UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

Commission file number: 001-36007

PHYSICIANS REALTY TRUST

(Exact Name of Registrant as Specified in its Charter)

Maryland	**46-2519850**
(State of Organization)	(IRS Employer Identification No.)
735 N. Water Street	
Suite 1000	
Milwaukee, Wisconsin	**53202**
(Address of Principal Executive Offices)	(Zip Code)

(414) 978-6494

(Registrant s Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer o	Accelerated Filer o
Non-Accelerated Filer x (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 Exchange Act). o Yes x No

The number of the Registrant s common shares outstanding as of November 7, 2014 was 47,381,216.

Table of Contents

PHYSICIANS REALTY TRUST

Quarterly Report on Form 10-Q
for the Quarter Ended September 30, 2014

Table of Contents

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. In particular, statements pertaining to our capital resources, property performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, pro forma, estimates or anticipates or the neg phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

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

- general economic conditions;
- adverse economic or real estate developments, either nationally or in the markets in which our properties are located;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- fluctuations in interest rates and increased operating costs;
- the availability, terms and deployment of debt and equity capital, including our unsecured revolving credit facility;
- our ability to make distributions on our shares of beneficial interest;
- general volatility of the market price of our common shares;

- our limited operating history;
- our increased vulnerability economically due to the concentration of our investments in healthcare properties;
- our geographic concentrations in Texas causes us to be particularly exposed to downturns in this local economy or other changes in local real estate market conditions;
- changes in our business or strategy;
- our dependence upon key personnel whose continued service is not guaranteed;
- our ability to identify, hire and retain highly qualified personnel in the future;
- the degree and nature of our competition;
- changes in governmental regulations, tax rates and similar matters;
- defaults on or non-renewal of leases by tenants;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying healthcare properties to acquire and complete acquisitions;
- competition for investment opportunities;
- our failure to successfully develop, integrate and operate acquired properties and operations;

- the impact of our investment in joint ventures;
- the financial condition and liquidity of, or disputes with, joint venture and development partners;

Table of Contents

- our ability to operate as a public company;
- changes in accounting principles generally accepted in the United States (or GAAP);
- lack of or insufficient amounts of insurance;
- other factors affecting the real estate industry generally;
- our failure to qualify and maintain our qualification as a real estate investment trust (or REIT) for U.S. federal income tax purposes;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes;
- changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs; and
- various other factors may materially adversely affect us, including the per share trading price of our common shares, such as:
- higher market interest rates;
- the number of our common shares available for future issuance or sale;
- our issuance of equity securities or the perception that such issuance might occur;
- future offerings of debt; and
- if securities analysts do not publish research or reports about our industry or if they downgrade our common shares or the healthcare-related real estate sector.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. You should not place undue reliance on any forward-looking statements, which speak only as of the date of this report. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes after the date of this prospectus, except as required by applicable law. For a further discussion of these and other factors that could impact our future results, performance or transactions, see Part I, Item 1A (Risk Factors) of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and Part II, Item 1A (Risk Factors) of our Quarterly Reports on Form 10-Q for the quarterly periods ended during this fiscal 2014 and Part II, Item 1A (Risk Factors) of this report.

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

Table of Contents

PART I. **Financial Information**

Item 1. **Financial Statements.**

Physicians Realty Trust

Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 30, 2014 (unaudited)		December 31, 2013	
ASSETS				
Investment properties:				
Land and improvements	$	70,561	$	26,088
Building and improvements		567,342		193,184
Tenant improvements		5,986		5,458
Acquired lease intangibles		60,831		31,236
		704,720		255,966
Accumulated depreciation		(39,105)		(28,427)
Net real estate property		665,615		227,539
Real estate loan receivable		6,907		
Investment in unconsolidated entity		1,324		
Net real estate investments		673,846		227,539
Cash and cash equivalents		17,025		56,478
Tenant receivables, net		1,282		837
Deferred costs, net		5,097		2,105
Other assets		11,412		5,901
Total assets	$	708,662	$	292,860
LIABILITIES AND EQUITY				
Liabilities:				
Credit facility	$	70,000	$	
Mortgage debt		83,420		42,821
Accounts payable		633		836
Dividend payable		11,379		5,681
Accrued expenses and other liabilities		7,222		2,685
Acquired lease intangible, net		344		
Total liabilities		172,998		52,023
Equity:				
Common shares, $0.01 par value, 500,000,000 shares authorized, 45,376,115 and 21,548,597 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively.		453		215
Additional paid-in capital		511,500		213,359
Accumulated deficit		(37,674)		(8,670)
Total shareholders equity		474,279		204,904
Noncontrolling interests:				
Operating partnership		60,679		35,310

