Physicians Realty Trust
Form 10-K
February 29, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20541

FORM 10-K

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

For the fiscal year ended December 31, 2015

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-36007

PHYSICIANS REALTY TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	46-2519850 (I.R.S. Employer Identification No.)
309 N. Water Street Suite 500 Milwaukee, Wisconsin (Address of Principal Executive Offices)	53202 (Zip Code)

(414) 367-5600
(Registrant's telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of common shares held by non-affiliates of the Registrant as of June 30, 2015 was approximately $1,081,225,866 based upon the closing price reported for such date on the New York Stock Exchange. For purposes of this disclosure, common shares held by executive officers and trustees of the Registrant on June 30, 2015 have been excluded because such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 22, 2016, the number of the Registrant's common shares outstanding was 108,596,965.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth in this Form 10-K, is incorporated herein by reference from Physicians Realty Trust's definitive proxy statement relating to the annual meeting of shareholders to be held on May 5, 2016, to be filed with the Securities and Exchange Commission within 120 days after the end of the Registrant's fiscal year ended December 31, 2015.

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PHYSICIANS REALTY TRUST

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Forward-Looking Statements

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains various 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 “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “pro forma,” “estimates” or “anticipates” or these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

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;
- fluctuations in interest rates and increased operating costs;
- the availability, terms and deployment of debt and equity capital, including our unsecured revolving credit facility;
- our ability to make distributions on our common shares;
- general volatility of the market price of our common shares;
- our increased vulnerability economically due to the concentration of our investments in healthcare properties;
- our geographic concentrations in Texas, Georgia, and Arizona cause us to be particularly exposed to downturns in these local economies or other changes in local real estate market conditions;
- changes in our business or strategy;
- our dependence upon key personnel whose continued service is not guaranteed;
- our ability to identify, hire and retain highly qualified personnel in the future;
- the degree and nature of our competition;
- changes in governmental regulations, tax rates and similar matters;
- defaults on or non-renewal of leases by tenants;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying healthcare properties to acquire and completing acquisitions;
- competition for investment opportunities;
- our failure to successfully develop, integrate and operate acquired properties and operations;
- the impact of our investment in joint ventures;
- 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);

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- lack of or insufficient amounts of insurance;
- other factors affecting the real estate industry generally;
- our failure to maintain our qualification as a REIT for U.S. federal income tax purposes;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes;
- changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs; and
- factors that may materially adversely affect us, or the per share trading price of our common shares, including:
  - higher market interest rates;
  - the number of our common shares available for future issuance or sale;
  - our issuance of equity securities or the perception that such issuance might occur;
  - future debt;
  - failure of securities analysts to publish research or reports about us or our industry; and
  - securities analysts' downgrade of our common shares or the healthcare-related real estate sector.

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

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

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PART I

ITEM 1. BUSINESS

Overview

We are a self-managed healthcare real estate company organized in April 2013 to acquire, selectively develop, own and manage healthcare properties that are leased to physicians, hospitals and healthcare delivery systems. We completed our initial public offering (“IPO”) in July 2013. Our common shares are listed on the NYSE and we are included in the MSCI US REIT Index.

We have grown our portfolio of gross real estate investments from approximately $124 million at the time of our IPO to approximately $1.7 billion as of December 31, 2015. As of December 31, 2015, our portfolio consisted of 151 properties located in 26 states with approximately 5,799,337 net leasable square feet, which were approximately 95.8% leased with a weighted average remaining lease term of approximately 9.0 years and approximately 74% of the net leasable square footage of our portfolio was either affiliated with a healthcare delivery system or located within approximately 1/4 mile of a hospital campus.

We receive a cash rental stream from healthcare providers under our leases. Approximately 85.5% of the annualized base rent payments from our properties as of December 31, 2015 are from triple net leases, pursuant to which the tenants are responsible for all operating expenses relating to the property, including but not limited to real estate taxes, utilities, property insurance, routine maintenance and repairs, and property management. This structure helps insulate us from increases in certain operating expenses and provides relatively predictable cash flow. We seek to structure our triple net leases to generate attractive returns on a long-term basis. Our leases typically have initial terms of five to 15 years and include annual rent escalators of approximately 2.0% to 3.0%. Our operating results depend significantly upon the ability of our tenants to make required rental payments. We believe that our portfolio of medical office buildings and other healthcare facilities will enable us to generate stable cash flows over time because of the diversity of our tenants, staggered lease expiration schedule, long-term leases, and low historical occurrence of tenants defaulting under their leases. As of December 31, 2015, leases representing a percentage of our portfolio on the basis of leasable square feet will expire as follows:

Year (1)	Portfolio Lease Expirations
MTM	0.7%
2016	3.2%
2017	5.4%
2018	6.0%
2019	5.3%
2020	3.4%
2021	3.3%
2022	5.1%
2023	6.3%
2024	10.1%
Thereafter	46.2%
Total (2)	95.0%

(1) “MTM” means month-to-month.

(2) The difference between the 95.8% leased as of December 31, 2015 as noted above, compared to the 95.0% noted in this table is 0.8%, which is due to leases that expired on December 31, 2015. Of those, 0.6% rolled into new long-term leases and 0.2% are vacant as of January 1, 2016. Vacancy totaled 4.2%.

We invest in real estate that is integral to providing high quality healthcare services. Our properties are typically located on a campus with a hospital or other healthcare facilities or strategically located and affiliated with a hospital or other healthcare system. We believe the impact of government programs and continuing trends in the healthcare industry create attractive opportunities for us to invest in healthcare-related real estate. Our management team has significant public healthcare REIT experience and has long established relationships with physicians, hospitals and healthcare delivery system decision makers that we believe will provide quality investment and growth opportunities. Our principal investments include medical office buildings, outpatient treatment facilities, and other real estate integral to health care providers. We seek to invest in stabilized medical facility assets with initial cash yields of 6% to 9%.

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

We are a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our short taxable year ended December 31, 2013. We conduct our business through an umbrella partnership REIT structure in which our properties are owned by our operating partnership directly or through limited partnerships, limited liability companies or other subsidiaries. We are the sole general partner of our operating partnership and, as of February 22, 2016, own approximately 96.7% of the partnership interests in our operating partnership ("OP Units").

Our Objectives and Growth Strategy

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

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

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

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

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

- whether the property is anchored by a financially-sound healthcare delivery system or whether tenants have strong affiliation to a healthcare delivery system;

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

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2015 Highlights and Other Recent Developments

- For the full year 2015, we completed acquisitions of 66 medical office facilities located in 22 states, containing an aggregate of 2,745,664 net leasable square feet, for an aggregate purchase price of approximately $818.6 million.
- In January 2015, we completed a follow-on public offering of 18,975,000 common shares of beneficial interest, including 2,475,000 common shares issued upon exercise of the underwriters' overallotment option, resulting in net proceeds to us of approximately $297.3 million.
- In July 2015, we amended our existing credit facility, increasing the maximum principal amount available under our unsecured revolving credit facility from $400 million to $750 million. The credit facility includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing us to increase borrowing capacity by up to an additional $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $1.1 billion.
- Effective October 1, 2015, we appointed Deeni Taylor to the position of Executive Vice President – Investments. Additionally, effective February 2, 2015, we appointed Bradley D. Page to the position of Senior Vice President – General Counsel.
- In October 2015, we completed a follow-on public offering of 15,812,500 common shares of beneficial interest, including 2,062,500 common shares issued upon exercise of the underwriters' overallotment option, resulting in net proceeds to us of approximately $226.8 million.
- On January 7, 2016, we issued and sold $150 million aggregate principal amount of senior notes. The proceeds of the notes were used to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.
- In January 2016, we completed a follow-on public offering of 21,275,000 common shares of beneficial interest, including 2,775,000 common shares issued upon exercise of the underwriters' overallotment option, resulting in net proceeds to us of approximately $320.9 million.
- From January 1, 2016 to February 22, 2016, we completed 8 acquisitions of 7 properties and 1 condominium unit located in 8 states, containing an aggregate of 326,326 net leasable square feet for an aggregate purchase price of approximately $105.1 million. We also issued 1 mezzanine loan for $0.5 million.

Employees

At December 31, 2015, we had 25 full-time employees, none of whom are subject to a collective bargaining agreement. We believe that relations with our employees are positive.

Portfolio Summary

Please see "Item 2. Properties" for a table that summarizes our portfolio as of December 31, 2015.

Geographic Concentration

For the year ended December 31, 2015, approximately 34.8% of our total annualized base rent was derived from properties located in Texas (15.7%), Georgia (9.8%), and Arizona (9.3%). The Texas properties are concentrated in El Paso and Dallas, the Georgia properties are concentrated in the metro Atlanta area, and the Arizona properties are concentrated in Phoenix and Scottsdale.

As a result of this geographic concentration, we are particularly exposed to downturns in these local economies or other changes in local real estate market conditions. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in either of these areas could have a disproportionate effect on our overall business results. In the event of negative economic or other changes in either of these markets, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be adversely affected. See each of the discussion under Item 1A, "Risk Factors," under the caption "Economic and other conditions that negatively affect geographic areas in which we conduct business, and in particular areas to which a greater percentage of our revenue is attributed could materially adversely affect our business, results of operations and financial condition."

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Customer Concentration

We receive substantially all of our revenue as rent payments from tenants under leases of space in our healthcare properties, with our five largest tenants based upon rental revenue representing approximately $19.1 million, or 15.5%, of the annualized base rent from our properties as of December 31, 2015. No one tenant represents more than 3.9% of our total annualized base rent. We have no control over the success or failure of our tenants' businesses and, at any time, any of our tenants may experience a downturn in its business that may weaken its financial condition.

Competition

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

Credit Facility

On July 22, 2015, the Operating Partnership, as borrower, and we and certain subsidiaries and other affiliates of our company, as guarantors, entered into an amendment to the existing credit agreement with KeyBank National Association as administrative agent, KeyBanc Capital Markets Inc., Regions Capital Markets and BMO Capital Markets, as joint lead arrangers and joint bookrunners, Regions Capital Markets and BMO Capital Markets, as co-syndication agents, and the lenders party thereto (as amended, the “Credit Agreement”) which increased the maximum principal amount available under an unsecured revolving credit facility from $400 million to $750 million. The Credit Agreement includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing us to increase borrowing capacity by up to an additional $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $1.1 billion.

The Credit Agreement has a maturity date of September 18, 2019 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 December 31, 2015, the Trust had an investment grade rating from Moody's of Baa3 and as such, borrowings under the Credit Agreement accrued interest on the outstanding principal at a rate of LIBOR plus 1.20%. The Credit Agreement includes a facility fee equal to 0.25% per annum, which is also determined by the Trust's investment grade rating.

The Credit Agreement contains financial covenants that, among other things, require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as covenants that may limit our and the Operating Partnership's ability to incur additional debt or make distributions. We may, at any time, voluntarily prepay any loan under the Credit Agreement in whole or in part without premium or penalty. As of December 31, 2015, we were in compliance with all financial covenants.

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

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

Investment Grade Rating	Adjusted LIBOR Rate Loans and Letter of Credit Fee	Base Rate Loans	
At Least A- or A3	LIBOR + 0.85%	—	%
At Least BBB+ or BAA1	LIBOR + 0.90%	—	%
At Least BBB or BAA2	LIBOR + 1.00%	0.10	%
At Least BBB- or BAA3	LIBOR + 1.20%	0.20	%
Below BBB- or BAA3	LIBOR + 1.55%	0.60	%

As of December 31, 2015, there were $395 million of borrowings outstanding under our unsecured revolving credit facility and $198.7 million available for us to borrow without adding additional properties to the unencumbered borrowing base of assets, as defined by the Credit Agreement.

Additionally, on January 7, 2016, our Operating Partnership issued and sold $150 million aggregate principal amount of senior notes, comprised of (i) $15,000,000 aggregate principal amount of 4.03% Senior Notes, Series A, due January 7, 2023 (the “Series A Notes”), (ii) $45,000,000 aggregate principal amount of 4.43% Senior Notes, Series B, due January 7, 2026 (the “Series B Notes”), (iii) $45,000,000 aggregate principal amount of 4.57% Senior Notes, Series C, due January 7, 2028 (the “Series C Notes”) and (iv) $45,000,000 aggregate principal amount of 4.74% Senior Notes, Series D, due January 7, 2031 (the “Series D Notes,” and together with the Series A Notes, the Series B Notes and the Series C Notes, the “Notes”). The proceeds of the Notes were used to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

Seasonality

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

Environmental Matters

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

Certain Government Regulations

Overview

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

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Based on information primarily provided by our tenants and operators as of December 31, 2015 we estimate that approximately 44.0% of our hospital and long-term acute care hospital tenants' and operators' revenues were dependent on Medicare reimbursement.

