volatility of the market price of our common shares;
- our increased vulnerability economically due to the concentration of our investments in healthcare properties;
- our geographic concentration in Texas causes us to be particularly exposed to downturns in the Texas economy or other changes in Texas market conditions;
- changes in our business or strategy;
- our dependence upon key personnel whose continued service is not guaranteed;
- our ability to identify, hire and retain highly qualified personnel in the future;

- the degree and nature of our competition;
- changes in governmental regulations, 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 completing acquisitions;
- competition for investment opportunities;

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- any adverse effects to the business, financial position or results of Catholic Health Initiatives' ("CHI"), or one or more of the CHI-affiliated tenants, that impact the ability of CHI-affiliated tenants to pay us rent;
- the impact of our investments in joint ventures;
- the financial condition and liquidity of, or disputes with, any joint venture and development partners with whom we may make co-investments in the future;
- cybersecurity incidents could disrupt our business and result in the compromise of confidential information;
- our ability to operate as a public company;
- changes in accounting principles generally accepted in the United States (GAAP);
- lack of or insufficient amounts of insurance;
- other factors affecting the real estate industry generally;
- our failure to maintain our qualification as a REIT for U.S. federal income tax purposes;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes;
- 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
- factors that may materially adversely affect us, or the per share trading price of our common shares, including:

- 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 debt;
- failure of securities analysts to publish research or reports about us or our industry; and
- securities analysts' downgrade of our common shares or the healthcare-related real estate sector.

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

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

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Investment properties:		
Land and improvements	$214,476	$217,695
Building and improvements	3,570,056	3,568,858
Tenant improvements	19,121	23,056
Acquired lease intangibles	459,836	458,713
	4,263,489	4,268,322
Accumulated depreciation	(318,393)	(300,458)
Net real estate property	3,945,096	3,967,864
Real estate held for sale	93,289	—
Real estate loans receivable	71,529	76,195
Investments in unconsolidated entities	1,331	1,329
Net real estate investments	4,111,245	4,045,388
Cash and cash equivalents	6,550	2,727
Tenant receivables, net	4,293	9,966
Other assets	134,919	106,302
Total assets	$4,257,007	$4,164,383
LIABILITIES AND EQUITY		
Liabilities:		
Credit facility	$466,828	$324,394
Notes payable	966,387	966,603
Mortgage debt	154,373	186,471
Accounts payable	2,562	11,023
Dividends and distributions payable	43,388	43,804
Accrued expenses and other liabilities	56,706	56,405
Acquired lease intangibles, net	15,767	15,702
Total liabilities	1,706,011	1,604,402
Redeemable noncontrolling interest - Series A Preferred Units (2018) and partially owned properties	23,736	12,347
Equity:		
Common shares, $0.01 par value, 500,000,000 common shares authorized, 181,943,725 and 181,440,051 common shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	1,819	1,814
Additional paid-in capital	2,778,616	2,772,823
Accumulated deficit	(345,571)	(315,417)
Accumulated other comprehensive income	18,250	13,952
Total shareholders' equity	2,453,114	2,473,172
Noncontrolling interests:		
Operating Partnership	73,527	73,844

Partially owned properties	619	618
Total noncontrolling interests	74,146	74,462
Total equity	2,527,260	2,547,634
Total liabilities and equity	$4,257,007	$4,164,383

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

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

	Three Months Ended March 31,	
	2018	**2017**
Revenues:		
Rental revenues	$78,887	$ 59,092
Expense recoveries	24,308	16,354
Interest income on real estate loans and other	2,028	1,220
Total revenues	105,223	76,666
Expenses:		
Interest expense	16,494	9,815
General and administrative	8,459	4,736
Operating expenses	30,459	22,089
Depreciation and amortization	38,576	27,933
Acquisition expenses	—	5,405
Total expenses	93,988	69,978
Income before equity in income of unconsolidated entities and gain on sale of investment properties:	11,235	6,688
Equity in income of unconsolidated entities	28	28
Gain on sale of investment properties	69	—
Net income	11,332	6,716
Net income attributable to noncontrolling interests:		
Operating Partnership	(313)	(147)
Partially owned properties (1)	(111)	(167)
Net income attributable to controlling interests	10,908	6,402
Preferred distributions	(487)	(211)
Net income attributable to common shareholders:	$10,421	$ 6,191
Net income per share:		
Basic	$0.06	$ 0.04
Diluted	$0.06	$ 0.04
Weighted average common shares:		
Basic	181,809,570	138,986,629
Diluted	187,317,243	142,605,930
Dividends and distributions declared per common share and OP Unit	$0.230	$ 0.225

(1) An adjustment of $0.1 million was required for net income attributable to redeemable noncontrolling interests for the three months ended March 31, 2018 and March 31, 2017.