Partially owned properties		706		623
Total noncontrolling interest		61,385		35,933
Total equity		535,664		240,837
Total liabilities and equity	$	708,662	$	292,860

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

Table of Contents

Physicians Realty Trust

Consolidated and Combined Statements of Operations

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues:				
Rental revenues	$ 12,506	$ 2,920	$ 29,555	$ 7,952
Expense recoveries	1,355	798	3,445	2,399
Interest income on real estate loans and other	300	11	640	206
Total revenues	14,161	3,729	33,640	10,557
Expenses:				
Interest expense, net	1,911	826	4,849	3,114
General and administrative	4,445	1,285	8,867	1,507
Operating expenses	2,531	1,130	6,367	3,578
Depreciation and amortization	4,413	1,146	10,565	3,123
Acquisition expenses	2,922	756	9,254	756
Management fees				475
Impairment loss	250		250	
Total expenses	16,472	5,143	40,152	12,553
Loss before equity in income of unconsolidated entity, gain (loss) on sale of property, and noncontrolling interests:	(2,311)	(1,414)	(6,512)	(1,996)
Equity in income of unconsolidated entity	26		69	
Gain (loss) on sale of property	34	(2)	34	(2)
Net loss	(2,251)	(1,416)	(6,409)	(1,998)
Less: Net (income) loss attributable to Predecessor		(6)		576
Less: Net loss (income) attributable to noncontrolling interests operating partnership	233	(61)	887	(61)
Less: Net (income) loss attributable to noncontrolling interests partially owned properties	(76)	323	(226)	323
Net loss attributable to common shareholders	$ (2,094)	$ (1,160)	$ (5,748)	$ (1,160)
Net loss per share:				
Basic and diluted	$ (0.06)	$ (0.10)	$ (0.21)	$ (0.10)
Weighted average common shares:				
Basic and diluted	36,313,644	11,486,011	27,980,408	11,486,011
Dividends and distributions declared per common share and unit	$ 0.23	$ 0.18	$ 0.68	$ 0.18

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

Table of Contents

Physicians Realty Trust and Predecessor

Consolidated and Combined Statement of Equity

(In thousands, except shares)

(Unaudited)

	Number of Common 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										
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 July 24, 2013					18,181	18,181		(80)	(80)	18,101
Physicians Realty Trust										
Net proceeds from sale of common shares	21,298,597	213	225,707			225,920				225,920
Formation Transactions			35		(18,181)	(18,146)	18,181	(389)	17,792	(354)
Restricted share award grants	250,000	2	431			433				433
Dividends declared				(7,009)		(7,009)	(1,326)		(1,326)	(8,335)
Adjustment for Noncontrolling Interests ownership in Operating Partnership			(7,391)			(7,391)	7,391		7,391	
Contributions			(5,423)			(5,423)	11,534	1,276	12,810	7,387
Distributions								(255)	(255)	(255)
Net (loss) income				(1,661)		(1,661)	(470)	71	(399)	(2,060)
Balance December 31, 2013	21,548,597	215	213,359	(8,670)		204,904	35,310	623	35,933	240,837
Net proceeds from sale of shares	23,575,000	236	295,374			295,610				295,610
Restricted share award grants	127,605	1	1,185			1,186				1,186
Issuance of shares in connection with the Ziegler shared service amendment payment	124,913	1	1,799			1,800				1,800
Dividends/distributions declared				(23,256)		(23,256)	(2,550)		(2,550)	(25,806)
Adjustment for Noncontrolling Interests ownership in Operating Partnership			(217)			(217)	217		217	
Issuance of Operating Partnership Units in connection with acquisitions							28,589		28,589	28,589
Distributions								(143)	(143)	(143)
Net (loss) income				(5,748)		(5,748)	(887)	226	(661)	(6,409)
Balance September 30, 2014	45,376,115	$ 453	$ 511,500	$ (37,674)	$	$ 474,279	$ 60,679	$ 706	$ 61,385	$ 535,664