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

Fraud and Abuse Enforcement

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

Reimbursement

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

Healthcare Licensure and Certificate of Need

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

Available Information

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

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

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ITEM 1A. RISK FACTORS

The following summarizes the material risks of purchasing or owning our securities. Additional unknown risks may also impair our financial performance and business operations. Our business, financial condition and/or results of operation may be materially adversely affected by the nature and impact of these risks. In such case, the market value of our securities could be detrimentally affected, and investors may lose part or all of the value of their investment. You should carefully consider the risks and uncertainties described below.

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

- Risks related to our business;
- Risks related to the healthcare industry;
- Risks related to the real estate industry;
- Risks related to financings;
- Risks related to our portfolio and structure; and
- Risks related to our qualification and operation as a REIT.

Risks Related To Our Business

There is no assurance that we will be able to achieve our investment objectives.

We may not be able to achieve our investment objectives as described in this report and that the value of your investment could decline substantially. Our financial condition and results of operations depend on many factors, including the availability of investment opportunities, readily accessible short and long-term financing, conditions in the financial markets and economic conditions generally. There can be no assurance that we will be able to generate sufficient cash flow over time to pay our operating expenses and make distributions to shareholders.

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

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

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

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

Additionally, for the year ended December 31, 2015, approximately 34.8% of our total annualized base rent was derived from properties located in Texas (15.7%), Georgia (9.8%), and Arizona (9.3%). The Texas properties are concentrated in El Paso and Dallas, the Georgia properties are concentrated in the metro Atlanta area, and the Arizona properties are concentrated in Phoenix and Scottsdale. As a result of this geographic concentration, we are particularly exposed to downturns in these local economies or other changes in local real estate market conditions. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in either of these areas could have a disproportionate effect on our overall business results. In the event of negative economic or other changes in any of the markets in which we conduct business, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be adversely affected.

Our healthcare properties and tenants face competition from nearby hospitals and other healthcare properties, and we may not realize the benefits that we anticipate from focusing on healthcare properties that are strategically aligned with a healthcare delivery system and from the relationships established through such strategic alignments.

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

We may have difficulty finding suitable replacement tenants in the event of a tenant default or non-renewal of our leases, especially for our properties located in smaller markets.

We cannot predict whether our tenants will renew or extend existing leases beyond their current terms. Nearly all of our properties are subject to leases which have multi-year terms. As of December 31, 2015, leases representing 3.2%, 5.4% and 6.0% of leasable square feet at our properties will expire in 2016, 2017 and 2018, respectively. If any of our leases are not renewed or extended, or if a tenant defaults under the terms of its lease or becomes insolvent, we would attempt to relet those spaces or properties to other tenants or new tenants. In case of non-renewal, we generally have advance notice before expiration of the lease term to arrange for reletting or repositioning of the spaces or the properties and our tenants are required to continue to perform all of their obligations (including the payment of all rental amounts) under the non-renewed leases until such expiration. However, following expiration of a lease term or if we exercise our right to replace a tenant in default, rental payments on the related properties could decline or cease altogether while we relet or reposition the spaces or the properties with suitable replacement tenants. We also might not be successful in identifying suitable replacement tenants or entering into leases with new tenants on a timely basis or on terms as favorable to us as our current leases, or at all, and we may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of, and avoid the imposition of liens on, our properties while they are being relet or repositioned. Our ability to relet or reposition our properties, or spaces within our properties, with suitable tenants could be significantly delayed or limited by state licensing, receivership, certificate of need or other laws, as well as by the Medicare and Medicaid change-of-ownership rules. We could also incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. In addition, our ability to locate suitable replacement tenants could be impaired by the specialized healthcare uses or contractual restrictions on use of the properties, and we may be required to spend substantial amounts to adapt the properties to other uses. Any such delays, limitations and expenses could adversely impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for tenant default and could have a material adverse effect on us or cause us to take an impairment charge on a property.

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

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We may fail to close any pending acquisitions, which could have a material adverse impact on our results of operations, earnings and cash flow.

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

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

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

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

An important component of our growth strategy is to acquire "off-market" properties before they are widely marketed by the owners. Facilities that are acquired off-market are typically more attractive to us as a purchaser because of the absence of a formal marketing process, which could lead to higher prices or other unattractive terms. If we cannot obtain off-market deal flow in the future, our ability to locate and acquire facilities at attractive prices could be adversely affected. We expect to compete with many other entities engaged in real estate investment activities for acquisitions of healthcare properties, including national, regional and local operators, acquirers and developers of healthcare-related real estate properties and other investors such as private equity firms, some of whom may have greater financial resources and lower costs of capital than we do. The competition for healthcare-related real estate properties may significantly increase the price that we must pay for healthcare properties or other assets that we seek to acquire, and our competitors may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger REITs that target healthcare properties may enjoy significant competitive advantages that result from, among other things, a lower cost of capital, enhanced operating efficiencies, more personnel and market penetration and familiarity with markets. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. Increased competition would result in increased demand for these assets and therefore likely would increase prices paid for them. Those higher prices for healthcare properties or other assets may adversely affect our returns from our investments.

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

Fourteen of our properties (Mid Coast Hospital MOB, Valley West Hospital MOB, Crescent City Surgical Centre, Orthopedic One - Columbus, Carmel Medical Pavilion, Berger Medical Center, Edina MOB, Healthpark Medical Center, Brookstone Physician Center MOB, Medical Specialists of Palm Beach MOB, Trios Health MOB, IMS - Paradise Valley MOB, IMS - North Mountain MOB, Great Falls Clinic MOB), representing approximately 16.8% of our total leasable square feet and 18.7% of our annualized revenue based on rental payments for the month ended December 31, 2015, are subject to ground leases that contain certain restrictions. These restrictions include limits on our ability to re-let our initial properties to tenants not affiliated with the healthcare delivery system that owns the underlying property, rights of purchase and rights of first offer and refusal with respect to sales of the property and limits on the types of medical procedures that may be performed. In addition, lower than expected rental rates upon re-letting could impede our growth. We may not be able to re-let space on terms that are favorable to us or at all. Further, we may be required to undertake significant capital expenditures to renovate or reconfigure space to attract new tenants. If we are unable to promptly re-let our initial properties, if the rates upon such re-letting are significantly lower than expected or if we are required to undertake significant capital expenditures in connection with re-letting, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be adversely affected.

We may invest in senior housing facilities that are subject to RIDEA, which may subject us to operational risks and increased costs.

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

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

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

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

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

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

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

Certain environmental laws impose compliance obligations on owners and tenants of real property with respect to the management of hazardous substances and other regulated materials. For example, environmental laws govern the management and removal of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions. If we incur substantial costs to comply with these environmental laws or we are held liable under these laws, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

We may not be able to sustain our growth rate level.

Since our inception, we have achieved significant growth in our healthcare properties portfolio. This growth rate has contributed significantly to our growth in revenue. We may not be able to sustain this level of growth and over time we may experience a decline in our growth rate as a result of various factors, including changes in the economic and other conditions in geographic markets in which we conduct business, changes in the real estate market, changes in healthcare regulations, and the competitiveness of the real estate market. Additionally, our significant growth has resulted in increased levels of responsibility for our management, who may experience additional demands related to managing our current properties portfolio.

We have incurred operating losses in the past and we may not be able to maintain profitability.

Since our inception we have incurred operating losses and, as of December 31, 2015, we have an accumulated deficit of $109.0 million. Although our revenue has grown substantially and we achieved net profit in fiscal year 2015, our revenue growth rate may slow in the future and we cannot provide assurances that we will remain profitable in any quarterly or annual period in the future. Accordingly, you should not rely on the revenue growth or profitability of any prior quarterly or annual period as an indication of our future performance.

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

The availability of equity capital to us will depend, in part, upon the market price of our common shares which, in turn, will depend upon various market conditions and other factors that may change from time to time. Our failure to meet the market's expectation with regard to future earnings and cash distributions would likely adversely affect the market price of our common shares and, as a result, the cost and availability of equity capital to us.

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

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

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

In addition, on June 17, 2015, we filed an automatic shelf registration statement on Form S-3 with the Commission covering an indeterminate amount of common shares, preferred shares, convertible shares, debt securities, convertible debt securities or other types of securities from time to time (the "Automatic Shelf Registration Statement").

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

Risks Related to the Healthcare Industry

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

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

The Affordable Care Act is changing how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals and reduced Medicare program spending. In addition, the new law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality and contains provisions intended to strengthen fraud and abuse enforcement. The complexities and ramifications of the Affordable Care Act are significant and are being implemented in a phased approach which began in 2010. At this time, it is difficult to predict the full effects of the Affordable Care Act and its impact on our business, our revenues and financial condition and those of our tenants due to the law's complexity, lack of implementing regulations or interpretive guidance, gradual implementation and possible amendment. Further, we are unable to foresee how individuals and businesses will respond to the choices afforded them by the Affordable Care Act. The Affordable Care Act could adversely affect the reimbursement rates received by our tenants, the financial success of our tenants and strategic partners and consequently us.

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

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Recent changes to healthcare laws and regulations, including to government reimbursement programs such as Medicare and reimbursement rates applicable to our current and future tenants, could have a material adverse effect on the financial condition of our tenants and, consequently, their ability to meet obligations to us.

Statutory and regulatory policy changes and decisions may impact one or more specific unique providers that lease space in any of our facilities. In particular, the following recent changes to healthcare laws and regulations may apply to our tenants:

- Recent amendments to an existing statutory moratorium on the establishment of new long-term care hospitals (“LTCH”), the establishment of new LTCH satellite facilities, and bed increases within such existing facilities, which is in effect through September 30, 2017, could impact the Medicare participation of facilities that are not already participating in the Medicare program as LTCHs, including at least one of our existing tenants. The Centers for Medicare and Medicaid Services (“CMS”) has issued a proposed rule addressing the moratorium and exceptions thereto but to date no final rule has been implemented.
- The Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) reforms Medicare payment policy for services paid under the Medicare physician fee schedule and adopts a series of policy changes affecting a wide range of providers and suppliers. MACRA repeals the sustainable growth rate (the “SGR”) formula effective January 1, 2015, and establishes a new payment framework which may impact payment rates for our tenants, including LTCHs.
- The Bipartisan Budget Act of 2013 (the “BBA”) establishes new payment limits for Medicare patients discharged from a LTCH who do not meet specified criteria. For any Medicare patient who does not meet the new criteria, the LTCH will be paid a lower “site-neutral” payment rate (subject to a transition period through September 30, 2017), which may impact the financial condition of tenants affected by the lower payment rate. Additionally, new rules may cause all discharges from LTCHs to be paid at the site-neutral rate if the number of discharges for which payment is made under the site-neutral payment rate is greater than 50% of the total number of discharges from the LTCH.
- The Affordable Care Act instituted a market basket payment adjustment to LTCHs. In fiscal years 2017 through 2019, the market basket update will be reduced by 0.75%. The Affordable Care Act specifically allows these market basket reductions to result in a less than 0% payment update and payment rates that are less than the prior year. MACRA sets the annual update for fiscal year 2018 at 1% after taking into account the market basket payment reduction of 0.75% mandated by the Affordable Care Act.

These regulatory changes may have an adverse financial impact on the net operating revenues and profitability of many LTCHs for cost reporting periods beginning on or after July 1, 2016, which could have an impact on their ability to pay rent due to us.

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

The application of lower reimbursement rates to our tenants or failure to qualify for existing rates under certain exceptions, the failure to comply with these laws and regulations, or the failure to secure CON approval to undertake a desired project could adversely affect our tenants’ ability to make rent payments to us which may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

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

The healthcare industry is currently experiencing, among other things:

- changes in the demand for and methods of delivering healthcare services;
- changes in third party reimbursement methods and policies;
- consolidation and pressure to integrate within the healthcare industry through acquisitions and joint ventures; and
- increased scrutiny of billing, referral and other practices by U.S. federal and state authorities.

