Physicians Realty Trust
Form 10-Q
November 03, 2017
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doc:condominium_units doc:acquisitions doc:segment utreg:sqft

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 September 30, 2017

or

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

For the transition period from to

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

PHYSICIANS REALTY TRUST
PHYSICIANS REALTY L.P.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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 o No ý

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 the Registrant’s common shares outstanding as ofOctober 31, 2017 was 179,218,618.

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q combines the Quarterly Reports on Form 10-Q for the quarter ended September 30, 2017 of Physicians Realty Trust (the "Trust"), a Maryland real estate investment trust, and Physicians Realty L.P. (the "Operating Partnership"), a Delaware limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this report to "we," "us," "our," 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. As of October 31, 2017, no Series A Preferred Units are outstanding.

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

The Trust conducts substantially all of its operations through the Operating Partnership. As of September 30, 2017, 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 September 30, 2017

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, property performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as “believe,” “expect,” “outlook,” “continue,” “project,” “may,” “will,” “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 or increases in interest rates;
- fluctuations or increases in operating costs;
- the availability, terms and deployment of debt and equity capital, including our unsecured revolving credit facility;
- our ability to make distributions on our common shares;
- general volatility of the market price of our common shares;
- our increased vulnerability economically due to the concentration of our investments in healthcare properties;
- our geographic concentration in Texas causes us to be particularly exposed to downturns in the Texas economy or other changes in Texas market conditions;
- changes in our business or strategy;
- our dependence upon key personnel whose continued service is not guaranteed;

- our ability to identify, hire and retain highly qualified personnel in the future;
- the degree and nature of our competition;
- changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs, and similar matters;
- defaults on or non-renewal of leases by tenants;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying healthcare properties to acquire and completing acquisitions;

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

- the number of our common shares available for future issuance or sale;
- our issuance of equity securities or the perception that such issuance might occur;
- future debt;
- failure of securities analysts to publish research or reports about us or our industry; and
- securities analysts' downgrade of our common shares or the healthcare-related real estate sector.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes after the date of this report, except as required by applicable law. You should not place undue reliance on any forward-looking statements that are based on information currently available to us or the third parties making the forward-looking statements. For a further discussion of these and other factors that could impact our future results, performance or transactions, see Part II, Item 1A (Risk Factors) of this report, Part I, Item 1A (Risk Factors) of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "2016 Annual Report"), and Part II, Item 1A (Risk Factors) of our Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2017 (the "First Quarterly Report"), and June 30, 2017 (the "Second Quarterly Report", and together with the First Quarterly Report, the "2017 Quarterly Reports").

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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)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Investment properties:		
Land and improvements	$204,305	$189,759
Building and improvements	3,255,900	2,402,643
Tenant improvements	20,786	14,133
Acquired lease intangibles	402,608	301,462
	3,883,599	2,907,997
Accumulated depreciation	(263,497)	(181,785)
Net real estate property	3,620,102	2,726,212
Real estate loans receivable	78,944	39,154
Investment in unconsolidated entities	2,232	2,258
Net real estate investments	3,701,278	2,767,624
Cash and cash equivalents	4,924	15,491
Tenant receivables, net	8,389	9,790
Other assets	123,909	95,187
Total assets	$3,838,500	$2,888,092
LIABILITIES AND EQUITY		
Liabilities:		
Credit facility	$382,960	$643,742
Notes payable	619,793	224,330
Mortgage debt	169,464	123,083
Accounts payable	6,590	4,423
Dividends and distributions payable	43,452	32,179
Accrued expenses and other liabilities	51,421	42,287
Acquired lease intangibles, net	15,680	9,253
Total liabilities	1,289,360	1,079,297
Redeemable noncontrolling interest - Series A Preferred Units (2016) and partially owned properties	10,919	26,477
Equity:		
Common shares, $0.01 par value, 500,000,000 common shares authorized, 179,208,786 and 135,966,013 common shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	1,792	1,360
Additional paid-in capital	2,732,121	1,920,644
Accumulated deficit	(282,019)	(197,261)
Accumulated other comprehensive income	12,012	13,708
Total shareholders' equity	2,463,906	1,738,451
Noncontrolling interests:		
Operating Partnership	73,688	43,142
Partially owned properties	627	725

Total noncontrolling interests	74,315	43,867
Total equity	2,538,221	1,782,318
Total liabilities and equity	$3,838,500	$2,888,092