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

Table of Contents

Physicians Realty Trust and Predecessor

Consolidated and Combined Statements of Cash Flows

(In thousands) (Unaudited)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash Flows from Operating Activities:		
Net loss	$ (6,409)	$ (1,998)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	10,565	3,026
Amortization of deferred financing costs	626	330
Accelerated amortization of deferred financing costs	141	
Amortization of lease inducements and above/below market lease intangibles	331	70
Straight-line rental revenue/expense	(2,785)	(100)
(Gain) loss on sale of property	(34)	2
Equity in income of unconsolidated entity	(69)	
Distribution from unconsolidated entity	45	
Change in fair value of derivative	(138)	(206)
Provision for bad debts	5	36
Non-cash share compensation	1,681	191
Ziegler shared service amendment payment	1,800	
Impairment on investment property	250	
Change in operating assets and liabilities:		
Tenant receivables	(521)	(64)
Other assets	(1,285)	(773)
Accounts payable to related parties		(1,530)
Accounts payable	(203)	(316)
Accrued expenses and other liabilities	3,445	1,298
Net cash provided by (used in) operating activities	7,445	(34)
Cash Flows from Investing Activities:		
Proceeds on sales of property	235	448
Acquisition of investment properties, net	(404,715)	(100,084)
Capital expenditures on existing investment properties	(551)	
Real estate loan receivable	(6,836)	
Leasing commissions	(5)	(163)
Lease inducement	(1,532)	(1,543)
Net cash used in investing activities	(413,404)	(101,342)
Cash Flows from Financing Activities:		
Net proceeds from sale of common shares	295,610	122,873
Formation transactions		(354)
Proceeds from credit facility borrowings	286,200	19,850
Payment on credit facility borrowings	(216,200)	
Proceeds from issuance of mortgage debt	26,550	163
Payments on mortgage debt	(1,234)	(37,978)
Debt issuance costs	(3,848)	(1,074)
Dividends paid - shareholders	(17,443)	
Distributions to noncontrolling interest operating partnership	(2,665)	
Distributions to members and partners		(211)
Distributions to noncontrolling interest partially owned properties	(143)	(274)
Common shares repurchased and retired	(321)	
Net cash provided by financing activities	366,506	102,995

Net (decrease) increase in cash and cash equivalents		(39,453)		1,619
Cash and cash equivalents, beginning of period		56,478		2,614
Cash and cash equivalents, end of period	$	17,025	$	4,233
Supplemental disclosure of cash flow information interest paid during the period	$	4,113	$	2,967
Supplemental disclosure of noncash activity assumed debt	$	15,283	$	
Supplemental disclosure of noncash activity issuance of Operating Partnership units in connection with acquisitions	$	28,589	$	
Supplemental disclosure of noncash activity contingent consideration	$	840	$	

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

Table of Contents

Physicians Realty Trust and Predecessor

Notes to Consolidated and Combined Financial Statements

Note 1 Organization and Business

Physicians Realty Trust (the Trust) was organized in the state of Maryland on April 9, 2013. As of September 30, 2014, the Trust was authorized to issue up to 500,000,000 common shares of beneficial interest, par value $0.01 per share (common shares). The Trust filed a Registration Statement on Form S-11 with the Securities and Exchange Commission (the Commission) with respect to a proposed underwritten initial public offering (the IPO) and completed the IPO of its common shares and commenced operations on July 24, 2013.

The Trust contributed the net proceeds from the IPO to Physicians Realty L.P. (the Operating Partnership), a Delaware limited partnership, and is the sole general partner of the Operating Partnership. The Trust s operations are conducted through the Operating Partnership and wholly-owned and majority-owned subsidiaries of the Operating Partnership. The Trust, as the general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities and results of operations of the Operating Partnership.