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

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

	Three Months Ended March 31,	
	2018	2017
Net income	$11,332	$6,716
Other comprehensive income:		
Change in fair value of interest rate swap agreements	4,298	825
Total other comprehensive income	4,298	825
Comprehensive income	15,630	7,541
Comprehensive income attributable to noncontrolling interests - Operating Partnership	(438)	(201)
Comprehensive income attributable to noncontrolling interests - partially owned properties	(111)	(167)
Comprehensive income attributable to common shareholders	$15,081	$7,173

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

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

	Par Value	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Operating Partnership Noncontrolling Interest	Partially Owned Properties Noncontrolling Interest	Total Noncontrolling Interests	Total Equity
Balance at January 1, 2018	$ 1,814	$ 2,772,823	$ (315,417)	$ 13,952	$ 2,473,172	$ 73,844	$ 618	$ 74,462	$ 2,547,634
Net proceeds from sale of common shares	3	5,313	—	—	5,316	—	—	—	5,316
Restricted share award grants, net	2	872	59	—	933	—	—	—	933
Conversion of OP Units	—	126	—	—	126	(126)	—	(126)	—
Dividends/distributions declared	—	—	(41,910)	—	(41,910)	(1,216)	—	(1,216)	(43,126)
Preferred distributions	—	—	(487)	—	(487)	—	—	—	(487)
Distributions	—	—	—	—	—	—	(43)	(43)	(43)
Change in market value of Redeemable Noncontrolling Interest in Operating Partnership	—	194	1,276	—	1,470	—	—	—	1,470
Change in fair value of interest rate swap agreements	—	—	—	4,298	4,298	—	—	—	4,298
Net income	—	—	10,908	—	10,908	313	44	357	11,265
Adjustment for Noncontrolling Interests ownership in Operating Partnership	—	(712)	—	—	(712)	712	—	712	—
Balance at March 31, 2018	$ 1,819	$ 2,778,616	$ (345,571)	$ 18,250	$ 2,453,114	$ 73,527	$ 619	$ 74,146	$ 2,527,260

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

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

	Three Months Ended March 31,	
	2018	**2017**
Cash Flows from Operating Activities:		
Net income	$ 11,332	$ 6,716
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	38,576	27,933
Amortization of deferred financing costs	618	549
Amortization of lease inducements and above/below-market lease intangibles	1,190	1,307
Straight-line rental revenue/expense	(6,450)	(4,508)
Amortization of discount on unsecured senior notes	142	20
Amortization of above market assumed debt	(16)	(59)
Gain on sale of investment properties	(69)	—
Equity in income of unconsolidated entities	(28)	(28)
Distributions from unconsolidated entities	26	55
Change in fair value of derivative	2	165
Provision for bad debts	(141)	(127)
Non-cash share compensation	2,605	1,490
Net change in fair value of contingent consideration	—	(70)
Change in operating assets and liabilities:		
Tenant receivables	5,437	2,703
Other assets	(222)	(287)
Accounts payable	(8,461)	(1,297)
Accrued expenses and other liabilities	(3,651)	(676)
Net cash provided by operating activities	40,890	33,886
Cash Flows from Investing Activities:		
Proceeds on sales of investment properties	2,440	—
Acquisition of investment properties, net	(84,202)	(174,737)
Escrowed cash - acquisition deposits / earnest deposits	(2,720)	1,375
Capital expenditures on existing investment properties	(5,608)	(3,434)
Issuance of real estate loans receivable	(2,000)	(2,279)
Repayment of real estate loan receivable	6,717	1,507
Issuance of note receivable	(20,385)	—
Repayment of note receivable	—	16,423
Leasing commissions	(664)	(552)
Lease inducements	—	(2,050)
Net cash used in investing activities	(106,422)	(163,747)
Cash Flows from Financing Activities:		
Net proceeds from sale of common shares	5,316	301,572
Proceeds from credit facility borrowings	166,000	128,000
Payment on credit facility borrowings	(24,000)	(529,000)
Proceeds from issuance of senior unsecured notes	—	396,108
Principal payments on mortgage debt	(32,157)	(5,823)
Debt issuance costs	(412)	(651)
Dividends paid - shareholders	(42,251)	(30,945)
Distributions to noncontrolling interest - Operating Partnership	(1,232)	(703)
Preferred distributions paid - OP Unit holder	(81)	(480)

Contributions from noncontrolling interest	—	47
Distributions to noncontrolling interest - partially owned properties	(127)	(154)
Payments of employee taxes for withheld stock based compensation shares	(1,701)	(2,431)
Purchase of Series A Preferred Units	—	(19,961)
Purchase of OP Units	—	(3,725)
Net cash provided by financing activities	69,355	231,854
Net increase in cash and cash equivalents	3,823	101,993
Cash and cash equivalents, beginning of period	2,727	15,491
Cash and cash equivalents, end of period	$6,550	$117,484
Supplemental disclosure of cash flow information - interest paid during the period	$19,230	$10,764
Supplemental disclosure of noncash activity - change in fair value of interest rate swap agreements	$4,298	$825
Supplemental disclosure of noncash activity - assumed debt	$—	$26,379
Supplemental disclosure of noncash activity - issuance of OP Units and Series A Preferred Units in connection with acquisitions	$22,651	$44,978