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenues	$69,408	$ 53,327	$186,515	$ 130,378
Expense recoveries	21,102	14,361	53,564	31,816
Interest income on real estate loans and other	2,489	2,322	6,185	5,166
Total revenues	92,999	70,010	246,264	167,360
Expenses:				
Interest expense	11,998	7,300	33,285	15,776
General and administrative	5,860	4,917	16,845	13,964
Operating expenses	27,471	19,159	70,079	43,994
Depreciation and amortization	32,975	23,969	89,031	59,778
Acquisition expenses	2,184	4,398	12,831	11,031
Total expenses	80,488	59,743	222,071	144,543
Income before equity in income of unconsolidated entities and gain on sale of investment properties:	12,511	10,267	24,193	22,817
Equity in income of unconsolidated entities	28	27	85	85
Gain on sale of investment properties	—	—	5,308	—
Net income	12,539	10,294	29,586	22,902
Net income attributable to noncontrolling interests:				
Operating Partnership	(362)	(255)	(823)	(629)
Partially owned properties (1)	(53)	(176)	(379)	(553)
Net income attributable to controlling interests	12,124	9,863	28,384	21,720
Preferred distributions	(106)	(436)	(505)	(1,421)
Net income attributable to common shareholders:	$12,018	$ 9,427	$27,879	$ 20,299
Net income per share:				
Basic	$0.07	$ 0.07	$0.18	$ 0.17
Diluted	$0.07	$ 0.07	$0.18	$ 0.16
Weighted average common shares:				
Basic	177,847,424	134,608,396	157,542,167	122,973,862
Diluted	183,298,145	138,880,787	162,480,918	127,395,989
Dividends and distributions declared per common share and OP Unit	$0.230	$ 0.225	$0.685	$ 0.675

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$12,539	$10,294	$29,586	$22,902
Other comprehensive income:				
Change in fair value of interest rate swap agreements	(916)	652	(1,696)	652
Total other comprehensive income	(916)	652	(1,696)	652
Comprehensive income	11,623	10,946	27,890	23,554
Comprehensive income attributable to noncontrolling interests - Operating Partnership	(339)	(272)	(774)	(646)
Comprehensive income attributable to noncontrolling interests - partially owned properties	(53)	(176)	(379)	(553)
Comprehensive income attributable to common shareholders	$11,231	$10,498	$26,737	$22,355

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

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

	Par Value	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Operating Partnership Noncontrolling Interest	Partially Owned Properties Noncontrolling Interest	Total Noncontrolling Interests	Total Equity
Balance at January 1, 2017	$ 1,360	$ 1,920,644	$ (197,261)	$ 13,708	$ 1,738,451	$ 43,142	$ 725	$ 43,867	$ 1,782,318
Net proceeds from sale of common shares	430	804,023	—	—	804,453	—	—	—	804,453
Restricted share award grants, net	2	2,391	(473)	—	1,920	—	—	—	1,920
Purchase of OP Units	—	—	—	—	—	(3,757)	—	(3,757)	(3,757)
Conversion of OP Units	—	783	—	—	783	(783)	—	(783)	—
Dividends/distributions declared	—	—	(112,164)	—	(112,164)	(3,635)	—	(3,635)	(115,799)
Preferred distributions	—	—	(505)	—	(505)	—	—	—	(505)
Issuance of OP Units in connection with acquisitions	—	—	—	—	—	44,259	—	44,259	44,259
Contributions	—	—	—	—	—	—	47	47	47
Distributions	—	—	—	—	—	—	(266)	(266)	(266)
Buyout of Noncontrolling Interests - partially owned properties	—	(2,800)	—	—	(2,800)	719	(24)	695	(2,105)
Change in fair value of interest rate cap agreements	—	—	—	(1,696)	(1,696)	—	—	—	(1,696)
Net income	—	—	28,384	—	28,384	823	145	968	29,352
Adjustment for Noncontrolling Interests ownership in Operating Partnership	—	7,080	—	—	7,080	(7,080)	—	(7,080)	—
Balance at September 30, 2017	$ 1,792	$ 2,732,121	$ (282,019)	$ 12,012	$ 2,463,906	$ 73,688	$ 627	$ 74,315	$ 2,538,221