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

Initial Public Offering and Formation Transactions and Follow-On Public Offerings

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

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

The net proceeds from the IPO, inclusive of shares issued pursuant to the exercise of the underwriters overallotment option, were approximately $123.8 million (after deducting the underwriting discount and expenses of the IPO and the formation transactions payable by the Trust). The Trust contributed the net proceeds of the IPO to the Operating Partnership in exchange for 11,753,597 OP Units on July 24, 2013, and upon closing of the IPO, the Trust owned a 79.6% interest in the Operating Partnership. The Operating Partnership used a portion of the IPO proceeds received from the Trust to purchase the 50% interest in the Arrowhead Commons property not owned by the Ziegler Funds for approximately $850,000, after which the Operating Partnership became the 100% owner of the property, and to pay certain expenses related to debt assumptions and the Trust s senior secured revolving credit facility. The balance of the net proceeds was subsequently invested in healthcare properties.

Table of Contents

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

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

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

On August 19, 2014, the Trust and the Operating Oartnership entered into separate At Market Issuance Sales Agreements (the Sales Agreements) with each of MLV & Co. LLC, KeyBanc Capital Markets Inc., JMP Securities LLC, and RBC Capital Markets, LLC (the Agents), pursuant to which we may issue and sell common shares having an aggregate offering price of up to $150 million, from time to time, through the Agents pursuant to the Shelf Registration Statement. In accordance with the Sales Agreements, we may offer and sell our common shares through any of the Agents, from time to time, by any method deemed to be an at the market offering as defined in Rule 415 under the Securities Act of 1933, as amended (the Securities Act), which includes sales made directly on the New York Stock Exchange (the NYSE), or other existing trading market, or sales made to or through a market maker. With the Trust s express written consent, sales also may be made in negotiated transactions or any other method permitted by law. The common shares are registered under the Securities Act pursuant to the Shelf Registration Statement. During the quarterly period ended September 30, 2014, the Trust did not issue and sell any common shares pursuant to any of the Sales Agreements.

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

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

Note 2 Summary of Significant Accounting Policies

The accompanying unaudited consolidated and combined financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods ended September 30, 2014 and 2013 pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited financial statements included in the Trust s Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 21, 2014.

Table of Contents

Principles of Consolidation

Property holding entities and other subsidiaries of which the Trust owns 100% of the equity or has a controlling financial interest evidenced by ownership of a majority voting interest are consolidated. All inter-company balances and transactions are eliminated. For entities in which the Trust owns less than 100% of the equity interest, the Trust consolidates the property if it has the direct or indirect ability to control the entities activities based upon the terms of the respective entities ownership agreements. For these entities, the Trust records a non-controlling interest representing equity held by non-controlling interests.

The Trust continually evaluates all of its transactions and investments to determine if they represent variable interests in a variable interest entity (VIE). If the Trust determines that it has a variable interest in a VIE, the Trust then evaluates if it is the primary beneficiary of the VIE. The evaluation is a qualitative assessment as to whether the Trust has the ability to direct the activities of a VIE that most significantly impact the entity s economic performance. The Trust consolidates each VIE in which it, by virtue of or transactions with the Trust s investments in the entity, is considered to be the primary beneficiary.

Noncontrolling Interests

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

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

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

During the quarterly period ended June 30, 2014, the Operating Partnership partially funded two property acquisitions by issuing an aggregate of 243,758 OP Units valued at approximately $3.1 million on the date of issuance. The two acquisitions had a total purchase price of approximately $21.4 million.

During the quarterly period ended September 30, 2014, the Operating Partnership partially funded three property acquisitions by issuing an aggregate of 1,798,555 OP Units valued at approximately $25.5 million on the date of issuance. The three acquisitions had a total purchase price of approximately $82.2 million.

Noncontrolling interests in the Trust represent OP Units held by the Predecessor s prior investors and other investors. As of September 30, 2014, the Trust held a 88.7% interest in the Operating Partnership. As the sole general partner and the majority interest holder, the Trust consolidates the financial position and results of operation of the Operating Partnership.

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

Table of Contents

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

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 land and building 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*, and assets acquired and liabilities assumed, including lease intangibles, are recorded at fair value.

Investments in Unconsolidated Entities

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

Real Estate Loans Receivable

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

Dividends and Distributions

On September 26, 2014, the Trust s Board of Trustees 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 16, 2014.

Impairment of Real Estate Property

The Trust evaluates the recoverability of the recorded amount of real estate property whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. Impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. If the Trust determines that an asset is impaired, the impairment to be recognized is measured as the amount by which the recorded amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the recorded amount or fair value less cost to sell. Fair value is determined using a discounted future cash flow analysis.