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

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

Sources of revenue for our tenants typically include the U.S. federal Medicare program, state Medicaid programs, private insurance payors and health maintenance organizations. Healthcare providers continue to face increased government and private payor pressure to control or reduce healthcare costs and significant reductions in healthcare reimbursement, including reduced reimbursements and changes to payment methodologies under the Affordable Care Act. In some cases, private insurers rely upon all or portions of the Medicare payment systems to determine payment rates which may result in decreased reimbursement from private insurers.

The slowdown in the United States economy has negatively affected state budgets, thereby putting pressure on states to decrease spending on state programs including Medicaid. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in state Medicaid programs due to unemployment and declines in family incomes. Historically, states have often attempted to reduce Medicaid spending by limiting benefits and tightening Medicaid eligibility requirements. Many states have adopted, or are considering the adoption of, legislation designed to enroll Medicaid recipients in managed care programs and/or impose additional taxes on hospitals to help finance or expand the states' Medicaid systems. Potential reductions to Medicaid program spending in response to state budgetary pressures could negatively impact the ability of our tenants to successfully operate their businesses.

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

The Bipartisan Budget Act of 2015 (H.R. 1314) (the "2015 Budget Act") provides changes to the requirements for providers who seek "hospital outpatient department" ("HOPD") reimbursement under Medicare.
Section 603 of the 2015 Budget Act generally requires providers who seek to qualify for HOPD to be located on the campus of the hospital that seeks such HOPD, which generally is higher than reimbursement for providers that do not qualify as HOPD providers. The 2015 Budget Act specifically grandfathers HOPD providers in existence as of November 2, 2015 and does not change such HOPD providers' eligibility for HOPD reimbursement.
We have a number of existing tenants that may be reimbursed as HOPD providers and but for the grandfathering protection of the 2015 Budget Act, may not be eligible for HOPD reimbursement in the future. Any provider who establishes a new HOPD location after November 2, 2015 will be subject to the 2015 Budget Act requirements and if any such provider does not satisfy the new requirements, then such provider will be reimbursed for claims billed on or after January 1, 2017 at generally lower reimbursement levels.
Failure to comply with the 2015 Budget Act requirements could adversely affect the ability of certain of our tenants to make rent payments to us, which may have an adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

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

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

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

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

As is typical in the healthcare industry, our tenants may often become subject to claims that their services have resulted in patient injury or other adverse effects. Many of these tenants may have experienced an increasing trend in the frequency and severity of professional liability and general liability insurance claims and litigation asserted against them. The insurance coverage maintained by these tenants may not cover all claims made against them nor continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to these tenants due to state law prohibitions or limitations of availability. As a result, these types of tenants of our healthcare properties and healthcare-related facilities operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits.

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

Risks Related to the Real Estate Industry

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

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

- vacancies or our inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or tenant-favorable renewal options;
- inability to collect rent from tenants;
- competition from other real estate investors with significant capital, including other real estate operating companies, REITs and institutional private equity or other investment funds;
- reductions in the level of demand for healthcare properties and changes in the demand for certain healthcare-related properties;
- increases in the supply of medical office space;

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- increases in expenses associated with our real estate operations, including, but not limited to, insurance costs, third party management fees, energy prices, real estate assessments and other taxes and costs of compliance with laws, regulations and governmental policies, and restrictions on our ability to pass such expenses on to our tenants; and
- changes in, and changes in enforcement of, laws, regulations and governmental policies associated with real estate, including, without limitation, health, safety, environmental, zoning and tax laws, governmental fiscal policies and the ADA.

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

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

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

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

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

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

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Our assets may be subject to impairment charges.

We will periodically evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based upon factors such as market conditions, tenant performance and legal structure. For example, the termination of a lease by a major tenant may lead to an impairment charge. If we determine that an impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset which could have an adverse effect on our results of operations in the period in which the impairment charge is recorded. In 2014, we recognized a $0.3 million impairment loss on a medical office building in Pickerington, Ohio, and a $1.5 million impairment loss on a medical office building in Lansing, Michigan. Both properties were vacant and were sold during 2015. For both properties, the impairment was assessed because the property's carrying amount exceeded its estimated fair value. We have determined that none of our properties are impaired as of December 31, 2015.

Our investments in, or originations of, mezzanine loans will be subject to specific risks relating to the particular company, and our mezzanine loan assets will involve greater risks of loss than senior loans secured by income-producing properties.

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

Risks Related to Financings

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

We historically borrow on our unsecured revolving credit facility to acquire properties. Then, as market conditions dictate, we have issued equity or long-term fixed rate debt to repay borrowings under our unsecured revolving credit facility. We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings were completed under indentures or contractual agreements that limit the amount of indebtedness we may incur. Accordingly, in the event that we are unable to raise additional equity or borrow money because of these limitations, our ability to acquire additional properties may be limited.

As of December 31, 2015, we had approximately $95 million of mortgage debt on individual properties and approximately $395.0 million of borrowings outstanding under our unsecured revolving credit facility. In addition, in January 2016, we issued and sold $150 million aggregate principal amount of senior notes. We expect to incur additional debt in the future. We do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity, and, therefore, we expect to repay our indebtedness through refinancings and future offerings of equity and debt securities, either of which we may be unable to secure on favorable terms or at all. Our level of debt and the limitations imposed upon us by our debt agreements could have adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions;

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- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears, or is expected to bear, interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may fail to effectively hedge against interest rate volatility;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms if we are able to do so at all;
- after debt service, the amount available for distributions to our shareholders is reduced;
- our leverage could place us at a competitive disadvantage compared to our competitors who have less debt;
- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;
- we may violate financial covenants contained in our various loan documents which would cause a default on our obligations, giving lenders various remedies, including increased interest rates, foreclosure and liability for additional expenses;
- we may inadvertently violate non-financial restrictive covenants in our loan documents, such as covenants that require us to maintain the existence of entities, maintain insurance policies and provide financial statements, which would entitle the lenders to accelerate our debt obligations; and
- our default under any of our mortgage loans with cross-default or cross-collateralization provisions could result in default on other indebtedness and result in the foreclosures of other properties.

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

As of December 31, 2015, we had approximately $395.0 million of borrowings outstanding under our unsecured revolving credit facility and in January 2016 we issued $150 million of debt, all of which is senior to our common shares upon liquidation, and we may in the future make offerings of debt or preferred equity securities which may be senior to our common shares for purposes of dividend distributions or upon liquidation, any of which may materially adversely affect the per share trading price of our common shares.

As of December 31, 2015, there were approximately $395.0 million of borrowings outstanding under our unsecured revolving credit facility, and on January 7, 2016 we issued and sold $150 million aggregate principal amount of senior notes. In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities (or causing our Operating Partnership to issue debt securities), including medium-term notes, senior or subordinated notes and classes or series of preferred shares. Upon liquidation, holders of our debt securities and preferred shares and lenders with respect to other borrowings will be entitled to receive our available assets prior to distribution to the holders of our common shares. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common shares and may result in dilution to owners of our common shares. Holders of our common shares are not entitled to preemptive rights or other protections against dilution. Our preferred shares would have a preference on liquidating distributions or a preference on dividend payments that could limit our ability pay dividends or other distributions to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk that our future offerings could reduce the per share trading price of our common shares and dilute their interest in us.

We rely upon external sources of capital to fund future capital needs, and, if we encounter difficulty in obtaining such capital, we may not be able to make future acquisitions necessary to grow our business or meet maturing obligations.

In order to qualify as a REIT under the Code, we are required, among other things, to distribute each year to our shareholders at least 90% of our taxable income, without regard to the deduction for dividends paid and excluding net capital gain. Because of this distribution requirement, we may not be able to fund all of our future capital needs from cash retained from operations, including capital needed to make investments and to satisfy or refinance maturing obligations. As a result, we expect to rely upon external sources of capital, including debt and equity financing, to fund future capital needs. If we are

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unable to obtain needed capital on satisfactory terms or at all, we may not be able to make the investments needed to expand our business or to meet our obligations and commitments as they mature. Our access to capital will depend upon a number of factors over which we have little or no control, including general stock and bond market conditions and investor interest, the market's perception of our current and potential future earnings, analyst reports about us and the REIT industry, cash distributions and the market price of our common shares, and other factors such as governmental regulatory action and changes in REIT tax laws. We may not be in a position to take advantage of attractive investment opportunities for growth if we are unable to access the capital markets on a timely basis on favorable terms.

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

As of December 31, 2015, our indebtedness represented approximately 29.8% of our total assets. However, our organizational documents contain no limitations on the amount of indebtedness that we or our Operating Partnership may incur. We could alter the balance between our total outstanding indebtedness and the value of our properties at any time. If we become more highly leveraged, the resulting increase in outstanding debt could adversely affect our ability to make debt service payments, to pay our anticipated distributions and to make the distributions required to qualify as a REIT. The occurrence of any of the foregoing risks could adversely affect our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

We are subject to covenants in our debt agreements that may restrict or limit our operations and acquisitions and our failure to comply with the covenants in our debt agreements could have a material adverse impact on our business, results of operations and financial condition.

The terms of the instruments governing our existing indebtedness require us to comply with a number of customary financial and other covenants, such as maintaining certain leverage and coverage ratios and minimum tangible net worth requirements. Our continued ability to incur additional debt and to conduct business in general is subject to our compliance with these covenants, which limit our operational flexibility. Breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness, in addition to any other indebtedness cross-defaulted against such instruments. Any such default could have a material adverse impact on our business, results of operations and financial condition or our ability to make distributions to our shareholders.

Increases in interest rates may increase our interest expense and adversely affect our cash flows, our ability to service our indebtedness and our ability to make distributions to our shareholders, and could cause our stock price to decline.

One of the factors that influences the trading prices of our common shares is the dividend yield on the common shares (as a percentage of the price of our common shares) relative to market interest rates. Since the most recent recession, the U.S. Federal Reserve has taken actions which have resulted in low interest rates prevailing in the marketplace for a historically long period of time. In December 2015, the U.S. Federal Reserve raised its benchmark interest rate by a quarter of a percentage point. Further increases in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our common shares to expect a higher dividend yield (with a resulting decline in the trading prices of our common shares) and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common shares to decrease.

Additionally, as of December 31, 2015, we had approximately $399.3 million of variable-rate indebtedness outstanding that has not been swapped for a fixed interest rate and we expect that more of our indebtedness in the future, including borrowings under our unsecured revolving credit facility since December 31, 2015 and thereafter, will be subject to variable interest rates. Increases in interest rates on any variable rate indebtedness will increase our interest expense, which could adversely affect our cash flow and our ability to pay distributions to our shareholders.

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

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

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

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

Risks Related to Our Portfolio and Structure

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

We conduct substantially all of our operations through our Operating Partnership. As of February 22, 2016, we owned approximately 96.7% of the OP Units and apart from this ownership interest, we will not have any independent operations. As a result, we rely upon distributions from our Operating Partnership to pay any distributions that we might declare on our common shares. We also rely upon distributions from our Operating Partnership to meet our obligations, including tax liability on taxable income allocated to us from our Operating Partnership (which might make distributions to us not equal to the tax on such allocated taxable income). Shareholders' claims will consequently be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our Operating Partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, claims of our shareholders will be satisfied only after all of our and our Operating Partnership's and its subsidiaries' liabilities and obligations have been paid in full.

We incur substantial costs as a result of being a public company.

As a public company, we incur significant legal, accounting, insurance and other expenses, including costs associated with public company reporting requirements. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect compliance with these public reporting requirements and associated rules and regulations to increase expenses, although we are currently unable to estimate theses costs with any degree of certainty.

Failure to maintain effective internal control over financial reporting could harm our business, results of operations and financial condition.

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on internal control over financial reporting, including management's assessment of the effectiveness of such control. Because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud, effective internal controls over financial reporting may not prevent or detect misstatement and can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls as a result of changes to our business or otherwise, or if we experience difficulties in their implementation, our business, results of operations and financial condition could be materially adversely impacted and we could fail to meet our reporting obligations.

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

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

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

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Our use of OP Units as currency to acquire properties could result in shareholder dilution, could limit our ability to sell such properties, or could affect the amount of distributions we can make to our shareholders, any of which could have a material adverse effect on us.