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

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Physicians Realty L.P.
Consolidated Balance Sheets
(In thousands, except unit and per unit data)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Investment properties:		
Land and improvements	$214,476	$217,695
Building and improvements	3,570,056	3,568,858
Tenant improvements	19,121	23,056
Acquired lease intangibles	459,836	458,713
	4,263,489	4,268,322
Accumulated depreciation	(318,393)	(300,458)
Net real estate property	3,945,096	3,967,864
Real estate held for sale	93,289	—
Real estate loans receivable	71,529	76,195
Investments in unconsolidated entities	1,331	1,329
Net real estate investments	4,111,245	4,045,388
Cash and cash equivalents	6,550	2,727
Tenant receivables, net	4,293	9,966
Other assets	134,919	106,302
Total assets	$4,257,007	$4,164,383
LIABILITIES AND CAPITAL		
Liabilities:		
Credit facility	$466,828	$324,394
Notes payable	966,387	966,603
Mortgage debt	154,373	186,471
Accounts payable	2,562	11,023
Dividends and distributions payable	43,388	43,804
Accrued expenses and other liabilities	56,706	56,405
Acquired lease intangibles, net	15,767	15,702
Total liabilities	1,706,011	1,604,402
Redeemable noncontrolling interest - Series A Preferred Units (2018) and partially owned properties	23,736	12,347
Capital:		
Partners' capital:		
General partners' capital, 181,943,725 and 181,440,051 units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	2,434,864	2,459,220
Limited partners' capital, 5,464,217 and 5,364,632 units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	73,527	73,844
Accumulated other comprehensive income	18,250	13,952
Total partners' capital	2,526,641	2,547,016
Noncontrolling interest - partially owned properties	619	618
Total capital	2,527,260	2,547,634
Total liabilities and capital	$4,257,007	$4,164,383

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

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Physicians Realty L.P.
Consolidated Statements of Income
(In thousands, except unit and per unit data) (Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Rental revenues	$78,887	$ 59,092
Expense recoveries	24,308	16,354
Interest income on real estate loans and other	2,028	1,220
Total revenues	105,223	76,666
Expenses:		
Interest expense	16,494	9,815
General and administrative	8,459	4,736
Operating expenses	30,459	22,089
Depreciation and amortization	38,576	27,933
Acquisition expenses	—	5,405
Total expenses	93,988	69,978
Income before equity in income of unconsolidated entities and gain on sale of investment properties:	11,235	6,688
Equity in income of unconsolidated entities	28	28
Gain on sale of investment properties	69	—
Net income	11,332	6,716
Net income attributable to noncontrolling interests - partially owned properties (1)	(111)	(167)
Net income attributable to controlling interests	11,221	6,549
Preferred distributions	(487)	(211)
Net income attributable to common unitholders	$10,734	$ 6,338
Net income per common unit:		
Basic	$0.06	$ 0.04
Diluted	$0.06	$ 0.04
Weighted average common units:		
Basic	187,264,064	142,172,746
Diluted	187,317,243	142,605,930
Distributions declared per common unit	$0.230	$ 0.225

(1) An adjustment of $0.1 million was required for net income attributable to redeemable noncontrolling interests for the three months ended March 31, 2018 and March 31, 2017.

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

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Physicians Realty L.P.
Consolidated Statements of Comprehensive Income
(In thousands) (Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	$11,332	$6,716
Other comprehensive income:		
Change in fair value of interest rate swap agreements	4,298	825
Total other comprehensive income	4,298	825
Comprehensive income	15,630	7,541
Comprehensive income attributable to noncontrolling interests - partially owned properties	(111)	(167)
Comprehensive income attributable to common unitholders	$15,519	$7,374

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

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

	General Partner	Limited Partner	Accumulated Other Comprehensive Income	Total Partners' Capital	Partially Owned Properties Noncontrolling Interest	Total Partners' Capital
Balance at January 1, 2018	2,459,220	73,844	13,952	2,547,016	618	2,547,634
Net proceeds from sale of common shares	5,316	—	—	5,316	—	5,316
Restricted share award grants, net	933	—	—	933	—	933
Conversion of OP Units	126	(126)	—	—	—	—
OP Units - distributions	(41,910)	(1,216)	—	(43,126)	—	(43,126)
Preferred distributions	(487)	—	—	(487)	—	(487)
Distributions	—	—	—	—	(43)	(43)
Change in market value of Redeemable Limited Partners	194	—	—	194	—	194
Buyout of Noncontrolling Interest - partially owned properties	1,276	—	—	1,276	—	1,276
Change in fair value of interest rate swap agreements	—	—	4,298	4,298	—	4,298
Net income	10,908	313	—	11,221	44	11,265
Adjustments for Limited Partners ownership in Operating Partnership	(712)	712	—	—	—	—
Balance at March 31, 2018	$ 2,434,864	$ 73,527	$ 18,250	$ 2,526,641	$ 619	$ 2,527,260