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

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

	Nine Months Ended September 30,	
	2017	**2016**
Cash Flows from Operating Activities:		
Net income	$ 29,586	$ 22,902
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	89,031	59,778
Amortization of deferred financing costs	1,731	1,796
Amortization of lease inducements and above/below market lease intangibles	3,780	2,994
Straight-line rental revenue/expense	(11,168)	(12,156)
Amortization of discount on unsecured senior notes	177	—
Amortization of above market assumed debt	(163)	(177)
Gain on sale of investment properties	(5,308)	—
Equity in income of unconsolidated entities	(85)	(85)
Distributions from unconsolidated entities	112	82
Change in fair value of derivative	160	(67)
Provision for bad debts	(297)	152
Non-cash share compensation	4,976	3,497
Net change in fair value of contingent consideration	4	(840)
Change in operating assets and liabilities:		
Tenant receivables	(754)	(7,543)
Other assets	(541)	(6,320)
Accounts payable	2,167	1,578
Accrued expenses and other liabilities	14,834	23,832
Net cash provided by operating activities	128,242	89,423
Cash Flows from Investing Activities:		
Proceeds on sales of investment properties	18,150	—
Acquisition of investment properties, net	(916,270)	(1,044,601)
Escrowed cash - acquisition / earnest deposits	(25,271)	—
Capital expenditures on existing investment properties	(14,819)	(8,665)
Real estate loans receivable	(38,844)	(8,153)
Repayment of note receivable	16,423	4,118
Repayment of real estate loan receivable	1,507	4,500
Leasing commissions	(1,184)	(707)
Lease inducements	(2,508)	(4,870)
Net cash used in investing activities	(962,816)	(1,058,378)
Cash Flows from Financing Activities:		
Net proceeds from sale of common shares	804,453	764,292
Proceeds from credit facility borrowings	627,000	921,000
Payment on credit facility borrowings	(889,000)	(860,000)
Proceeds from issuance of mortgage debt	61,000	21,500
Proceeds from issuance of senior unsecured notes	396,108	225,000
Principal payments on mortgage debt	(40,999)	(1,646)
Debt issuance costs	(1,129)	(4,693)
Dividends paid - shareholders	(101,846)	(74,515)
Distributions to noncontrolling interest - Operating Partnership	(3,154)	(2,410)
Preferred distributions paid - OP Unit holder	(519)	(1,115)

Contributions from noncontrolling interest	47	—
Distributions to noncontrolling interest - partially owned properties	(1,653)	(450)
Other financing activities	(2,583)	—
Purchase of Series A Preferred Units	(19,961)	(9,756)
Purchase of OP Units	(3,757)	(2,999)
Net cash provided by financing activities	824,007	974,208
Net (decrease) increase in cash and cash equivalents	(10,567)	5,253
Cash and cash equivalents, beginning of period	15,491	3,143
Cash and cash equivalents, end of period	$ 4,924	$ 8,396
Supplemental disclosure of cash flow information - interest paid during the period	$ 33,307	$ 6,971
Supplemental disclosure of noncash activity - change in fair value of interest rate swap agreements	$ (1,696)	$ 652
Supplemental disclosure of noncash activity - assumed debt	$ 26,379	$ —
Supplemental disclosure of noncash activity - issuance of OP Units in connection with acquisitions	$ 44,978	$ 6,769
Supplemental disclosure of noncash activity - contingent consideration	$ —	$ 156

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

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

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Investment properties:		
Land and improvements	$204,305	$189,759
Building and improvements	3,255,900	2,402,643
Tenant improvements	20,786	14,133
Acquired lease intangibles	402,608	301,462
	3,883,599	2,907,997
Accumulated depreciation	(263,497)	(181,785)
Net real estate property	3,620,102	2,726,212
Real estate loans receivable	78,944	39,154
Investment in unconsolidated entities	2,232	2,258
Net real estate investments	3,701,278	2,767,624
Cash and cash equivalents	4,924	15,491
Tenant receivables, net	8,389	9,790
Other assets	123,909	95,187
Total assets	$3,838,500	$2,888,092
LIABILITIES AND CAPITAL		
Liabilities:		
Credit facility	$382,960	$643,742
Notes payable	619,793	224,330
Mortgage debt	169,464	123,083
Accounts payable	6,590	4,423
Dividends and distributions payable	43,452	32,179
Accrued expenses and other liabilities	51,421	42,287
Acquired lease intangibles, net	15,680	9,253
Total liabilities	1,289,360	1,079,297
Redeemable noncontrolling interest - Series A Preferred Units (2016) and partially owned properties	10,919	26,477
Capital:		
Partners' capital:		
General partners' capital, 179,208,786 and 135,966,013 units issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	2,451,894	1,724,743
Limited partners' capital, 5,379,981 and 3,436,207 units issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	73,688	43,142
Accumulated other comprehensive income	12,012	13,708
Total partners' capital	2,537,594	1,781,593
Noncontrolling interest - partially owned properties	627	725
Total capital	2,538,221	1,782,318
Total liabilities and capital	$3,838,500	$2,888,092

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenues	$ 69,408	$ 53,327	$ 186,515	$ 130,378
Expense recoveries	21,102	14,361	53,564	31,816
Interest income on real estate loans and other	2,489	2,322	6,185	5,166
Total revenues	92,999	70,010	246,264	167,360
Expenses:				
Interest expense	11,998	7,300	33,285	15,776
General and administrative	5,860	4,917	16,845	13,964
Operating expenses	27,471	19,159	70,079	43,994
Depreciation and amortization	32,975	23,969	89,031	59,778
Acquisition expenses	2,184	4,398	12,831	11,031
Total expenses	80,488	59,743	222,071	144,543
Income before equity in income of unconsolidated entities and gain on sale of investment properties:	12,511	10,267	24,193	22,817
Equity in income of unconsolidated entities	28	27	85	85
Gain on sale of investment properties	—	—	5,308	—
Net income	12,539	10,294	29,586	22,902
Net income attributable to noncontrolling interests - partially owned properties (1)	(53)	(176)	(379)	(553)
Net income attributable to controlling interests	12,486	10,118	29,207	22,349
Preferred distributions	(106)	(436)	(505)	(1,421)
Net income attributable to common unitholders	$ 12,380	$ 9,682	$ 28,702	$ 20,928
Net income per common unit:				
Basic	$ 0.07	$ 0.07	$ 0.18	$ 0.17
Diluted	$ 0.07	$ 0.07	$ 0.18	$ 0.16
Weighted average common units:				
Basic	183,227,405	138,227,384	162,205,324	126,751,876
Diluted	183,298,145	138,880,787	162,480,918	127,395,989
Distributions declared per common unit	$ 0.230	$ 0.225	$ 0.685	$ 0.675