We may continue to acquire some properties or portfolios of properties through tax deferred contribution transactions in exchange for OP Units, which are convertible into common shares and, upon conversion, may result in shareholder dilution. Such issuances of OP Units would also reduce our ownership percentage in our Operating Partnership and could affect the amount of distributions made to us by our Operating Partnership and, therefore, the amount of distributions we can make to our shareholders. Our shareholders do not directly own OP Units, and thus, do not have any voting rights with respect to any such issuances. The issuance of OP Units may also have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell properties at a time, or on terms, that would be favorable absent such restrictions.

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

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

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

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

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

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

In order for us to qualify as a REIT, no more than 50% of the value of our outstanding shares of beneficial interest may be owned, beneficially or constructively, by five or fewer individuals at any time during the last half of each taxable year other than our initial REIT taxable year. Subject to certain exceptions, our declaration of trust prohibits any shareholder from owning beneficially or constructively more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our shares of beneficial interest, although we have granted, and may in the future grant, a waiver from the ownership limitations. The constructive ownership rules under the Code are complex and may cause the outstanding shares owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of our outstanding shares of any class or series by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding shares of

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any class or series of our shares of beneficial interest and to be subject to our declaration of trust's ownership limit. Our declaration of trust also prohibits, among other prohibitions, any person from owning our shares of beneficial interest that would result in our being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT. Any attempt to own or transfer shares of our beneficial interest in violation of these restrictions may result in the shares being automatically transferred to a charitable trust or may be void.

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

Certain provisions of the Maryland General Corporation Law, or MGCL, applicable to Maryland real estate investment trusts may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested shareholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our shares at any time within the two-year period immediately prior to the date in question) or an affiliate thereof for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes certain minimum price and/or supermajority shareholder voting requirements on these combinations; and
- "control share" provisions that provide that holders of "control shares" of our company (defined as shares that, when aggregated with all other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares," subject to certain exceptions) have no voting rights with respect to their control shares, except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

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

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

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

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

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or a change of control that might involve a premium price for our common shares or that our shareholders otherwise believe to be in their best interests.

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

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

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the trustee or officer that was established by a final judgment and is material to the cause of action adjudicated.

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

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

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

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

- redemption rights;
- a requirement that we may not be removed as the general partner of our Operating Partnership without our consent;
- transfer restrictions on OP Units;
- our ability, as general partner, in some cases, to amend the partnership agreement and to cause the Operating Partnership to issue units with terms that could delay, defer or prevent a merger or other change of control of us or our Operating Partnership without the consent of the limited partners; and
- the right of the limited partners to consent to direct or indirect transfers of the general partnership interest, including as a result of a merger or a sale of all or substantially all of our assets, in the event that such transfer requires approval by our common shareholders.

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

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Risks Related to Our Qualification and Operation as a REIT

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

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

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

- we would not be allowed a deduction for dividends paid to shareholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;
- we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under certain U.S. federal income tax laws, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

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

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

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

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

We intend to operate in a manner so as to qualify as a REIT for U.S. federal income tax purposes. In order to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to our shareholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under the Internal Revenue Code of 1986, as amended (the “Code”).

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

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

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities of TRSs and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities of TRSs and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% (reduced under the PATH

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Act to 20% for taxable years beginning after December 31, 2017) of the value of our total assets can be represented by the securities of one or more TRSs. Further, for taxable years beginning after December 31, 2015, debt instruments that do not otherwise qualify as real estate assets issued to us by publicly offered REITs will be treated as qualified real estate assets for purposes of the asset test, but no more than 25% of the value of our total assets may be represented by such debt instruments. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

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

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

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

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

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

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

Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. The permitted percentage is reduced to 20% for taxable years beginning after December 31, 2017. In addition, the Code limits the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The Code also imposes a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis, including "redetermined TRS service income" relating to gross income of a TRS attributable to services provided to, or on behalf of, the REIT (less the deductions properly allocable thereto) to the extent the amount of such income (less such deductions) would be increased on distribution, apportionment or allocation under Code Section 482. Furthermore, we will monitor the value of our respective investments in any TRS that we may form for the purpose of ensuring compliance with TRS ownership limitations and will structure our transactions with any TRS on terms that we believe are arm's-length to avoid incurring a 100% excise tax from the transactions discussed above. There can be no assurance, however, that we will be able to comply with the 25% (or 20%, as applicable) REIT subsidiaries limitation or to avoid application of the 100% excise tax.

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

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

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

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

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

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

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

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

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

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

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On December 18, 2015, President Obama signed into law the Protecting Americans from Tax Hikes Act of 2015 (the “PATH Act”). The PATH Act includes several provisions relating to REITs, including a provision restricting certain tax-free spinoffs involving REITs. A significant feature of the PATH Act is that it dismisses the application of the Foreign Investment in Real Property Tax Act of 1980 (“FIRPTA”) altogether for a “qualified foreign pension fund,” or any entity all of the interests of which are held by a qualified foreign pension fund, that holds U.S. real property interests directly (or indirectly through one or more partnerships), such that a qualified foreign pension fund and any entity wholly-owned by a qualified foreign pension fund will no longer be subject to U.S. income tax and withholding tax under FIRPTA. The PATH Act also raised the FIRPTA withholding tax rate from 10% to 15%. The PATH Act further increases from 5% to 10% the maximum stock ownership a shareholder may hold in a publicly-traded REIT to be exempt from FIRPTA on dispositions of stock in such REIT or distributions from such REIT.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2. PROPERTIES

Geographic Diversification/Concentration

The following table lists the states in which our properties are located and provides certain information regarding our portfolio's geographic diversification/concentration as of December 31, 2015:

State	Number of Properties	GLA (1) (square feet)	Percent of GLA		Annualized Base Rent (2) (thousands)	Percent of Annualized Base Rent	
Alabama	5	96,470	1.7	%	$1,293	1.1	%
Arizona	7	496,535	8.6	%	11,428	9.3	%
Colorado	1	15,000	0.3	%	600	0.5	%
Florida	19	283,679	4.9	%	8,270	6.7	%
Georgia	22	631,402	10.9	%	12,079	9.8	%
Illinois	4	181,891	3.1	%	3,404	2.8	%
Indiana	13	407,746	7.0	%	8,263	6.7	%
Kentucky	1	18,887	0.3	%	499	0.4	%
Louisiana	3	151,044	2.6	%	5,186	4.2	%
Maryland	1	41,493	0.7	%	810	0.7	%
Maine	1	44,677	0.8	%	1,235	1.0	%
Michigan	6	371,541	6.4	%	7,068	5.7	%
Minnesota	8	348,750	6.0	%	7,002	5.7	%
Missouri	1	30,000	0.5	%	634	0.5	%
Mississippi	2	97,294	1.7	%	2,494	2.0	%
Montana	2	120,636	2.1	%	2,582	2.1	%
North Carolina	1	29,422	0.5	%	628	0.5	%
North Dakota	1	45,222	0.8	%	839	0.7	%
New York	7	185,365	3.2	%	3,840	3.1	%
Ohio	9	444,630	7.7	%	8,632	7.0	%
Oklahoma	1	52,000	0.9	%	1,298	1.1	%
Pennsylvania	10	386,924	6.7	%	5,051	4.1	%
Tennessee	5	228,479	3.9	%	2,746	2.2	%
Texas	15	737,449	12.7	%	19,248	15.7	%
Washington	2	192,959	3.3	%	5,228	4.3	%
Wisconsin	4	159,842	2.7	%	2,576	2.1	%
Total	151	5,799,337	100	%	$122,933	100	%

(1) "GLA" means gross leasable area.

(2) Calculated for each tenant as the monthly contracted base rent per the terms of such tenant's lease, as of December 31, 2015, multiplied by 12.

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Scheduled Lease Expirations

The following table provides a summary of lease expirations for our properties owned as of December 31, 2015 for the periods indicated.

Expiration	Number of Leases Expiring	GLA	Percent of GLA	Annualized Base Rent (1) (thousands)	Percent of Annualized Base Rent	Annualized Base Rent Leased per Square Foot (2)
2015 (3)	7	47,375	0.8 %	1,136	0.9 %	$23.98
2016	44	186,504	3.2 %	3,889	3.3 %	20.85
2017	79	315,342	5.4 %	7,291	5.9 %	23.12
2018	68	345,789	6.0 %	6,600	5.4 %	19.09
2019	46	307,057	5.3 %	6,977	5.7 %	22.72
2020	51	197,014	3.4 %	3,746	3.0 %	19.01
2021	31	190,700	3.3 %	3,857	3.1 %	20.23
2022	28	294,163	5.1 %	6,163	5.0 %	20.95
2023	39	365,650	6.3 %	7,406	6.0 %	20.25
2024	55	583,469	10.1 %	11,360	9.2 %	19.47
Thereafter	168	2,686,306	46.2 %	64,244	52.3 %	23.92
Month to month	15	38,867	0.7 %	264	0.2 %	6.79
Vacant	—	241,101	4.2 %	—	—	—
Total / Weighted average	631	5,799,337	100 %	$122,933	100 %	$22.36

(1) Annualized base rent is calculated by multiplying (a) base rental payments for the month ended December 31, 2015, by (b) 12.

(2) Annualized base rent per leased square foot is calculated by dividing (a) annualized base rent as of December 31, 2015, by (b) square footage under commenced leases as of December 31, 2015.

(3) Of the 0.8% of leases that expired on December 31, 2015, 0.6% rolled into new long-term leases. The remaining 0.2% are vacant as of January 1, 2016.

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Tenants

As of December 31, 2015, our properties were 95.8% leased. No single tenant accounted for more than 3.9% of our total annualized base rent as of December 31, 2015.

The following table sets forth certain information about the 10 largest tenants in our portfolio based on total annualized base rent as of December 31, 2015.

Tenant	# of Properties	Property Location	Leased SF	% Leased GLA		Annualized Base Rent (1) (thousands)	% of Portfolio Annualized Rent (2)	
LifeCare	3	TX, PA	310,352	5.4	%	$ 4,803	3.9	%
Trios Health	1	WA	161,885	2.8	%	4,250	3.5	%
East El Paso Physicians Medical Center	1	TX	77,000	1.3	%	3,585	2.9	%
Wayne State University Physician Group	1	MI	176,000	3.0	%	3,247	2.6	%
Crescent City Surgical Centre	1	LA	60,000	1.0	%	3,183	2.6	%
FSH Hospital of San Antonio	2	TX	68,786	1.2	%	2,988	2.4	%
Mid-Ohio Oncology/Hematology	1	OH	98,325	1.7	%	2,322	1.9	%
Northside Hospital	3	GA	88,003	1.5	%	2,291	1.9	%
Great Falls Clinic	1	MT	108,000	1.9	%	2,235	1.8	%
Columbus Regional Healthcare System	9	GA	125,189	2.2	%	1,956	1.6	%
Total	23		1,273,540	22.0	%	$ 30,860	25.1	%

(1) Calculated for each tenant as the monthly contracted base rent per the terms of such tenant’s lease, as of December 31, 2015, multiplied by 12.

(2) Calculated as annualized base rent for such tenant as of December 31, 2015 divided by annualized base rent for the total portfolio as of December 31, 2015.

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

Ground Leases

We lease the land upon which fourteen of our properties (Mid Coast Hospital MOB, Valley West Hospital MOB, Crescent City Surgical Centre, Orthopedic One - Columbus, Carmel Medical Pavilion, Berger Medical Center, Edina MOB, Healthpark Medical Center, Brookstone Physician Center MOB, Medical Specialists of Palm Beach MOB, Trios Health MOB, IMS - Paradise Valley MOB, IMS - North Mountain MOB, Great Falls Clinic MOB), representing approximately 16.8% of our total leasable square feet and 18.7% of our annualized revenue for the year ended December 31, 2015, are subject to ground leases that contain certain restrictions. These restrictions include limits on our ability to re-let such facilities to tenants not affiliated with the healthcare delivery system that owns the underlying land, and rights of first offer and refusal with respect to sales of the property, and limits on the types of medical procedures that may be performed.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Our common shares are traded on the NYSE under the symbol "DOC." As of February 22, 2016, we had 117 registered shareholders of record for our common shares.

The following table sets forth, for the periods indicated, the high and low sale prices of our common shares for the fiscal years ended December 31, 2014 and 2015, respectively, as reported on the NYSE, and the dividends paid by us with respect to those periods.