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

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

	Three Months Ended March 31,	
	2018	**2017**
Cash Flows from Operating Activities:		
Net income	$ 11,332	$ 6,716
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	38,576	27,933
Amortization of deferred financing costs	618	549
Amortization of lease inducements and above/below-market lease intangibles	1,190	1,307
Straight-line rental revenue/expense	(6,450)	(4,508)
Amortization of discount on unsecured senior notes	142	20
Amortization of above market assumed debt	(16)	(59)
Gain on sale of investment properties	(69)	—
Equity in income of unconsolidated entities	(28)	(28)
Distributions from unconsolidated entities	26	55
Change in fair value of derivative	2	165
Provision for bad debts	(141)	(127)
Non-cash share compensation	2,605	1,490
Net change in fair value of contingent consideration	—	(70)
Change in operating assets and liabilities:		
Tenant receivables	5,437	2,703
Other assets	(222)	(287)
Accounts payable	(8,461)	(1,297)
Accrued expenses and other liabilities	(3,651)	(676)
Net cash provided by operating activities	40,890	33,886
Cash Flows from Investing Activities:		
Proceeds on sales of investment properties	2,440	—
Acquisition of investment properties, net	(84,202)	(174,737)
Escrowed cash - acquisition deposits / earnest deposits	(2,720)	1,375
Capital expenditures on existing investment properties	(5,608)	(3,434)
Issuance of real estate loans receivable	(2,000)	(2,279)
Repayment of real estate loan receivable	6,717	1,507
Issuance of note receivable	(20,385)	—
Repayment of note receivable	—	16,423
Leasing commissions	(664)	(552)
Lease inducements	—	(2,050)
Net cash used in investing activities	(106,422)	(163,747)
Cash Flows from Financing Activities:		
Net proceeds from sale of common shares	5,316	301,572
Proceeds from credit facility borrowings	166,000	128,000
Payment on credit facility borrowings	(24,000)	(529,000)
Proceeds from issuance of senior unsecured notes	—	396,108
Principal payments on mortgage debt	(32,157)	(5,823)
Debt issuance costs	(412)	(651)
OP Unit distributions - General Partner	(42,251)	(30,945)
OP Unit distributions - Limited Partner	(1,232)	(703)

Preferred OP Units distributions - Limited Partner	(81)	(480)
Contributions from noncontrolling interest	—	47
Distributions to noncontrolling interest - partially owned properties	(127)	(154)
Payments of employee taxes for withheld stock based compensation shares	(1,701)	(2,431)
Purchase of Series A Preferred Units	—	(19,961)
Purchase of Limited Partner Units	—	(3,725)
Net cash provided by financing activities	69,355	231,854
Net increase in cash and cash equivalents	3,823	101,993
Cash and cash equivalents, beginning of period	2,727	15,491
Cash and cash equivalents, end of period	$ 6,550	$ 117,484
Supplemental disclosure of cash flow information - interest paid during the period	$ 19,230	$ 10,764
Supplemental disclosure of noncash activity - change in fair value of interest rate swap agreements	$ 4,298	$ 825
Supplemental disclosure of noncash activity - assumed debt	$ —	$ 26,379
Supplemental disclosure of noncash activity - issuance of OP Units and Series A Preferred Units in connection with acquisitions	$ 22,651	$ 44,978

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

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

Unless otherwise indicated or unless the context requires otherwise the use of the words "we," "us," "our," and the "Company," refer to Physicians Realty Trust, together with its consolidated subsidiaries, including Physicians Realty L.P.

Note 1. Organization and Business

Physicians Realty Trust (the "Trust") was organized in the state of Maryland on April 9, 2013. As of March 31, 2018, 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., a Delaware limited partnership, (the "Operating Partnership"), and is the sole general partner of the Operating Partnership. The Trust and the Operating Partnership are managed and operated as one entity. The Trust has no significant assets other than its investment in the Operating Partnership. The Trust's operations are conducted through the Operating Partnership and wholly-owned and majority-owned subsidiaries of the Operating Partnership. The Trust, as the general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities, and results of operations of the Operating Partnership. Therefore, the assets and liabilities of the Trust and the Operating Partnership are the same.

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

ATM Program

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

During the quarterly period ended March 31, 2018, the Trust sold 311,786 common shares pursuant to the ATM Program, at a weighted average price of $17.85 per share, resulting in total net proceeds of approximately $5.5 million.

As of April 30, 2018, the Trust has $168.2 million remaining available under the ATM Program.

Note 2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods ended March 31, 2018 and 2017 pursuant

to the instructions to Form 10-Q and Article 10 of Regulation S-X. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited financial statements included in the Trust's and the Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Commission on March 1, 2018.

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Principles of Consolidation

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

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

Noncontrolling Interests

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

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

Noncontrolling interests in the Company include OP Units held by other investors. As of March 31, 2018, the Trust held a 97.1% interest in the Operating Partnership. As the sole general partner and the majority interest holder, the Trust consolidates the financial position and results of operations of the Operating Partnership.