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

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$12,539	$10,294	$29,586	$22,902
Other comprehensive income:				
Change in fair value of interest rate swap agreements	(916)	652	(1,696)	652
Total other comprehensive income	(916)	652	(1,696)	652
Comprehensive income	11,623	10,946	27,890	23,554
Comprehensive income attributable to noncontrolling interests - partially owned properties	(53)	(176)	(379)	(553)
Comprehensive income attributable to common unitholders	$11,570	$10,770	$27,511	$23,001

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

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

	General Partner	Limited Partner	Accumulated Other Comprehensive Income	Total Partners' Capital	Partially Owned Properties Noncontrolling Interest	Total Partners' Capital
Balance at January 1, 2017	1,724,743	43,142	13,708	1,781,593	725	1,782,318
Net proceeds from sale of common shares	804,453	—	—	804,453	—	804,453
Restricted share award grants, net	1,920	—	—	1,920	—	1,920
Purchase of OP Units	—	(3,757)	—	(3,757)	—	(3,757)
Conversion of OP Units	783	(783)	—	—	—	—
OP Units - distributions	(112,164)	(3,635)	—	(115,799)	—	(115,799)
Preferred distributions	(505)	—	—	(505)	—	(505)
Issuance of OP Units in connection with acquisitions	—	44,259	—	44,259	—	44,259
Contributions	—	—	—	—	47	47
Distributions	—	—	—	—	(266)	(266)
Buyout of Noncontrolling Interest - partially owned properties	(2,800)	719	—	(2,081)	(24)	(2,105)
Change in fair value of interest rate cap agreements	—	—	(1,696)	(1,696)	—	(1,696)
Net income	28,384	823	—	29,207	145	29,352
Adjustments for Limited Partners ownership in Operating Partnership	7,080	(7,080)	—	—	—	—
Balance at September 30, 2017	$ 2,451,894	$ 73,688	$ 12,012	$ 2,537,594	$ 627	$ 2,538,221

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

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Physicians Realty L.P.
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(In thousands) (Unaudited)

	Nine Months Ended September 30,	
	2017	**2016**
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Net income	$ 29,586	$ 22,902
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Depreciation and amortization	89,031	59,778
Amortization of deferred financing costs	1,731	1,796
Amortization of lease inducements and above/below market lease intangibles	3,780	2,994
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Principal payments on mortgage debt	(40,999)	(1,646)
Debt issuance costs	(1,129)	(4,693)
OP Unit distributions - General Partner	(101,846)	(74,515)
OP Unit distributions - Limited Partner	(3,154)	(2,410)

Preferred OP Units distributions - Limited Partner	(519)	(1,115)
Contributions from noncontrolling interest	47	—
Distributions to noncontrolling interest - partially owned properties	(1,653)	(450)
Other financing activities	(2,583)	—
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Purchase of Limited Partner Units	(3,757)	(2,999)
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Supplemental disclosure of noncash activity - contingent consideration	$ —	$ 156

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 September 30, 2017, the Trust was authorized to issue up to 500,000,000 common shares of beneficial interest, par value $0.01 per share ("common shares"). The Trust filed a Registration Statement on Form S-11 with the Securities and Exchange Commission (the "Commission") with respect to a proposed underwritten initial public offering (the "IPO") and completed the IPO of its common shares and commenced operations on July 24, 2013.

The Trust contributed the net proceeds from the IPO to Physicians Realty L.P. (the "Operating Partnership"), and is the sole general partner of the Operating Partnership. The Trust and the Operating Partnership are managed and operated as one entity. The Trust has no significant assets other than its investment in the Operating Partnership. The Trust's operations are conducted through the Operating Partnership and wholly-owned and majority-owned subsidiaries of the Operating Partnership. The Trust, as the general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities, and results of operations of the Operating Partnership. Therefore, the assets and liabilities of the Trust and the Operating Partnership are the same.

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

Equity Offerings

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

In July 2017, the Trust completed a follow-on public offering of 21,500,000 common shares of beneficial interest, including 1,500,000 common shares issued upon partial exercise of the underwriters' option to purchase additional shares, resulting in net proceeds to it of approximately $420.7 million. The Trust contributed the net proceeds of this offering to the Operating Partnership in exchange for 21,500,000 OP Units, and the Operating Partnership used the net proceeds of the public offering to repay borrowings under its unsecured revolving credit facility and for general corporate purposes, including working capital and funding acquisitions.