2014	High	Low	Dividends (1)	
First quarter	$14.00	$11.99	$0.225	(2)
Second quarter	$14.63	$12.39	$0.225	(3)
Third quarter	$15.00	$13.51	$0.225	(4)
Fourth quarter	$16.97	$13.56	$0.225	(5)
2015	High	Low	Dividends (1)	
First quarter	$18.12	$15.67	$0.225	(6)
Second quarter	$17.99	$14.89	$0.225	(7)
Third quarter	$16.29	$13.86	$0.225	(8)
Fourth quarter	$17.05	$14.68	$0.225	(9)

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

(2) On March 27, 2014, we declared a cash dividend of $0.225 per share for the quarterly period ended March 31, 2014. The dividend was paid on April 25, 2014 to common shareholders and common OP Unit holders of record on April 11, 2014.

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

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

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

(6) On April 6, 2015, we declared a cash dividend of $0.225 per share for the quarterly period ended March 31, 2015. The dividend was paid on May 1, 2015 to common shareholders and common OP Unit holders of record on April 17, 2015.

(7) On July 1, 2015, we declared a cash dividend of $0.225 per share for the quarterly period ended June 30, 2015. The dividend was paid on July 31, 2015 to common shareholders and common OP Unit holders of record on July 17, 2015.

(8) On September 28, 2015, we declared a cash dividend of $0.225 per common share for the quarterly period ended September 30, 2015. The dividend was paid on October 30, 2015 to common shareholders and common OP Unit holders of record on October 16, 2015.

(9) On January 4, 2016, we declared a cash dividend of $0.225 per share for the quarter ending December 31, 2015. The dividend was paid on January 29, 2016 to common shareholders and common OP Unit holders of record on January 15, 2016.

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

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Stock Performance Graph

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

The graph below compares the cumulative total return of our common shares, the S&P 500 and the MSCI US REIT Index (RMS), from July 19, 2013 (the date of our IPO) through December 31, 2015. The comparison assumes $100 was invested on July 19, 2013 in our common shares and in each of the foregoing indexes and assumes reinvestment of dividends, as applicable. The MSCI US REIT Index consists of equity REITs that are included in the MSCI US Investable Market 2500 Index, except for specialty equity REITS that do not generate a majority of their revenue and income from real estate rental and leasing operations. We have included the MSCI US REIT Index because we joined the MSCI US REIT Index in November 2014 and therefore, we believe that it is representative of the industry in which we compete and is relevant to an assessment of our performance.

	Period Ending			
Index	7/19/2013	12/31/2013	12/31/2014	12/31/2015
Physicians Realty Trust	$100.00	$112.34	$156.36	$167.80
S&P 500	$100.00	$110.29	$125.39	$127.13
MSCI US REIT (RMS)	$100.00	$91.70	$119.56	$122.57

Recent Sales of Unregistered Securities

On December 17, 2015, the Company, through a subsidiary of the Operating Partnership, entered into and closed a contribution agreement (the “Contribution Agreement”) with Nashbridge MOB, Inc. and Camlotte, LLC to acquire a medical office building in Nashville, Tennessee (the “Nashville MOB”) in exchange for approximately $27.4 million in cash (and payment of third party indebtedness) and approximately $19.7 million payable in Series A Participating Redeemable Preferred Units of the Operating Partnership (the “Series A Preferred Units”). Holders of the Series A Preferred Units issued in connection with the acquisition of the Nashville MOB 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. Our Operating Partnership issued 91,236 Series A Preferred Units in the transaction to acquire the Nashville MOB. The investors in the Series A Preferred Units have agreed not to cause the Operating Partnership to redeem their Series A Preferred Units prior to December 17, 2016.

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The Series A Preferred Units issued in connection with the property acquisition described above were issued (a) in private placements in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and the rules and regulations promulgated thereunder and (b) to "accredited investors" within the meaning of Rule 501 of Regulation D under the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

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

We had no business operations prior to completion of the IPO and the formation transactions on July 24, 2013. The balance sheet data as of December 31, 2013, 2014 and 2015 reflects our financial condition. References in the notes to the consolidated and combined financial statements refer to Physicians Realty Trust for the period July 24, 2013, the date of completion of the IPO and the related formation transactions through December 31, 2013, and to the Predecessor for all prior periods.

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

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

	Year Ended December 31, 2015	2014	2013 (1)
Statement of Operations Data:			
Revenues:			
Rental revenues	$103,974	$46,397	$13,565
Expense recoveries	21,587	5,871	3,234
Interest income on real estate loans and other	3,880	1,066	246
Total revenues	129,441	53,334	17,045
Expenses:			
Interest expense	10,636	6,907	4,295
General and administrative	14,908	11,440	3,214
Operating expenses	31,026	10,154	4,650
Depreciation and amortization	45,471	16,731	5,107
Impairment losses	—	1,750	—
Acquisition expenses	14,893	10,897	1,938
Management fees	—	—	475
Total expenses	116,934	57,879	19,679
Income (loss) before equity in income of unconsolidated entity, gain (loss) on sale of investment properties, and noncontrolling interests:	12,507	(4,545)	(2,634)
Equity in income of unconsolidated entity	104	95	—
Gain (loss) on sale of investment properties	130	32	(2)
Net income (loss)	12,741	(4,418)	(2,636)
Less: net loss attributable to Predecessor	—	—	576
Less: net (income) loss attributable to noncontrolling interest – Operating Partnership	(576)	695	470
Less: net income attributable to noncontrolling interest – partially owned properties	(377)	(314)	(71)
Net income (loss) attributable to controlling interest	11,788	(4,037)	(1,661)
Preferred distributions	(1,189)	—	—
Net income (loss) attributable to common shareholders	$10,599	$(4,037)	$(1,661)
Balance Sheet Data (as of end of period):			
Assets:			
Net real estate investments	$1,579,483	$773,650	$227,539
Cash and cash equivalents	3,143	15,923	56,478
Tenant receivables, net	2,977	1,324	837
Deferred costs, net	7,037	4,870	2,105
Other assets	52,231	15,806	5,901
Total assets	$1,644,871	$811,573	$292,860
Liabilities and Equity			
Credit Facility	$395,000	$138,000	$—
Mortgage debt	94,600	78,105	42,821
Accounts payable	644	700	836
Dividends payable	20,783	16,548	5,681
Accrued expenses and other liabilities	24,473	6,140	2,685
Acquired lease intangible, net	5,950	2,871	—
Total liabilities	541,450	242,364	52,023
	26,960	—	—

Redeemable noncontrolling interest – Operating Partnership and partially owned properties			
Total shareholders' equity	1,021,132	534,730	204,904
Noncontrolling interest	55,329	34,479	35,933
Total liabilities and equity	$1,644,871	$811,573	$292,860

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

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

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

Overview

We are a self-managed healthcare real estate company organized in April 2013 to acquire, selectively develop, own and manage healthcare properties that are leased to physicians, hospitals and healthcare delivery systems. We invest in real estate that is integral to providing high quality healthcare services. Our properties are typically located on a campus with a hospital or other healthcare facilities or strategically located and affiliated with a hospital or other healthcare facilities. We believe the impact of government programs and continuing trends in the healthcare industry create attractive opportunities for us to invest in healthcare related real estate. Our management team has significant public healthcare REIT experience and has long established relationships with physicians, hospitals and healthcare delivery system decision makers that we believe will provide quality investment and growth opportunities. Our principal investments include medical office buildings, outpatient treatment facilities, acute and post-acute care hospitals, as well as other real estate integral to health care providers. We seek to invest in stabilized medical facility assets with initial cash yields of 6% to 9%. We seek to generate attractive risk-adjusted returns for our shareholders through a combination of stable and increasing dividends and potential long-term appreciation in the value of our properties and our common shares.

We have entered into an unsecured credit facility in the maximum principal amount of $750 million and intend to use borrowings under the facility to finance future acquisitions and developments, fund tenant improvements, leasing commissions to third parties, capital expenditures, provide for working capital and for other general corporate purposes. The unsecured credit facility includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing us to increase borrowing capacity by up to an additional $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $1.1 billion. As of December 31, 2015, we had approximately $95 million of mortgage indebtedness outstanding secured by first mortgages on certain of our properties and $395 million of outstanding borrowings under our unsecured credit facility.

As of December 31, 2015, our portfolio consisted of 151 properties located in 26 states with approximately 5,799,337 net leasable square feet, which were approximately 95.8% leased with a weighted average remaining lease term of approximately 9.0 years and approximately 74% of the net leasable square footage of our portfolio was affiliated with a healthcare delivery system or located within approximately 1/4 mile of a hospital campus. We expect to acquire between $750 million and $1 billion of real estate during 2016, including the 2016 acquisitions described in this report.

We receive a cash rental stream from these healthcare providers under our leases. Approximately 85.5% of the annualized base rent payments from our properties as of December 31, 2015 are from triple-net leases, pursuant to which the tenants are responsible for all operating expenses relating to the property, including but not limited to real estate taxes, utilities, property insurance, routine maintenance and repairs, and property management. This structure helps insulate us from increases in certain operating expenses and provides more predictable cash flow. Approximately 5.9% of the annualized base rent payments from our properties as of December 31, 2015 are from modified gross base stop leases which allow us to pass through certain increases in future operating expenses (e.g., property tax and insurance), to tenants for reimbursement, thus protecting us from increases in such operating expenses. We seek to structure our triple-net leases to generate attractive returns on a long-term basis. Our leases typically have initial terms of five to 15 years and include annual rent escalators of approximately 2.0% to 3.0%. Our operating results depend significantly upon the ability of our tenants to make required rental payments. We believe that our portfolio of medical office buildings and other healthcare facilities will enable us to generate stable cash flows over time because of the diversity of our tenants, staggered lease expiration schedule, long-term leases, and low historical occurrence of tenants defaulting under their leases. As of December 31, 2015, leases representing a percentage of our portfolio on the basis of leasable square feet will expire as follows:

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Year (1)	Portfolio Lease Expirations
MTM	0.7%
2016	3.2%
2017	5.4%
2018	6.0%
2019	5.3%
2020	3.4%
2021	3.3%
2022	5.1%
2023	6.3%
2024	10.1%
Thereafter:	46.2%
Total (2)	95.0%

(1) "MTM" means month-to-month.

(2) The difference between the 95.8% leased as of December 31, 2015 as noted above, compared to the 95.0% noted in this table is 0.8%, which is due to leases that expired on December 31, 2015. Of those 0.6% rolled into new long-term leases and 0.2% are vacant as of January 1, 2016. Vacancy totaled 4.2%.

During 2015, we completed acquisitions of 66 medical office facilities located in 22 states for an aggregate purchase price of approximately $818.6 million. Acquisitions are detailed in Note 3 to our consolidated and combined financial statements included in Item 8 to this report.

In 2015, we funded 5 mezzanine loan investments totaling approximately $21.4 million. Additionally, we provided 3 advances on 1 construction loan totaling approximately $1.0 million.

We have grown our portfolio of gross real estate investments from approximately $124 million at the time of our IPO in July 2013 to approximately $1.7 billion as of December 31, 2015. As of February 22, 2016, we have 108,596,965 common shares outstanding.

On January 21, 2015, we completed a follow-on public offering of 18,975,000 common shares of beneficial interest, including 2,475,000 common shares issued upon exercise of the underwriters' overallotment option, resulting in net proceeds to us of approximately $297.3 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 18,975,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

On July 22, 2015, the Operating Partnership, as borrower, and we and certain subsidiaries and other affiliates of our company, as guarantors, entered into an amendment to the existing credit agreement with KeyBank National Association as administrative agent, KeyBanc Capital Markets Inc., Regions Capital Markets and BMO Capital Markets, as joint lead arrangers and joint bookrunners, Regions Capital Markets and BMO Capital Markets, as co-syndication agents, and the lenders party thereto (as amended, the "Credit Agreement") which increased the maximum principal amount available under an unsecured revolving credit facility from $400 million to $750 million. The Credit Agreement includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing us to increase borrowing capacity by up to an additional $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $1.1 billion.

The Credit Agreement has a maturity date of September 18, 2019 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 December 31, 2015, the Trust had an investment grade rating from Moody’s of Baa3 and as such, borrowings under the Credit Agreement accrued interest on the outstanding principal at a rate of LIBOR plus 1.20%. The Credit Agreement includes a facility fee equal to 0.25% per annum, which is also determined by the Trust’s investment grade rating.