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

Partially Owned Properties: The Trust and Operating Partnership reflect noncontrolling interests in partially owned properties on the balance sheet for the portion of consolidated properties that are not wholly owned by the Company.

The earnings or losses from those properties attributable to the noncontrolling interests are reflected as noncontrolling interests in partially owned properties in the consolidated statements of income.

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

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

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

On January 9, 2018, the acquisition of the HealthEast Clinic & Specialty Center ("Hazelwood Medical Commons") was partially funded with the issuance of 104,172 Series A Preferred Units with a value of $22.7 million. Due to the redemption rights associated with the Series A Preferred Units the Trust classifies the Series A Preferred Units in the mezzanine section of its consolidated balance sheet. As of March 31, 2018, the value of the embedded derivative is $3.8 million and is classified in accrued expenses and other liabilities on the consolidated balance sheet.

As of March 31, 2018, there were 104,172 Series A Preferred Units outstanding.

In connection with the acquisition of a medical office portfolio in Minnesota (the "Minnesota portfolio"), the Trust received a $5 million equity investment from a third party, effective March 1, 2015. This investment earns a 15% cumulative preferred return. At any point subsequent to the third anniversary of the investment, the holder can require the Trust to redeem the instrument at a price for which the investor will realize a 15% internal rate of return. Due to the redemption provision, which is outside of the control of the Trust, the Trust classifies the investment in the mezzanine section of its consolidated balance sheet. The Trust records the carrying amount of the redeemable noncontrolling interests at the greater of the carrying value or redemption value. As of March 1, 2018, holders redeemed a portion of their noncontrolling interest for $6.4 million.

In connection with the acquisition on December 29, 2015 of a medical office building located on the campus of the Great Falls Clinic and Hospital in Great Falls, Montana, physicians affiliated with the seller retained a noncontrolling interest which may, at the holders' option, be redeemed at any time. Due to the redemption provision, which is outside of the control of the Trust, the Trust classifies the investment in the mezzanine section of its consolidated balance sheet. The Trust records the carrying amount of the redeemable noncontrolling interests at the greater of the carrying value or redemption value.

Dividends and Distributions

On March 23, 2018, the Trust announced that its Board of Trustees authorized and the Trust declared a cash dividend of $0.23 per common share for the quarterly period ended March 31, 2018. The distribution was paid on April 18,

2018 to common shareholders and OP Unit holders of record as of the close of business on April 3, 2018.

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

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

Tax Status of Dividends and Distributions

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

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

Purchases of Investment Properties

With the adoption of ASU 2017-01 in January 2018 we expect the majority of our future investments in real estate investments will be accounted for as asset acquisitions and to record the purchase price to tangible and intangible assets and liabilities based on their relative fair values. Tangible assets primarily consist of land and buildings and improvements. Additionally, the purchase price includes acquisition related expenses, above- or below-market leases, in place leases, above- or below-market debt assumed, and any contingent consideration recorded when the contingency is resolved. The determination of the fair value requires us to make certain estimates and assumptions.

The determination of fair value involves the use of significant judgment and estimation. The Company makes estimates of the fair value of the tangible and intangible acquired assets and assumed liabilities using information obtained from multiple sources as a result of pre-acquisition due diligence and generally includes the assistance of a third party appraiser. The Company estimates the fair value of an acquired asset on an "as-if-vacant" basis and its value is depreciated in equal amounts over the course of its estimated remaining useful life. The Company determines the allocated value of other fixed assets, such as site improvements, based upon the replacement cost and depreciates such value over the assets' estimated remaining useful lives as determined at the applicable acquisition date. The fair value of land is determined either by considering the sales prices of similar properties in recent transactions or based on internal analyses of recently acquired and existing comparable properties within the Company's portfolio.

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

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

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

Based on these estimates, the Company recognizes the acquired assets and assumed liabilities at their estimated fair values, which are generally determined using Level 3 inputs, such as market rental rates, capitalization rates, discount rates, or other available market data. Initial valuations are subject to change until the information is finalized, no later than 12 months from the acquisition date.

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Impairment of Intangible and Long-Lived Assets

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

The Company did not record any impairment charges in the three month periods ended March 31, 2018 and 2017.

Assets Held for Sale

The Company may sell properties from time to time for various reasons, including favorable market conditions. The Company classifies certain long-lived assets as held for sale once the criteria, as defined by GAAP, has been met. The Company classifies a real estate property, or portfolio, as held for sale when: (i) management has approved the disposal, (ii) the property is available for sale in its present condition, (iii) an active program to locate a buyer has been initiated, (iv) it is probable that the property will be disposed of within one year, (v) the property is being marketed at a reasonable price relative to its fair value, and (vi) it is unlikely that the disposal plan will significantly change or be withdrawn. Following the classification of a property as “held for sale,” no further depreciation is recorded on the assets, and the asset is written down to the lower of carrying value or fair market value, less cost to sell. As of March 31, 2018, the Company classified one disposition group as held for sale which includes 15 medical office buildings.