ATM Program

On August 5, 2016, the Trust and the Operating Partnership entered into separate At Market Issuance Sales Agreements (the "Sales Agreements") with each of KeyBanc Capital Markets Inc., Credit Agricole Securities (USA) Inc., JMP Securities LLC, Raymond James & Associates, Inc., and Stifel Nicolaus & Company, Incorporated (the "Agents"), pursuant to which the Trust may issue and sell, from time to time, its common shares having an aggregate offering price of up to $300 million, through the Agents (the "ATM Program"). In accordance with the Sales

Agreements, the Trust may offer and sell its common shares through any of the Agents, from time to time, by any method deemed to be an "at the market offering" as defined in Rule 415 under the Securities Act of 1933, as amended, which includes sales made directly on the New York Stock Exchange or other existing trading market, or sales made to or through a market maker. With the Trust's express written consent, sales may also be made in negotiated transactions or any other method permitted by law.

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

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

As of October 31, 2017, the Trust has $216.7 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 September 30, 2017 and 2016 pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited financial statements included in the Trust's and the Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Commission on February 24, 2017.

Principles of Consolidation

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

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

Noncontrolling Interests

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

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

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

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

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

Noncontrolling interests in the Company include OP Units held by other investors. As of September 30, 2017, 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.

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

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

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

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

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

In connection with the acquisition on December 29, 2015 of a medical office building located on the campus of the Great Falls Clinic and Hospital in Great Falls, Montana (the “Great Falls Clinic”), physicians affiliated with the seller retained a non-controlling interest which may, at the holders’ option, be redeemed at any time. Due to the redemption provision, which is outside of the control of the Trust, the Trust classifies the investment in the mezzanine section of its consolidated balance sheet. The Trust records the carrying amount of the redeemable noncontrolling interests at the greater of the carrying value or redemption value. In the three months ended September 30, 2017, Great Falls Clinic redeemed for cash $1.1 million of its non-controlling interest.

Dividends and Distributions

On September 21, 2017, the Trust announced that its Board of Trustees authorized and the Trust declared a cash dividend of $0.23 per common share for the quarterly period ended September 30, 2017. The distribution was paid on October 18, 2017 to common shareholders and OP Unit holders of record as of the close of business on October 3, 2017.

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

Our shareholders are entitled to reinvest all or a portion of any cash distribution on their 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

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

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

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

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

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

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

Impairment of Intangible and Long-Lived Assets

The Company periodically evaluates its long-lived assets, primarily consisting of investments in real estate, for impairment indicators or whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate properties in relation to the undiscounted expected future cash flows of the underlying operations. In performing this evaluation, management considers market conditions and current intentions with respect to holding or disposing of the real estate property. The Company adjusts the net book value of real estate properties to fair value if the sum of the expected future undiscounted cash flows, including sales proceeds, is less than book value. The Company recognizes an impairment loss at the time it makes any such determination. If the Company determines that an asset is impaired, the impairment to be recognized is measured as the amount by which the recorded amount of the

asset exceeds its fair value. Fair value is typically determined using a discounted future cash flow analysis or other acceptable valuation techniques, which are based, in turn, upon Level 3 inputs, such as revenue and expense growth rates, capitalization rates, discount rates, or other available market data.

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

Assets Held for Sale and Discontinued Operations

The Company may sell properties from time to time for various reasons, including favorable market conditions. The Company classifies certain long-lived assets as held for sale once the criteria, as defined by GAAP, has been met. Long-lived

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assets to be disposed of are reported at the lower of their carrying amount or fair value minus cost to sell, and are no longer depreciated. No properties were classified as held for sale as of September 30, 2017.

Investments in Unconsolidated Entities

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

Real Estate Loans Receivable

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

Cash and Cash Equivalents

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

Escrow Reserves

The Company is required to maintain various escrow reserves on certain notes payable to cover future property taxes and insurance and tenant improvements costs as defined in each loan agreement. The total reserves as of September 30, 2017 and December 31, 2016 are $1.7 million and $4.3 million, respectively, which are included in other assets in the consolidated balance sheets.

Deferred Costs

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

Rental Revenue

Rental revenue is recognized on a straight-line basis over the terms of the related leases when collectability is reasonably assured. Recognizing rental revenue on a straight-line basis for leases may result in recognizing revenue for amounts more or less than amounts currently due from tenants. Amounts recognized in excess of amounts

currently due from tenants, net of related allowances, are included in other assets and were approximately $42.5 million and $32.0 million as of September 30, 2017 and December 31, 2016, respectively. If the Company determines that collectability of straight-line rents is not reasonably assured, the Company limits future recognition to amounts contractually owed and, where appropriate, establishes an allowance for estimated losses. Allowances recognized against straight line rent were approximately $4.7 million and $0.6 million as of September 30, 2017 and December 31, 2016, respectively. Rental revenue is adjusted by amortization of lease inducements and above or below market rents on certain leases. Lease inducements and above or below market rents are amortized over the remaining life of the lease.