The Credit Agreement contains financial covenants that, among other things, require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as covenants that may limit our and the Operating Partnership’s ability to incur additional debt or make distributions. We may, at any time, voluntarily prepay any loan under the Credit Agreement in whole or in part without premium or penalty. As of December 31, 2015, we were in compliance with all financial covenants.

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

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

Investment Grade Rating	Adjusted LIBOR Rate Loans and Letter of Credit Fee	Base Rate Loans	
At Least A- or A3	LIBOR + 0.85%	—	%
At Least BBB+ or BAA1	LIBOR + 0.90%	—	%
At Least BBB or BAA2	LIBOR + 1.00%	0.10	%
At Least BBB- or BAA3	LIBOR + 1.20%	0.20	%
Below BBB- or BAA3	LIBOR + 1.55%	0.60	%

On October 19, 2015, we completed a follow-on public offering of 15,812,500 common shares of beneficial interest, including 2,062,500 common shares issued upon exercise of the underwriters' overallotment option, resulting in net proceeds to us of approximately $226.8 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 15,812,500 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

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

We are a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our short taxable year ended December 31, 2013. We conduct our business through an UPREIT structure in which our properties are owned by our Operating Partnership directly or through limited partnerships, limited liability companies or other subsidiaries. We are the sole general partner of our Operating Partnership and, as of February 22, 2016, own approximately 96.7% of the OP Units.

Recent Developments

On January 4, 2016, our Board of Trustees authorized and we declared a cash distribution of $0.225 per common share and common OP Unit for the quarterly period ended December 31, 2015. The distribution was paid on January 29, 2016 to common shareholders and OP Unit holders of record as of the close of business on January 15, 2016.

January 2016 Notes Offering

On January 7, 2016, our Operating Partnership issued and sold $150 million aggregate principal amount of senior notes, comprised of (i) $15,000,000 aggregate principal amount of 4.03% Senior Notes, Series A, due January 7, 2023 (the “Series A Notes”), (ii) $45,000,000 aggregate principal amount of 4.43% Senior Notes, Series B, due January 7, 2026 (the “Series B Notes”), (iii) $45,000,000 aggregate principal amount of 4.57% Senior Notes, Series C, due January 7, 2028 (the “Series C Notes”) and (iv) $45,000,000 aggregate principal amount of 4.74% Senior Notes, Series D, due January 7, 2031 (the “Series D Notes,” and together with the Series A Notes, the Series B Notes and the Series C Notes, the “Notes”). The proceeds of the Notes were used to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

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January 2016 Follow-on Equity Offering

On January 25, 2016, we completed a follow-on public offering of 21,275,000 common shares of beneficial interest, including 2,775,000 common shares issued upon exercise of the underwriters' overallotment option, resulting in net proceeds to us of approximately $320.9 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 21,275,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

2016 Property Acquisitions

Since January 1, 2016, we have completed 8 acquisitions of 7 healthcare properties and 1 condominium for an aggregate purchase price of $105.1 million containing an aggregate of 326,326 net leasable square feet. Additionally, we issued 1 mezzanine loan for $0.5 million. Acquisitions subsequent to January 1, 2016 are summarized below.

Property(1)	Location	Acquisition Date	Investment (in thousands)
Randall Road MOB - Suite 380	Elgin, IL	January 14, 2016	$704
Great Falls Hospital	Great Falls, MT	January 25, 2016	29,043
Monterey Medical Center ASC	Stuart, FL	February 1, 2016	6,900
Physicians Medical Plaza MOB	Indianapolis, IN	February 1, 2016	8,500
Mezzanine Loan - Davis	Minneapolis, MN	February 4, 2016	500
Park Nicollet Clinic	Chanhassen, MN	February 8, 2016	18,600
HEB Cancer Center	Bedford, TX	February 12, 2016	14,000
Riverview Medical Center	Lancaster, OH	February 26, 2016	12,800
St. Luke's Cornwall MOB	Cornwall, NY	February 26, 2016	14,550
			$105,597

We expect to acquire between $750 million and $1 billion of real estate during 2016, including the approximately $106 million of acquisitions described above.

Components of Our Revenues, Expenses and Cash Flow

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

Revenues

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

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

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

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

Interest income on real estate loans and other. Represents interest income on mezzanine loans, term loans, change in fair value of derivative liabilities, and third party property management income. Interest income on the loans are recognized as earned based on the terms of the loans subject to evaluation of collectability risks.

Expenses

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

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

General and administrative. General and administrative expenses include certain expenses such as compensation, accounting, legal and other professional fees as well as certain other administrative and travel costs, and expenses related to bank charges, franchises taxes, corporate filing fees, exchange listing fees, officer and trustee insurance costs and other costs associated with being a public company. In addition, effective upon completion of the IPO, we entered into a Shared Services Agreement with Ziegler with respect to certain overhead expenses. On July 31, 2014, we entered into the First Amendment to Shared Services Agreement with Ziegler, which amended certain terms of the Shared Services Agreement. Among other things, the First Amendment reduced the shared services to be provided by Ziegler, the term of the shared services agreement, and the monthly fee to be paid by us for the remainder of the term. In consideration of these changes, we were obligated to make a one-time payment to Ziegler in the amount of $1,800,000, which could be paid in cash or in unrestricted common shares, as determined by us in our sole discretion. On August 19, 2014, we made the amendment payment by issuing 124,913 common shares to Ziegler. The fees paid under the Shared Services Agreement are included in general and administrative expenses. We elected to terminate the Agreement effective July 23, 2015 in conjunction with our completed renovations of the Renaissance Office Building.

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

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

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

Impairment loss. We review long-lived assets every quarter for impairment indicators or whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such criteria are present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value.

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

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

Gain or loss on sale of investment properties. Upon the sale of investment properties, gains or losses are recognized based upon the difference between the disposal sale price and the net book value of the asset.

Cash Flow

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

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

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

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Results of Operations

Overview

As described above, following the completion of the IPO and the formation transactions in July 2013, our structure and operations differ from the historical structure and operations of the Ziegler Funds. For this and other reasons set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations," we do not believe that the combined operating results for the Predecessor and the Trust presented for fiscal year 2013 are indicative of our future operating results.

Year Ended December 31, 2015 compared to the Year Ended December 31, 2014.

The following table summarizes our results of operations for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014	Change	%
Revenues:				
Rental revenues	$103,974	$46,397	$57,577	124.1
Expense recoveries	21,587	5,871	15,716	267.7
Interest income on real estate loans and other	3,880	1,066	2,814	264.0
Total revenues	129,441	53,334	76,107	142.7
Expenses:				
Interest expense	10,636	6,907	3,729	54.0
General and administrative	14,908	11,440	3,468	30.3
Operating expenses	31,026	10,154	20,872	205.6
Depreciation and amortization	45,471	16,731	28,740	171.8
Acquisition expenses	14,893	10,897	3,996	36.7
Impairment loss	—	1,750	(1,750)	(100.0)
Total expenses	116,934	57,879	59,055	102.0
Income (loss) before equity in income of unconsolidated entity and gain on sale of investment properties:	12,507	(4,545)	17,052	(375.2)
Equity in income of unconsolidated entity	104	95	9	9.5
Gain on sale of investment properties	130	32	98	306.3
Net income (loss)	$12,741	$(4,418)	$17,159	(388.4)

Revenues

Total revenues increased $76.1 million, or 142.7%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. An analysis of selected revenues follows.

Rental revenues. Rental revenues increased $57.6 million, or 124.1%, from $46.4 million for the year ended December 31, 2014 to $104.0 million for the year ended December 31, 2015. The increase in rental revenues primarily resulted from our 2015 and 2014 acquisitions which resulted in additional rental revenue of $31.0 million and $26.5 million, respectively.

Expense recoveries. Expense recoveries increased $15.7 million, or 267.7%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in expense recoveries are the result of our 2015 and 2014 acquisitions which resulted in additional expense recoveries of $9.8 million and $5.9 million, respectively.

Interest income on real estate loans and other. Interest income on real estate loans and other increased $2.8 million, or 264.0%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase primarily resulted from $1.5 million of additional interest earned on the Company's loan investments and $0.8 million of amortized tenant improvement income during the year ended December 31, 2015.

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Expenses

Total expenses increased by $59.1 million, or 102.0%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. An analysis of selected expenses follows.

Interest expense. Interest expense for the year ended December 31, 2015 was $10.6 million compared to $6.9 million for the year ended December 31, 2014, representing an increase of $3.7 million, or 54.0%. The $3.7 million increase was the result of a $0.9 million increase in interest on new mortgage debt and $3.0 million increase resulting from outstanding balances, non-use fees and amortization of deferred financing costs on our revolving line of credit, partially offset by a $0.2 million decrease in interest on mortgage debt due to pay-downs of existing debt.

General and administrative. General and administrative expenses increased $3.5 million or 30.3%, from $11.4 million during the year ended December 31, 2014 to $14.9 million during the year ended December 31, 2015. The increase was primarily the result of additional salaries and benefits expenses totaling $3.5 million (including non-cash share compensation of $1.1 million). Other increases in administrative costs were offset by the absence of a one-time charge related to the $1.8 million shared services amendment which occurred during 2014.

Operating expenses. Operating expenses increased $20.9 million or 205.6%, from $10.2 million during the year ended December 31, 2014 to $31.0 million during the year ended December 31, 2015. The increase in operating expenses primarily resulted from our 2015 and 2014 acquisitions which resulted in additional operating expenses of $12.7 million and $9.0 million, respectively.

Depreciation and amortization. Depreciation and amortization increased $28.7 million, or 171.8%, from $16.7 million during the year ended December 31, 2014 to $45.5 million during the year ended December 31, 2015. The increase in depreciation and amortization primarily resulted from our 2015 and 2014 acquisitions which resulted in additional depreciation and amortization of $17.3 million and $11.5 million, respectively.

Acquisition expenses. Acquisition expenses increased $4.0 million or 36.7%, from $10.9 million during the year ended December 31, 2014 to $14.9 million for the year ended December 31, 2015. During the year ended December 31, 2015 and 2014, we acquired $779.2 million and $322.8 million, respectively, of real estate that were considered business combinations and as such, the related acquisition costs were expensed.

Impairment loss. The Trust recognized a $1.8 million impairment loss on two medical office buildings purchased by the Predecessor for the year ended December 31, 2014. No such impairment loss was recorded for the year ended December 31, 2015.

Equity in income of unconsolidated entity. The change in equity income from unconsolidated entity for the year ended December 31, 2015 compared to the year ended December 31, 2014 is not significant.

Gain on sale of investment properties. On March 26, 2015, the Trust sold a 20,329 square foot medical office building located in Ohio for approximately $1.6 million, resulting in an insignificant loss. On July 31, 2015, the Trust sold a 26,783 square foot medical office building located in Michigan for approximately $1.5 million, realizing a gain of $0.1 million. On September 19, 2014, the Trust sold a 2,000 square foot medical office building condominium unit located in Florida for approximately $0.3 million, resulting in an insignificant gain.

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

The Trust was organized on April 9, 2013 and commenced operations on July 24, 2013. The 2013 results disclosed in this report include the Trust's results from July 24, 2013 through December 31, 2013, combined with the results of the Predecessor from January 1, 2013 through July 23, 2013.

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

	2014	2013	Change	%
Revenues:				
Rental revenues	$46,397	$13,565	$32,832	242.0
Expense recoveries	5,871	3,234	2,637	81.5
Interest income on real estate loans and other	1,066	246	820	333.3
Total revenues	53,334	17,045	36,289	212.9
Expenses:				
Interest expense	6,907	4,295	2,612	60.8
General and administrative	11,440	3,214	8,226	255.9
Operating expenses	10,154	4,650	5,504	118.4
Depreciation and amortization	16,731	5,107	11,624	227.6
Acquisition expenses	10,897	1,938	8,959	462.3
Management fee	—	475	(475)	(100.0)
Impairment loss	1,750	—	1,750	NM
Total expenses	57,879	19,679	38,200	194.1
Loss before equity in income of unconsolidated entity and gain (loss) on sale of investment properties:	(4,545)	(2,634)	(1,911)	72.6
Equity in income of unconsolidated entity	95	—	95	NM
Gain (loss) on sale of investment properties	32	(2)	34	NM
Net loss	$(4,418)	$(2,636)	$(1,782)	67.6

NM = Not Meaningful

Revenues

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

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

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

Interest income on real estate loans and other. Interest income on real estate loans and other increased $0.8 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase was the result of a $0.7 million increase due to the mezzanine loan transaction completed on January 2, 2014 and an increase of $0.2

million of other income, which was partially offset by a $0.1 million decrease in the gain from the change in fair value of a derivative liability.