Investments in Unconsolidated Entities

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

Real Estate Loans Receivable

Real estate loans receivable consists of ten mezzanine loans and two term loans as of March 31, 2018. Generally, each mezzanine loan is collateralized by an ownership interest in the respective borrower, while each term loan is secured by a mortgage of a related medical office building. Interest income on the loans is recognized as earned based on the terms of the loans, subject to evaluation of collectability risks, and is included in the Company’s consolidated statements of income. On a quarterly basis, the Company evaluates the collectability of its loan portfolio, including related interest income receivable, and establishes a reserve for loan losses, if necessary. No such losses have been recognized to date.

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, excluding assets classified as held for sale, net of related allowances, are included in other assets and were approximately $51.0 million and $47.6 million as of March 31, 2018 and December 31, 2017, respectively. If the Company determines that collectability of straight-line rents is not reasonably assured, the Company limits future recognition to amounts contractually owed and, where appropriate, establishes an allowance for estimated losses. Allowance for doubtful accounts was approximately $0.3 million and $4.9 million as of March 31, 2018 and December 31, 2017, respectively. Rental revenue is adjusted by amortization of lease inducements and above or below market rents on certain leases. Lease inducements and above or below market rents are amortized over the remaining life of the lease.

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Expense Recoveries

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

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

Derivative Instruments

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

To manage interest rate risk for certain of its variable-rate debt, the Company uses interest rate swaps as part of its risk management strategy. These derivatives are designed to mitigate the risk of future interest rate increases by providing a fixed interest rate for a limited, pre-determined period of time. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of March 31, 2018, the Company had five outstanding interest rate swap contracts that are designated as cash flow hedges of interest rate risk. For presentational purposes, they are shown as one derivative due to the identical nature of their economic terms. Further detail is provided in Note 7 (Derivatives).

The effective portion of the change in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (“AOCI”) on the consolidated balance sheets and is subsequently reclassified into earnings as interest expense for the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. For the three months ended March 31, 2018, hedge ineffectiveness was insignificant. For the three months ended March 31, 2017, the Company recorded a $0.2 million loss as a result of hedge ineffectiveness. The Company expects hedge ineffectiveness to be insignificant in the next 12 months.

Income Taxes

The Trust elected to be taxed as a REIT for federal tax purposes commencing with the filing of its tax return for the short taxable year ending December 31, 2013. The Trust had no taxable income prior to electing REIT status. To qualify as a REIT, the Trust must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its shareholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Trust generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its shareholders. If the Trust fails to qualify as a REIT in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular

corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the Internal Revenue Service grants the Trust relief under certain statutory provisions. Such an event could materially adversely affect the Trust's net income and net cash available for distribution to shareholders. However, the Trust intends to continue to operate in such a manner as to continue qualifying for treatment as a REIT. Although the Trust continues to qualify for taxation as a REIT, in various instances, the Trust is subject to state and local taxes on its income and property, and federal income and excise taxes on its undistributed income.

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

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Tenant Receivables, Net

Tenant accounts receivable are stated net of the applicable allowance. Rental payments under these contracts are primarily due monthly. The Company assesses the collectability of tenant receivables, including straight-line rent receivables, and defers recognition of revenue if collectability is not reasonably assured. The Company bases its assessment of the collectability of rent receivables on several factors, including, among other things, payment history, the financial strength of the tenant, and current economic conditions. If management's evaluation of these factors indicates it is probable that the Company will be unable to recover the full value of the receivable, the Company provides a reserve against the portion of the receivable that it estimates may not be recovered. At March 31, 2018 and December 31, 2017, the allowance for doubtful accounts was $0.8 million and $1.6 million, respectively.

Management Estimates

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

Contingent Liabilities

Certain of our acquisitions provide for additional consideration to the seller in the form of an earn-out associated with lease-up contingencies. The Company recognizes the contingent liabilities only if certain parameters or other substantive contingencies are met, at which time the consideration becomes payable. Resolved contingent liabilities increase our acquired assets, and reduce our liability.

In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*, which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. Prior to January 1, 2018, the Company recorded certain contingent liabilities which are included in accrued expenses and other liabilities on its consolidated balance sheets. These were recorded at fair value as of the acquisition date and until they expire, the Company reassesses the fair value at the end of each reporting period, with any changes being recognized in earnings.

Reclassifications

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

Segment Reporting

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

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which creates a new Topic, Accounting Standards Codification Topic 606. The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company

expects to be entitled in exchange for those goods or services. We adopted ASU 2014-09 as of January 1, 2018 under the modified retrospective approach. Based on our assessment, we have identified all of our revenue streams and concluded rental income from leasing arrangements represents a substantial portion of our revenue. Income from leasing arrangements is specifically excluded from Topic 606 and will be evaluated with the anticipated adoption of ASU 2016-02, *Leases*. Therefore, the impact of adopting ASU 2014-09 was minimal on our current recognition and presentation of non-lease revenue. Upon adoption of ASU 2016-02, Topic 606 may apply to executory costs and other components of revenue due under leases that are deemed to be non-lease components (such as common area maintenance and other reimbursement revenue), even when the revenue for such activities is not separately stipulated in the lease. In that case, the revenue from these items previously recognized on a straight-line basis under the current lease guidance would be recognized under the new revenue guidance as the related services are delivered.