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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 September 30, 2017, the Company had five outstanding interest rate swap contracts that are designated as cash flow hedges of interest rate risk. For presentational purposes, they are shown as one derivative due to the identical nature of their economic terms. Further detail is provided in Note 7 (Derivatives).

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

Income Taxes

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

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

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

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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 September 30, 2017 and December 31, 2016, the allowance for doubtful accounts was $1.2 million and $2.4 million, respectively.

Management Estimates

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

Contingent Liabilities

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

Reclassifications

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

Segment Reporting

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

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which creates a new Topic, Accounting Standards Codification Topic 606. The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard is effective for interim or annual periods beginning after December 15, 2017 and allows for either full retrospective or modified retrospective adoption. Early adoption of this standard is permitted for reporting periods beginning after December 15, 2016. The Company anticipates that adoption of ASU 2014-09 will take place on January 1, 2018 via the modified retrospective approach. Under the full retrospective method, the standard would be applied retrospectively to all reporting periods represented

on the financial statements. The modified retrospective approach applies the standard in the year of initial application and presents the cumulative effect of prior periods with an adjustment to beginning retained earnings, with no restatement of comparative periods. As leasing arrangements (which are excluded from ASU 2014-09) represent the primary source of revenue for the Company, the impact of adoption will be limited to the Company's recognition and presentation of non-lease revenues, which are currently reflected as a component of other income. The Company continues to evaluate the impact of ASU 2014-09 to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. As a result of adopting ASU 2016-02, the

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Company will recognize all of its operating leases for which it is the lessee, including ground leases, on its consolidated balance sheets. The Company is evaluating the impact of the adoption of ASU 2016-02 on January 1, 2019 to its consolidated financial statements. We expect that certain executory and non-lease components, such as common area maintenance, will need to be accounted for separately from the lease component of the lease, with the lease component continuing to be recognized on a straight-line basis over the lease term. Based on current guidance within the ASU, we intend to account for the executory and non-lease components under the new revenue recognition guidance in ASU 2014-09, upon our adoption of ASU 2016-02. When the revenue for such items is not separately stipulated in the lease, we will separate the lease components of revenue due under leases from the non-lease components.

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

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business*, that clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. ASU 2017-01 will be effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. Upon adoption of ASU 2017-01, the Company anticipates it will classify most prospective real estate acquisitions as asset acquisitions, rather than business combinations, and direct acquisition costs associated with these acquisitions will be capitalized. This is due to the fact that substantially all of the fair value of the gross assets the Company acquires are concentrated in a single asset or group of similar identifiable assets.

Note 3. Acquisitions and Dispositions

During the nine months ended September 30, 2017, the Company completed acquisitions of 29 operating healthcare properties, 2 condominium units, and 1 parking deck located in 15 states for an aggregate purchase price of approximately $984.0 million. In addition, the Company completed $38.8 million of loan transactions and $3.9 million of noncontrolling interest buyouts, resulting in total investment activity of approximately $1.0 billion.

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

Property (1)		**Location**	**Acquisition Date**	**Purchase Price (in thousands)**
Clearview Cancer Institute	(2)	Huntsville, AL	August 4, 2017	$ 53,250
Northside Cherokee/Towne Lake MOB	(2)	Atlanta, GA	August 15, 2017	37,127
HonorHealth Mesa MOB	(2)	Mesa, AZ	August 15, 2017	4,800
2017 CHI Portfolio - Tranche 2 (5 MOBs)	(2)	AR, MN, NE, TX	August 24, 2017 & August 31, 2017	33,694
NCI Buyout - Great Falls Clinic	(4)	Great Falls, MT	September 21, 2017	1,061
Legends Park MOB & ASC	(2)	Midland, TX	September 27, 2017	30,000
Loan Investments	(3)	Various	Various	30,251
				$ 190,183

(1) “MOB” means medical office building and “ASC” means ambulatory surgery center.
(2)

The Company accounted for three of these facilities as asset acquisitions and capitalized total acquisition costs of $0.1 million. The remaining six facilities were accounted for as business combinations pursuant to the acquisition method, with acquisition expense totaling $2.2 million, which includes costs related to properties pursued but not acquired.

(3) Loan investments listed here include two separate transactions at a weighted average interest rate of 8.0%.

(4) The Company acquired an additional 3.2% interest in the Great Falls Clinic joint venture from the predecessor owner, increasing the Company's total interest to 85.0%.