Expenses

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

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

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

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

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

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

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

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

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

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

Cash Flows

Twelve Months Ended December 31, 2015 compared to the twelve months ended December 31, 2014 (in thousands).

	2015	2014
Cash provided by operating activities	$61,352	$13,295
Cash used in investing activities	(801,716)	(518,810)
Cash provided by financing activities	727,584	464,960
Decrease in cash and cash equivalents	$(12,780)	$(40,555)

Cash flows from operating activities. Cash flows provided by operating activities was $61.4 million during the twelve months ended December 31, 2015 compared to $13.3 million during the twelve months ended December 31, 2014, representing an increase of $48.1 million. This change is attributable to the increased operating cash flows resulting from our 2015 and 2014 acquisitions.

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Cash flows from investing activities. Cash flows used in investing activities was $800.7 million during the twelve months ended December 31, 2015 compared to cash flows used in investing activities of $518.8 million during the twelve months ended December 31, 2014, representing a change of $282.9 million. The increase in cash flows used in investing activities was primarily attributable to our $251.7 million increase in acquisition activity over the prior year.

Cash flows from financing activities. Cash flows provided by financing activities was $727.6 million during the twelve months ended December 31, 2015 compared to cash flows provided by financing activities of $465.0 million during the twelve months ended December 31, 2014, representing an increase of $262.6 million. The 2015 activity was primarily attributable to our follow-on public offerings and the at-the-market offering, resulting in net proceeds of $545.1 million, and $620.0 million of proceeds from borrowings on our revolving credit facility. These were partially offset by the $363.0 million paydown of our revolving credit facility and $63.7 million of dividends paid.

Year Ended December 31, 2014 compared to Year Ended December 31, 2013 (in thousands).

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

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

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

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

Non-GAAP Financial Measures

Funds From Operations (FFO) and Normalized FFO

We believe that information regarding FFO is helpful to shareholders and potential investors because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes ratably over time. Because real estate values have historically increased or decreased with market conditions, we believe that FFO provides a more meaningful and accurate indication of our performance. We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as net income (computed in accordance with GAAP) before noncontrolling interests of holders of OP units, excluding gains (or losses) on sales of depreciable operating property, impairment write-downs on depreciable assets and extraordinary items (computed in accordance with GAAP), plus real estate related depreciation and amortization (excluding amortization of deferred financing costs). Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with NAREIT definition or that interpret the NAREIT definition differently than we do. The GAAP measure that we believe to be most directly comparable to FFO, net income (loss), includes depreciation and amortization expenses, gains or losses on property sales, impairments and noncontrolling interests. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from the operations of our properties. To facilitate a clear understanding of our historical operating results, FFO should be examined in

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conjunction with net income (determined in accordance with GAAP) as presented in our financial statements. FFO does not represent cash generated from operating activities in accordance with GAAP, should not be considered to be an alternative to net income (loss) (determined in accordance with GAAP) as a measure of our liquidity and is not indicative of funds available for our cash needs, including our ability to make cash distributions to shareholders.

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

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

	Year Ended December 31,	
	2015	2014
Net income (loss)	$12,741	$(4,418)
Net (income) attributable to NCI - partially owned properties	(377)	(314)
Preferred distributions	(1,189)	—
Depreciation and amortization expense	45,445	16,731
Depreciation and amortization expense - partially owned properties	(484)	(265)
Gain on the sale of investment properties	(130)	(32)
Impairment loss	—	1,750
FFO applicable to common shares and OP Units	$56,006	$13,452
FFO per common share and OP Unit	$0.73	$0.36
Net change in fair value of derivative	(166)	(161)
Acquisition related expenses	14,893	10,897
Acceleration of deferred financing costs	—	178
Other normalizing items	—	1,800
Normalized FFO applicable to common shares and OP Units	$70,733	$26,166
Normalized FFO per common share and OP Unit	$0.92	$0.70
Weighted average number of common shares and OP Units outstanding	76,792,073	37,196,043

Net Operating Income (NOI) and Cash NOI

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

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

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

	Year Ended December 31,	
	2015	2014
Net income (loss)	$12,741	$(4,418)
General and administrative	14,908	11,440
Acquisition-related expenses	14,893	10,897
Depreciation and amortization	45,471	16,731
Interest expense	10,636	6,907
Net change in the fair value of derivative	(166)	(161)
Gain on the sale of investment properties	(130)	(32)
Impairment loss	—	1,750
NOI	$98,353	$43,114
NOI	$98,353	$43,114
Straight-line rent adjustments	(9,000)	(4,259)
Amortization of acquired above/below market leases	1,832	378
Amortization of lease inducements	572	191
Seller master lease and rent abatement payments	1,321	—
Cash NOI	$93,078	$39,424

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

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

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

	Year Ended December 31,	
	2015	2014
Net income (loss)	$12,741	$(4,418)
Depreciation and amortization	45,471	16,731
Interest expense	10,636	6,907
Net change in fair value of derivatives	(166)	(161)
EBITDA	$68,682	$19,059
Acquisition-related expenses	14,893	10,897
Non-cash share compensation	3,084	1,977
Impairment loss	—	1,750
Shared service amendment payment	—	1,800
Adjusted EBITDA	$86,659	$35,483

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Liquidity and Capital Resources

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

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

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

As of December 31, 2015, we had a total of $3.1 million of cash and cash equivalents and $198.7 million of near-term availability on our unsecured revolving credit facility. Also, we had an additional $156.3 million of availability under our unsecured revolving credit facility as of December 31, 2015 which is subject to customary property underwriting standards. We believe that our existing cash and cash equivalents, cash flow from operating activities and borrowings available under our unsecured revolving credit facility will be adequate to fund any existing contractual obligations to purchase properties and other obligations through the next twelve months. However, because of the 90% distribution requirement under the REIT tax rules under the Code, we may not be able to fund all of our future capital needs from cash retained from operations, including capital needed to make investments and to satisfy or refinance maturing obligations. As a result, we expect to rely upon external sources of capital, including debt and equity financing, to fund future capital needs. If we are unable to obtain needed capital on satisfactory terms or at all, we may not be able to make the investments needed to expand our business or to meet our obligations and commitments as they mature. We will rely upon external sources of capital to fund future capital needs, and, if we encounter difficulty in obtaining such capital, we may not be able to make future acquisitions necessary to grow our business or meet maturing obligations.

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

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

In addition, on June 17, 2015, we filed an automatic shelf registration statement on Form S-3 with the Commission covering an indeterminate amount of common shares, preferred shares, convertible shares, debt securities, convertible debt securities or other types of securities from time to time (the “Automatic Shelf Registration Statement”).

On August 19, 2014, we and the Operating Partnership entered into separate At Market Issuance Sales Agreements (the “Sales Agreements”) with each of MLV & Co. LLC, KeyBanc Capital Markets Inc., JMP Securities LLC, and RBC Capital Markets, LLC (the “Agents”), pursuant to which we may issue and sell common shares having an aggregate offering price of up to $150 million, from time to time, through the Agents pursuant to our Shelf Registration Statement declared effective on August 19, 2014 (the “ATM Program”). In accordance with the Sales Agreements, we may offer and sell our common shares through any of the Agents, from time to time, by any method deemed to be an “at-the-market offering” as defined in Rule 415 under the Securities Act, which includes sales made directly on the NYSE, or other existing trading market, or sales made to or through a market maker. With our express written consent, sales also may be made in negotiated transactions or any other method permitted by law. During 2015, we sold 1,255,092 common shares pursuant to the ATM Program, at a weighted average price of $16.63 per share resulting in total proceeds of approximately $20.9 million, before $0.3 million in commissions. As of February 22, 2016 we had no 2016 activity under the ATM Program. As of February 22, 2016, we have $73.5 million remaining available under the ATM Program.

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

- Existing shareholders may purchase additional common shares by reinvesting all or a portion of the dividends paid on their common shares and by making optional cash payments of not less than $50 and up to a maximum of $10,000 per month;
- New investors may join the DRIP by making an initial investment of not less than $1,000 and up to a maximum of $10,000; and
- Once enrolled in the DRIP, participants may authorize electronic deductions from their bank account for optional cash payments to purchase additional shares.

The DRIP is administered by our transfer agent, Computershare Trust Company, N.A. Our common shares sold under the DRIP will be newly issued or purchased in the open market, as further described in the DRIP. As of February 22, 2016, we have issued 16,589 common shares under our DRIP since its inception.

On January 21, 2015, we completed a follow-on public offering of 18,975,000 common shares of beneficial interest, including 2,475,000 common shares issued upon exercise of the underwriters’ overallotment option, resulting in net proceeds to us of approximately $297.3 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 18,975,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

On October 19, 2015, we completed a follow-on public offering of 15,812,500 common shares of beneficial interest, including 2,062,500 common shares issued upon exercise of the underwriters’ overallotment option, resulting in net proceeds to us of approximately $226.8 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 15,812,500 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

On January 7, 2016, our Operating Partnership issued and sold $150 million aggregate principal amount of senior notes, comprised of (i) $15,000,000 aggregate principal amount of 4.03% Senior Notes, Series A, due January 7, 2023 (the “Series A Notes”), (ii) $45,000,000 aggregate principal amount of 4.43% Senior Notes, Series B, due January 7, 2026 (the “Series B Notes”), (iii) $45,000,000 aggregate principal amount of 4.57% Senior Notes, Series C, due January 7, 2028 (the “Series C Notes”) and (iv) $45,000,000 aggregate principal amount of 4.74% Senior Notes, Series D, due January 7, 2031 (the “Series D Notes,” and together with the Series A Notes, the Series B Notes and the Series C Notes, the “Notes”). The proceeds of the Notes were used to repay borrowings under our unsecured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

The note agreement covering the Notes contains covenants that are substantially similar to those contained in the Credit Agreement, including financial covenants that require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as other affirmative and negative covenants that may limit, among other things, our ability to incur additional debt, make distributions or investments, incur liens and sell, transfer or dispose of assets. The note agreement also includes customary representations and warranties and customary events of default substantially similar to those contained in the Credit Agreement.

On January 25, 2016, we completed a follow-on public offering of 21,275,000 common shares of beneficial interest, including 2,775,000 common shares issued upon exercise of the underwriters' overallotment option, resulting in net proceeds to us of approximately $320.9 million. We contributed the net proceeds of this offering to our Operating Partnership in exchange for 21,275,000 OP Units, and our Operating Partnership used the net proceeds of the public offering to repay borrowings under our secured revolving credit facility and for general corporate and working capital purposes and funding acquisitions.

We currently do not expect to sell any of our properties to meet our liquidity needs, although we may do so in the future.

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

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

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Critical Accounting Policies

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

Principles of Consolidation and Combination

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

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

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

Real Estate Investment Properties and Identified Intangible Assets

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

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

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Revenue

We recognize rental revenues in accordance with ASC 840, Leases ("ASC 840"). ASC 840 requires that rental revenue and adjustments relating to lease inducements and above and below market leases, be recognized on a straight-line basis over the term of the lease when collectability is reasonably assured. Recognizing rental revenue on a straight-line basis for leases may result in recognizing revenue for amounts more or less than amounts currently due from tenants. Amounts recognized in excess of amounts currently due are included in other assets on the consolidated balance sheets. If we determine the collectability of straight-line rents is not reasonable assured, we limit future recognition to amounts contractually owed and, where appropriate, establish an allowance for estimated losses.

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

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

Lease Accounting

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

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

Purchase of Investment Properties

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

The determination of fair value involves the use of significant judgment and estimation. The Trust makes estimates of the fair value of the tangible and intangible acquired assets and assumed liabilities using information obtained from multiple sources as a result of pre-acquisition due diligence and may include the assistance of a third party appraiser. We estimate the fair value of buildings acquired on an as-if-vacant basis and depreciate the building value over its estimated remaining life. We determine the allocated value of other fixed assets, such as site improvements, based upon the replacement cost and depreciate 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 our portfolio.