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In February 2016, the FASB issued ASU 2016-02, *Leases*. The update amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The standard provides the option of a modified retrospective transition approach or a cumulative effect for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The FASB also issued an Exposure Draft on January 5, 2018 proposing to amend ASU 2016-02, which would provide lessors with a practical expedient, by class of underlying assets, to not separate non-lease components from the related lease components and, instead, to account for those components as a single lease component, if certain criteria are met. ASU 2016-02 and the related Exposure Draft are not effective for us until January 1, 2019, with early adoption permitted. We are continuing to evaluate this guidance and the impact to us, as both lessor and lessee, on our Consolidated Financial Statements. We expect to utilize the practical expedients proposed in the Exposure Draft as part of our adoption of ASU 2016-02. As a result of adopting the practical expedients, the Company will recognize all of its operating leases for which it is the lessee, including ground leases, on its consolidated balance sheets. The Company is evaluating the impact of the adoption of ASU 2016-02 on January 1, 2019 to its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses,* which changes the impairment model for most financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the other-than-temporary impairment model. ASU 2016-13 will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures (e.g., loan commitments). ASU 2016-13 is effective for reporting periods beginning after December 15, 2019, with early adoption permitted, and will be applied as a cumulative adjustment to retained earnings as of the effective date. We are currently assessing the potential effect the adoption of ASU 2016-13 will have on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, S*tatement of Cash Flows: Classification of Certain Cash Receipts and Cash Payment.* ASU 2016-15 clarifies the guidance on the classification of certain cash receipts and payments in the statement of cash flows to reduce diversity in practice with respect to: (i) debt prepayment or debt extinguishment costs; (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (iii) contingent consideration payments made after a business combination; (iv) proceeds from the settlement of insurance claims; (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions; and (viii) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Company adopted ASU 2016-15 on January 1, 2018, with no material effect on its consolidated financial statements and no adjustments made to prior periods.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*, which will require companies to include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. ASU 2016-18 will require disclosure of a reconciliation between the balance sheet and the statement of cash flows when the balance sheet includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. An entity with material restricted cash and restricted cash equivalents balances will be required to disclose the nature of the restrictions. ASU 2016-18 is effective for reporting periods beginning after December 15, 2017, and is required to be applied retrospectively to all periods presented. The Company adopted ASU 2016-18 on January 1, 2018, with no material effect on its consolidated financial statements and no adjustments made to prior periods.

In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*, which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business.

ASU 2017-01 states that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. If this initial test is not met, a set cannot be considered a business unless it includes an acquired input and a substantive process that together significantly contribute to the ability to create outputs. In addition, ASU 2017-01 clarifies the requirements for a set of activities to be considered a business and narrows the definition of an output. This ASU is to be applied prospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company adopted ASU 2017-01 on January 1, 2018 and as a result, have classified our real estate acquisitions completed during the three months ended March 31, 2018 as asset acquisitions rather than business combinations due to the fact that substantially all of the fair value of the gross assets acquired were concentrated in a single asset or group of similar identifiable assets. The Company has recorded identifiable assets acquired, liabilities assumed and any noncontrolling interests associated with any asset acquisitions at cost on a relative fair value basis and has capitalized transaction costs incurred.

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In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*, which expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. It also includes certain targeted improvements to simplify the application of current guidance related to hedge accounting. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently in the process of evaluating the effects this standard will have on its consolidated financial statements.

Note 3. Acquisitions and Dispositions

During the three months ended March 31, 2018, the Company completed acquisitions of 2 operating healthcare properties and 1 land parcel located in 3 states for an aggregate purchase price of approximately $99.4 million. In addition, the Company completed a noncontrolling interest buyout for $6.4 million and a $2.0 million loan transaction, resulting in total investment activity of approximately $107.8 million.

Effective January 1, 2018, with our adoption of ASU 2017-01, transaction costs incurred for asset acquisitions are capitalized as a component of purchase price and all other non-capitalizable costs are reflected in “Operating Expenses” on our consolidated statement of operations. Certain acquisitions that occurred prior to January 1, 2018, were accounted for as business combinations.