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For the three months ended September 30, 2017, the Company recorded revenues and net income from its 2017 acquisitions of $18.5 million and $5.2 million, respectively. For the nine months ended September 30, 2017, the Company recorded revenues and net income from its 2017 acquisitions of $25.8 million and $3.0 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):

	1st Quarter	2nd Quarter	3rd Quarter	Total
Land	$14,190	$5,662	$5,004	$24,856
Building and improvements	187,239	537,952	134,305	859,496
In-place lease intangible	27,670	38,766	19,233	85,669
Above market in-place lease intangible	13,406	2,815	550	16,771
Below market in-place lease intangible	(757)	(2,097)	(705)	(3,559)
Above market in-place ground lease	—	(4,172)	(448)	(4,620)
Below market in-place ground lease	1,042	3,245	1,471	5,758
Receivables	480	(46)	—	434
Debt assumed	(26,379)	—	—	(26,379)
Issuance of OP Units	(44,978)	—	—	(44,978)
Net assets acquired	$171,913	$582,125	$159,410	$913,448

For acquisitions classified as a business combination, preliminary allocations are subject to revision within the measurement period, not to exceed one year from the date of the acquisitions.

Dispositions

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	—	425	438	1,259
Income before gain on sale of investment properties:	—	112	87	308
Gain on sale of investment properties	—	—	5,303	—
Net income	—	112	5,390	308

On August 15, 2017, the Company completed the disposition of land with a carrying value of $7.7 million in a sale-leaseback at the Peachtree Dunwoody Medical Center. The Company entered into a 90 year term ground lease at closing with all rent prepaid in consideration of the full present value of rent owed. There was no gain or loss recognized as a result of this transaction.

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Unaudited Pro Forma Financial Information

Physicians Realty Trust

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	$95,623	$ 89,349	$283,152	$ 230,026
Net income	13,174	15,799	37,179	28,509
Net income available to common shareholders	12,635	14,772	35,251	25,743
Earnings per share - basic	$0.07	$ 0.08	$0.22	$ 0.16
Earnings per share - diluted	$0.07	$ 0.08	$0.22	$ 0.16
Weighted average number of shares outstanding - basic	177,847,424	177,847,424	157,542,167	157,542,167
Weighted average number of shares outstanding - diluted	183,298,145	183,298,145	162,480,918	162,480,918

Physicians Realty L.P.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	$95,623	$ 89,349	$283,152	$ 230,026
Net income	13,174	15,799	37,179	28,509
Net income available to common unitholders	13,015	15,187	36,295	26,535
Earnings per unit - basic	$0.07	$ 0.08	$0.22	$ 0.16
Earnings per unit - diluted	$0.07	$ 0.08	$0.22	$ 0.16
Weighted average number of units outstanding - basic	183,227,405	183,227,405	162,205,324	162,205,324
Weighted average number of units outstanding - diluted	183,298,145	183,298,145	162,480,918	162,480,918

Note 4. Intangibles

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

	September 30, 2017			December 31, 2016		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Assets						
In-place leases	$301,293	$(75,354)	$225,939	$222,394	$(55,605)	$166,789
Above market leases	51,967	(10,613)	41,354	35,478	(6,909)	28,569
Leasehold interest	712	(168)	544	712	(124)	588
Below market ground leases	48,636	(1,120)	47,516	42,878	(539)	42,339
Total	$402,608	$(87,255)	$315,353	$301,462	$(63,177)	$238,285
Liabilities						
Below market leases	$13,741	$(3,933)	$9,808	$10,297	$(2,345)	$7,952

Above market ground leases	5,965	(93)	5,872	1,345	(44)	1,301
Total	$19,706	$(4,026)	$15,680	$11,642	$(2,389)	$9,253

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Amortization expense related to in-place leases	$9,453	$7,420	$26,520	$19,855
Decrease of rental income related to above-market leases	1,335	1,276	3,987	3,322
Decrease of rental income related to leasehold interest	15	15	44	45
Increase of rental income related to below-market leases	623	670	1,704	1,218
Decrease of operating expense related to above market ground leases	34	8	49	17
Increase in operating expense related to below market ground leases	208	158	581	299

For the three months ended September 30, 2017, the Company wrote-off in-place lease intangible assets of approximately $0.4 million with accumulated amortization of $0.1 million, for a net loss of approximately $0.3 million to rental income from intangible amortization.

For the nine months ended September 30, 2017, the Company wrote-off in-place lease intangible assets of approximately $3.1 million with accumulated amortization of $1.9 million as well as certain above market lease intangible assets and below market lease intangible liabilities. Intangible write-offs for the nine months ended September 30, 2017 resulted in an aggregate net loss of approximately $1.3 million to rental income from intangible amortization.