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

In determining the value of in-place leases and tenant relationships, management considers current market conditions and costs to execute similar leases in arriving at an estimate of the carrying costs during the expected lease-up period from vacant to existing occupancy. In estimating carrying costs, management includes real estate taxes, insurance, other operating

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expenses, estimates of lost rental revenue during the expected lease-up periods, and costs to execute similar leases, including leasing commissions, tenant improvements, legal, and other related costs based on current market demand. The values assigned to in-place leases and tenant relationships are amortized over the estimated remaining term of the lease. If a lease terminates prior to its scheduled expiration, all unamortized costs related to that lease are written off.

The values assigned to all lease intangible assets and liabilities are amortized over the estimated remaining term of the lease. If a lease terminates prior to its scheduled expiration, all unamortized costs related to that lease are written off.

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

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

Use of Estimates

The preparation of the consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made for the valuation of real estate and related intangibles, valuation of financial instruments, impairment assessments and fair value assessments with respect to purchase price allocations. Actual results could differ from those estimates.

REIT Qualification Requirements

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

Real Estate Taxes

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

Credit Facility

On July 22, 2015, the Operating Partnership, as borrower, and we and certain subsidiaries and other affiliates of our company, as guarantors, entered into an amendment to the existing credit agreement with KeyBank National Association as administrative agent, KeyBanc Capital Markets Inc., Regions Capital Markets and BMO Capital Markets, as joint lead arrangers and joint bookrunners, Regions Capital Markets and BMO Capital Markets, as co-syndication agents, and the lenders party thereto (as amended, the “Credit Agreement”) which increased the maximum principal amount available under an unsecured revolving credit facility from $400 million to $750 million. The Credit Agreement includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing us to increase borrowing capacity by up to an additional $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $1.1 billion.

The Credit Agreement has a maturity date of September 18, 2019 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 December 31, 2015, the Trust had an investment grade rating from Moody’s of Baa3 and as such, borrowings under the Credit Agreement accrued interest on the

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outstanding principal at a rate of LIBOR plus 1.20%. The Credit Agreement includes a facility fee equal to 0.25% per annum, which is also determined by the Trust's investment grade rating.

The Credit Agreement contains financial covenants that, among other things, require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as covenants that may limit our and the Operating Partnership's ability to incur additional debt or make distributions. We may, at any time, voluntarily prepay any loan under the Credit Agreement in whole or in part without premium or penalty. As of December 31, 2015, we were in compliance with all financial covenants.

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

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

Investment Grade Rating	Adjusted LIBOR Rate Loans and Letter of Credit Fee	Base Rate Loans	
At Least A- or A3	LIBOR + 0.85%	—	%
At Least BBB+ or BAA1	LIBOR + 0.90%	—	%
At Least BBB or BAA2	LIBOR + 1.00%	0.10	%
At Least BBB- or BAA3	LIBOR + 1.20%	0.20	%
Below BBB- or BAA3	LIBOR + 1.55%	0.60	%

Off-Balance Sheet Arrangements

As of December 31, 2015, we had no off-balance sheet debt.

Contractual Obligations

The following table summarizes our material contractual payment obligations and commitments as of December 31, 2015:

		Payments by Period (in thousands)			
	Total	Less than 1 Year	2016 - 2017	2018 - 2019	2020 and Thereafter
Principal payments(1)	$488,926	$9,748	$41,924	$420,602	$16,652
Interest payments – fixed rate debt(1)	12,590	4,290	5,388	2,290	622
Interest payments – variable rate debt(1)	22,782	6,285	12,394	4,103	—
Ground lease payments	34,756	1,576	3,268	3,439	26,473
Total	$559,054	$21,899	$62,974	$430,434	$43,747

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

Inflation

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

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Seasonality

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

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use certain derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. Our derivative instruments consist of two embedded derivatives and an interest rate swap and are recognized as liabilities on the consolidated balance sheets in accrued expenses and other liabilities and are measured at fair value. See Note 2 to our consolidated and combined financial statements included in Item 1 to this report.

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

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

The variable rate component of our consolidated indebtedness at December 31, 2015 is LIBOR based. Assuming no increase in the amount of our variable rate debt, if LIBOR were to increase by 100 basis points, interest expense on our variable rate debt at December 31, 2015 would increase by approximately $4.0 million annually, and if LIBOR were to decrease by 100 basis points, interest expense on our variable rate debt at December 31, 2015, would decrease by approximately $4.0 million annually.

Interest risk amounts are our management's estimates and were determined by considering the effect of hypothetical interest rates on our consolidated financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

Indebtedness

As of December 31, 2015, we had total consolidated indebtedness of approximately $489.6 million. The weighted average interest rate on our consolidated indebtedness was 2.28% (based on the 30-day LIBOR rate as of December 31, 2015, of 0.358%). As of December 31, 2015, we had approximately $399.3 million, or approximately 81.7%, of our outstanding long-term debt exposed to fluctuations in short-term interest rates.

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The following table sets forth certain information with respect to our consolidated indebtedness outstanding as of December 31, 2015 (in thousands).

	Principal	Fixed/Floating Rate	Rate		Maturity
Senior Secured Revolving Credit Facility	$395,000	Floating	LIBOR + 1.2%		9/18/2019
Canton Medical Office Building(1)	6,099	Fixed	5.94	%	6/6/2017
Firehouse Square	2,699	Fixed	6.58	%	9/6/2017
Hackley Medical Center	5,283	Fixed	5.93	%	1/6/2017
MeadowView Professional Center	10,225	Fixed	5.81	%	6/6/2017
Mid Coast Hospital Medical Office Building(2)	7,656	Fixed	4.90	%(3)	5/16/2016
Remington Medical Commons	4,262	Floating	LIBOR + 2.75%		9/28/2017
Valley West Hospital Medical Office Building	4,768	Fixed	4.83	%	12/1/2020
Oklahoma City, OK Medical Office Building	7,473	Fixed	4.71	%	1/10/2021
Crescent City Surgical Center	18,750	Fixed	5.00	%	1/23/2019
San Antonio, TX Hospital	9,120	Fixed	5.00	%	6/26/2022
Savage Medical Office Building	5,753	Fixed	5.50	%	2/1/2022
Plaza HCA MOB	11,838	Fixed	6.13	%	8/1/2017
Total	$488,926				

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

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

(3) This loan bears interest at a rate of LIBOR + 2.75%. We have entered into an interest rate swap to effectively fix the rate on this loan at 4.90% through the date of maturity.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Trustees of Physicians Realty Trust

We have audited the accompanying consolidated balance sheets of Physicians Realty Trust (the "Company") as of December 31, 2015 and December 31, 2014, and the related consolidated statements of operations, equity and cash flows for the years then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Physicians Realty Trust at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Physicians Realty Trust's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
February 29, 2016

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Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Shareholders and Board of Trustees
Physicians Realty Trust:

We have audited Physician Realty Trust's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Physician Realty Trust's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Physicians Realty Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements of Physicians Realty Trust and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
February 29, 2016

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Report of Independent Registered Public Accounting Firm

To The Board of Trustees and Shareholders of
Physicians Realty Trust
Milwaukee, Wisconsin

We have audited the accompanying consolidated and combined statements of operations, shareholders' equity and cash flows of Physicians Realty Trust (the "Company") for the year ended December 31, 2013. These consolidated and combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audit.

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

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

/s/ Plante & Moran, PLLC
Chicago, Illinois
March 21, 2014

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Physicians Realty Trust
Consolidated Balance Sheets
(in thousands, except share and per share data)

	December 31, 2015	December 31, 2014
ASSETS		
Investment properties:		
Land and improvements	$130,788	$79,334
Building and improvements	1,284,863	644,086
Tenant improvements	9,243	5,614
Acquired lease intangibles	205,168	72,985
	1,630,062	802,019
Accumulated depreciation	(91,250)	(45,569)
Net real estate property	1,538,812	756,450
Real estate loans receivable	39,349	15,876
Investment in unconsolidated entity	1,322	1,324
Net real estate investments	1,579,483	773,650
Cash and cash equivalents	3,143	15,923
Tenant receivables, net	2,977	1,324
Deferred costs, net	7,037	4,870
Other assets	52,231	15,806
Total assets	$1,644,871	$811,573
LIABILITIES AND EQUITY		
Liabilities:		
Credit facility	$395,000	$138,000
Mortgage debt	94,600	78,105
Accounts payable	644	700
Dividends payable	20,783	16,548
Accrued expenses and other liabilities	24,473	6,140
Acquired lease intangibles, net	5,950	2,871
Total liabilities	541,450	242,364
Redeemable noncontrolling interest – Operating Partnership and partially owned properties	26,960	—
Equity:		
Common shares, $0.01 par value, 500,000,000 common shares authorized, 86,864,063 and 50,640,863 common shares issued and outstanding as of December 31, 2015 and December 31, 2014, respectively.	872	510
Additional paid-in capital	1,129,284	586,017
Accumulated deficit	(109,024)	(51,797)
Total shareholders' equity	1,021,132	534,730
Noncontrolling interests:		
Operating Partnership	45,451	33,727
Partially owned properties	9,878	752
Total noncontrolling interests	55,329	34,479
Total equity	1,076,461	569,209
Total liabilities and equity	$1,644,871	$811,573

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

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Physicians Realty Trust
Consolidated and Combined Statements of Operations
(in thousands, except share and per share data)

	December 31,		
	2015	2014	2013
Revenues:			
Rental revenues	$103,974	$46,397	$13,565
Expense recoveries	21,587	5,871	3,234
Interest income on real estate loans and other	3,880	1,066	246
Total revenues	129,441	53,334	17,045
Expenses:			
Interest expense	10,636	6,907	4,295
General and administrative	14,908	11,440	3,214
Operating expenses	31,026	10,154	4,650
Depreciation and amortization	45,471	16,731	5,107
Acquisition expenses	14,893	10,897	1,938
Management fees	—	—	475
Impairment loss	—	1,750	—
Total expenses	116,934	57,879	19,679
Income (loss) before equity in income of unconsolidated entity, gain (loss) on sale of investment properties and noncontrolling interests:	12,507	(4,545)	(2,634)
Equity in income of unconsolidated entity	104	95	—
Gain (loss) on sale of investment properties	130	32	(2)
Net income (loss)	12,741	(4,418)	(2,636)
Net (income) loss attributable to noncontrolling interests:			
Predecessor	—	—	576
Operating Partnership	(576)	695	470
Partially owned properties	(377)	(314)	(71)
Net income (loss) attributable to controlling interest	11,788	(4,037)	(1,661)
Preferred distributions	(1,189)	—	—
Net income (loss) attributable to common shareholders	$10,599	$(4,037)	$(1,661)
Net income (loss) per share:			
Basic	$0.15	$(0.12)	$(0.13)
Diluted	$0.15	$(0.12)	$(0.13)
Weighted average common shares:			
Basic	72,750,724	33,063,093	12,883,917
Diluted	76,792,073	33,063,093	12,883,917
Dividends and distributions declared per common share and unit	$0.90	$0.90	$0.41

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

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Physicians Realty Trust and Predecessor
Consolidated and Combined Statements of Equity
(in thousands, except shares)

	Par Value	Additional Paid in Capital	Accumulated Deficit	Predecessor Equity	Total Shareholders' and Predecessor Equity	Operating Partnership Noncontrolling interest	Partially Owned Properties Noncontrolling Interest	Total Non-Controlling Interests	Total Equity
Predecessor Balance									
Balance at January 1, 2013	$ —	$ —	$ —	$ 19,068	$ 19,068	$ —	$ 29	$ 29	$ 19,097
Net (loss) income	—	—	—	(712)	(712)	—	136	136	(576)
Transfer	—	—	—	36	36	—	(36)	(36)	—
Distributions	—	—	—	(211)	(211)	—	(209)	(209)	(420)
Balance at July 24, 2013	—	—	—	18,181	18,181	—	(80)	(80)	18,101
Physicians Realty Trust									
Net proceeds from sale of common shares	213	225,707	—	—	225,920	—	—	—	225,920
Formation transactions	—	35	—	(18,181)	(18,146)	18,181	(389)	17,792	(354)
Restricted share award grants	2								