Investment activity for the three months ended March 31, 2018 is summarized below:

Property		Location	Acquisition Date	Purchase Price (in thousands)
Hazelwood Medical Commons	(1)	Maplewood, MN	January 9, 2018	$ 70,702
Lee's Hill Medical Plaza		Fredericksburg, VA	January 23, 2018	28,000
Scottsdale, Arizona Land	(2)	Scottsdale, AZ	February 16, 2018	700
Loan Investment	(3)	Pensacola, FL	February 16, 2018	2,000
Noncontrolling Interest Buyout - Minnesota portfolio	(4)		March 1, 2018	6,406
				$ 107,808

(1) The Company partially funded the purchase price of this acquisition by issuing a total of 104,172 Series A Preferred Units valued at approximately $22.7 million in the aggregate on the date of issuance.
(2) The Company acquired the land beneath a previously acquired facility.
(3) Has an interest rate of 8.9%.
(4) The Company acquired an additional 4.2% interest in the Minnesota portfolio joint venture, increasing the Company’s total interest in the joint venture to 99.6%.

For the three months ended March 31, 2018, the Company recorded revenues and net income from its 2018 acquisitions of $1.9 million and $0.6 million, respectively.

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

Land	$7,684
Building and improvements	82,180
In-place lease intangible	13,202
Above market in-place lease intangible	969
Below market in-place lease intangible	(959)
Prepaid Expenses	(2,628)
Issuance of Series A Preferred Units	(22,651)
Net assets acquired	$77,797

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Dispositions

During the three months ended March 31, 2018, the Company sold two medical office buildings located in Michigan and Florida for approximately $2.5 million and recognized a net gain on the sale of approximately $0.1 million.

The following table summarizes revenues and net income related to the two disposed properties for the periods presented (in thousands):

	Three Months Ended March 31,	
	2018	2017
Revenues	$48	$142
Income (loss) before gain on sale of investment properties:	(46)	29
Gain on sale of investment properties, net	69	—
Net income	$23	$29

Assets Held for Sale

As of March 31, 2018, the Company classified one portfolio comprised of 15 properties, as held for sale. In accordance with this classification, the following assets are classified as held for sale in the accompanying consolidated balance sheets at March 31, 2018.

Land and improvements	$10,166
Building and improvements	80,517
Tenant improvements	6,046
Acquired lease intangibles	12,967
Other Assets	3,898
Real estate held for sale before accumulated deprecation	113,594
Accumulated depreciation	(20,305)
Real estate held for sale	$93,289

Unaudited Pro Forma Financial Information

Physicians Realty Trust

The following table illustrates the pro forma consolidated revenue, net income, and earnings per share as if the Company had acquired the 2018 acquisitions as of January 1, 2017 (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2018	2017
Revenue	$106,047	$ 79,183
Net income	12,009	7,298
Net income available to common shareholders	11,065	6,756
Earnings per share - basic	$0.06	$ 0.04
Earnings per share - diluted	$0.06	$ 0.04
Weighted average number of shares outstanding - basic	181,809,570	181,809,570
Weighted average number of shares outstanding - diluted	187,317,243	187,317,243

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Physicians Realty L.P.

The following table illustrates the pro forma consolidated revenue, net income, and earnings per unit as if the Company had acquired the 2018 acquisitions as of January 1, 2017 (in thousands, except unit and per unit amounts):

	Three Months Ended March 31,	
	2018	2017
Revenue	$106,047	$ 79,183
Net income	12,009	7,298
Net income available to common unitholders	11,411	6,920
Earnings per unit - basic	$0.06	$ 0.04
Earnings per unit - diluted	$0.06	$ 0.04
Weighted average number of units outstanding - basic	187,264,064	187,264,064
Weighted average number of units outstanding - diluted	187,317,243	187,317,243

Note 4. Intangibles

The following is a summary of the carrying amount of intangible assets and liabilities, excluding 15 assets classified as held for sale, as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Assets						
In-place leases	$345,495	$(90,633)	$254,862	$343,429	$(85,424)	$258,005
Above-market leases	53,205	(12,680)	40,525	54,148	(11,968)	42,180
Leasehold interest	712	(198)	514	712	(183)	529
Below-market ground leases	60,424	(1,588)	58,836	60,424	(1,344)	59,080
Total	$459,836	$(105,099)	$354,737	$458,713	$(98,919)	$359,794
Liabilities						
Below-market leases	$15,225	$(5,261)	$9,964	$14,344	$(4,479)	$9,865
Above-market ground leases	5,965	(162)	5,803	5,965	(128)	5,837
Total	$21,190	$(5,423)	$15,767	$20,309	$(4,607)	$15,702

The following is a summary of the acquired lease intangible amortization for the three month periods ended March 31, 2018 and 2017, respectively (in thousands):

	Three Months Ended March 31,	
	2018	2017
Amortization expense related to in-place leases	$11,002	$8,740
Decrease of rental income related to above-market leases	1,480	1,389
Decrease of rental income related to leasehold interest	15	14
Increase of rental income related to below-market leases	843	569
Decrease of operating expense related to above-market ground leases	35	8
Increase in operating expense related to below-market ground leases	244	185

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Future aggregate net amortization of the acquired lease intangibles as of March 31, 2018, is as follows (in thousands):

	Net Decrease in Revenue	Net Increase in Expenses
2018	$ (2,267)	$ 30,661
2019	(3,219)	