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

	Net Decrease in Revenue	Net Increase in Expenses
2017	$ (762)	$ 9,336
2018	(2,849)	34,468
2019	(2,960)	30,335
2020	(3,087)	27,858
2021	(3,206)	26,380
Thereafter	(19,226)	139,206
Total	$ (32,090)	$ 267,583

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

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Note 5. Other Assets

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

	September 30, 2017	December 31, 2016
Straight line rent receivable, net	$ 42,510	$ 32,018
Note receivable	—	16,618
Interest rate swap	12,760	13,881
Lease inducements, net	14,962	13,255
Prepaid expenses	19,858	8,928
Escrows	1,666	4,334
Leasing commissions, net	2,857	1,858
Earnest deposits	26,770	1,500
Other	2,526	2,795
Total	$ 123,909	$ 95,187

Note 6. Debt

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

	September 30, 2017		December 31, 2016	
Fixed interest mortgage notes	$ 140,971	(1)	$ 90,185	(2)
Variable interest mortgage notes	28,603	(3)	33,009	(4)
Total mortgage debt	169,574		123,194	
$850 million unsecured revolving credit facility bearing variable interest of LIBOR plus 1.20%, due September 2020	139,000		401,000	
$400 million senior unsecured notes bearing fixed interest of 4.30%, due March 2027	400,000		—	
$250 million unsecured term borrowing bearing fixed interest of 2.87%, due June 2023 (5)	250,000		250,000	
$150 million senior unsecured notes bearing fixed interest of 4.03% to 4.74%, due January 2023 to 2031	150,000		150,000	
$75 million senior unsecured notes bearing fixed interest of 4.09% to 4.24%, due August 2025 to 2027	75,000		75,000	
Total principal	1,183,574		999,194	
Unamortized deferred financing costs	(7,917	)	(8,477	)
Unamortized discount	(3,715	)	—	
Unamortized fair value adjustment	275		438	
Total debt	$ 1,172,217		$ 991,155	

(1) Fixed interest mortgage notes, bearing interest from 3.00% to 5.50%, with a weighted average interest rate of 4.41%, and due in 2018, 2019, 2020, 2021, 2022, and 2024 collateralized by 8 properties with a net book value of $216.9 million.

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

(3) Variable interest mortgage notes, bearing variable interest of LIBOR plus 2.25% to 3.25%, with a weighted average interest rate of 4.24% and due in 2018, collateralized by 3 properties with a net book value of $39.7 million.

(4)

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

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

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

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

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

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

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

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

Credit Rating	Margin for Revolving Loans: Adjusted LIBOR Rate Loans and Letter of Credit Fee	Margin for Revolving Loans: Base Rate Loans		Margin for Term Loans: Adjusted LIBOR Rate Loans and Letter of Credit Fee	Margin for Term Loans: Base Rate Loans	
At Least A- or A3	LIBOR + 0.85%	—	%	LIBOR + 1.40%	0.40	%
At Least BBB+ or BAA1	LIBOR + 0.90%	—	%	LIBOR + 1.45%	0.45	%

At Least BBB or BAA2	LIBOR + 1.00%	0.10	%	LIBOR + 1.55%	0.55	%
At Least BBB- or BAA3	LIBOR + 1.20%	0.20	%	LIBOR + 1.80%	0.80	%
Below BBB- or BAA3	LIBOR + 1.55%	0.60	%	LIBOR + 2.25%	1.25	%

As of September 30, 2017, the company had $139.0 million of borrowings outstanding under its unsecured revolving credit facility, and $250.0 million of borrowings outstanding under the term loan feature of the Credit Agreement. The Company also issued a letter of credit for $17.0 million as of September 30, 2017 with no outstanding balance as of September 30, 2017. As defined by the Credit Agreement, $694.0 million is available to borrow without adding additional properties to the unencumbered borrowing base of assets.

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

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

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

Certain properties have mortgage debt that contains financial covenants. As of September 30, 2017, the Trust is in compliance with all mortgage debt financial covenants, except with respect to a certain $7.8 million mortgage loan from Bank SNB National Association for the Oklahoma City, Oklahoma medical office building formerly leased by a wholly-owned subsidiary of Foundation Healthcare, Inc. (OTC: FDNH). The Trust and the bank have reached a tentative resolution which is pending the bank's loan committee approval.

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

2017	$504
2018	54,195
2019	44,022
2020	168,483
2021	8,048
Thereafter	908,322
Total Payments	$1,183,574

As of September 30, 2017, the Company had total consolidated indebtedness of approximately $1.2 billion. The weighted average interest rate on consolidated indebtedness was 3.81% (based on the 30-day LIBOR rate as of September 30, 2017, of 1.24%).

For the three month periods ended September 30, 2017 and 2016, the Company incurred interest expense on its debt, exclusive of deferred financing cost amortization, of $11.4 million and $6.5 million, respectively. For the nine month periods ended September 30, 2017 and 2016, the Company incurred interest expense on its debt, exclusive of deferred financing cost amortization, of $31.6 million and $14.0 million, respectively.

Note 7. Derivatives

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

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

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

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

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

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

Total notional amount		$250,000	
Effective fixed interest rate	(1)	2.87	%
Effective date			