The Trust recognized $0.3 million of an impairment loss on a medical office building in Pickerington, OH for the three and nine months ended September 30, 2014. The property currently is vacant and the fair value was determined based on a previously accepted offer to purchase the property. The impairment was assessed because the property s carrying amount exceeded its estimated fair value. The Trust did not recognize any impairment for the three and nine months ended September 30, 2013.

Rental Revenue

Rental revenue is recognized on a straight-line basis over the terms of the related leases when collectability is reasonably assured. Recognizing rental revenue on a straight-line basis for leases may result in recognizing revenue for amounts more or less than amounts currently due from tenants. Amounts recognized in excess of amounts currently due from tenants are included in other assets and were $4.8 million and $2.0 million as of

Table of Contents

September 30, 2014 and December 31, 2013, respectively. If the Trust determines that collectability of straight-line rents is not reasonably assured, the Trust limits future recognition to amounts contractually owed and, where appropriate, establishes an allowance for estimated losses. Rental revenue is reduced by amortization of lease inducements and above-market lease intangibles and increased by amortization of below-market lease intangibles on certain leases. Lease inducements, above-market lease intangibles and below-market lease intangibles are amortized over the average remaining life of the lease.

Expense Recoveries

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

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

Contingent Liability

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

Management Estimates

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

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on the consolidated financial position or results of operations.

New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Updated, or ASU, 2014-08, *Presentation of Financial Statements (Topic 205)* and *Property, Plant and Equipment* (Topic 360) which changes the requirements for reporting discontinued operations. ASU 2014-08 changes the threshold for disclosing discontinued operations and the related disclosure requirements. Pursuant to ASU 2014-08, only disposals representing a strategic shift, such as a major line of business, a major geographical area or majority equity investment, should be presented as a discontinued operation. If the disposal does qualify as a discontinued operation under ASU 2014-08, the entity will be required to provide expanded disclosures. The guidance will be applied prospectively to new disposals and new classifications of disposal groups held for sale after the effective date. ASU 2014-08 is effective for annual periods beginning on or after December 14, 2014 with early adoption permitted. The Trust early adopted the provisions of the guidance in the first quarter of 2014. Such adoption has had no impact on the Trust s financial statements as no dispositions have occurred during the nine months ended September 30, 2014.

Table of Contents

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which creates a new Topic Accounting Standards Codification (Topic 606). The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard is effective for interim or annual periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption. Early adoption of this standard is not allowed. The Trust is currently evaluating the impact the adoption of Topic 606 will have on its financial statements.

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

Table of Contents

Note 3 Acquisitions and Investments

During the nine months ended September 30, 2014, the Trust completed acquisitions of 38 operating healthcare properties located in 10 states for an aggregate purchase price of approximately $447.2 million as summarized below:

Property(1)	**Location**	**Acquisition Date**		**Purchase Price (in thousands)**
Foundations San Antonio Surgical Hospital(2)	San Antonio, TX	February 19, 2014	$	25,556
Eagles Landing Family Practice 4 MOBs(2)	Atlanta, GA	February 19, 2014	$	20,800
21st Century Oncology 4 MOBs(3)	Sarasota, FL	February 26, 2014	$	17,486
Foundations San Antonio MOB(3)	San Antonio, TX	February 28, 2014	$	6,800
Peachtree Dunwoody MOB(3)	Atlanta, GA	February 28, 2014	$	36,726
LifeCare LTACH(2)	Fort Worth, TX	March 28, 2014	$	27,160
LifeCare LTACH(2)	Pittsburgh, PA	March 28, 2014	$	12,840
Pinnacle Health Cardiology Portfolio 2 MOBs (3)	Carlisle & Wormleyburg, PA	April 22, 2014	$	9,208
South Bend Orthopedic MOB (3)	South Bend, IN	April 30, 2014	$	14,900
Grenada Medical Complex MOB (3)	Grenada, MS	April 30,2014	$	7,100
Mississippi Sports Medicine and Orthopaedics Center MOB (2)(4)	Jackson, MS	May 23, 2014	$	16,700
Carmel Medical Pavilion MOB (3)(4)	Carmel, IN	May 28, 2014	$	4,664
Summit Urology MOB (2)	Bloomington, IN	June 30, 2014	$	4,783
Renaissance Center (3)	Oshkosh, WI	June 30, 2014	$	8,500
Presbyterian Medical Plaza MOB (3)	Monroe, NC	June 30, 2014	$	7,750
Landmark Medical Portfolio (Premier) 3 MOBs (2)(5)	Bloomington, IN	July 1, 2014	$	23,837
Carlisle II MOB (3)	Carlisle, PA	July 25, 2014	$	4,500
Surgical Institute of Monroe ASC (2)	Monroe, MI	July 28, 2014	$	6,000
The Oaks Medical Building MOB (3)	Lady Lake, FL	July 31, 2014	$	10,600
Baylor Surgicare ASC Mansfield (3)	Mansfield, TX	September 2, 2014	$	8,500
Eye Center of Southern Indiana (2)(5)	Bloomington, IN	September 5, 2014	$	12,174
Wayne State Medical Center and MOB (2)	Troy, MI	September 10, 2014	$	46,500
El Paso Portfolio (specialty surgical hospital and 2 MOBs) (3)(5)	El Paso, TX	September 30, 2014	$	46,235
The Mark H. Zangmeister Center (3)	Columbus, OH	September 30, 2014	$	36,600
Berger Medical Center (3)	Orient, OH	September 30, 2014	$	6,785
Orthopedic One 2 MOBs (3)	Columbus, OH Westerville, OH	September 30, 2014	$	24,500
Total			$	447,204

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

(2) The Trust accounted for these acquisitions as asset acquisitions and capitalized $1.5 million of total acquisition costs to the basis of the properties.

(3) The Trust accounted for these acquisitions as business combinations pursuant to the acquisition method and expensed total acquisition costs of $9.3 million.

(4) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 243,758 OP Units valued at approximately $3.1 million in the aggregate on the date of issuance.

(5) The Operating Partnership partially funded the purchase price of these acquisitions by issuing a total of 1,798,555 OP Units valued at approximately $25.5 million in the aggregate on the date of issuance.

Table of Contents

During the three months ended September 30, 2014, the Trust recorded revenues and net income of $7.3 million and $1.1 million, respectively, from its 2014 acquisitions. During the nine months ended September 30, 2014, the Trust recorded revenues and net loss of $13.2 million and $1.3 million, respectively, from its 2014 acquisitions.

The following table summarizes the preliminary purchase price allocations of the assets acquired and the liabilities assumed, which we determined using level two and level three inputs (in thousands):

	1ST Quarter	2nd Quarter	3rd Quarter	Total
Land	$ 18,331	$ 7,275	$ 18,942	$ 44,548
Building and improvements	121,472	57,401	195,662	374,535
In-place lease intangible	7,585	7,061	12,374	27,020
Above market in-place lease intangible	891	465	1,219	2,575
Below market in-place lease intangible		(133)	(221)	(354)
Investment in unconsolidated entity	1,300			1,300
Issuance of OP units		(3,135)	(25,454)	(28,589)
Mortgage debt assumed	(10,800)	405	(4,888)	(15,283)
Lease inducement		1,500	32	1,532
Derivative liability			(197)	(197)
Contingent consideration			(840)	(840)
Net assets acquired	$ 138,779	$ 70,839	$ 196,629	$ 406,247

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

Unaudited Pro Forma Financial Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$ 17,796	$ 14,634	$ 52,452	$ 42,536
Net income	2,254	1,227	10,666	4,521
Net income available to common shareholders	2,066	859	9,656	3,820
Earnings per share - basic and diluted	$ 0.06	$ 0.07	$ 0.35	$ 0.33
Weighted average common shares - basic and diluted	36,313,644	11,486,011	27,980,408	11,486,011

Note 4   Intangibles

The following is a summary of the carrying amount of acquired lease intangibles as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014			December 31, 2013		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Assets						
In-place leases	$ 56,076	$ (10,804)	$ 45,272	$ 29,056	$ (8,080)	$ 20,976
Above market leases	4,755	(254)	4,501	2,180	(48)	2,132
Total	$ 60,831	$ (11,058)	$ 49,773	$ 31,236	$ (8,128)	$ 23,108
Liability						
Below market lease	$ 354	$ (10)	$ 344			

Table of Contents

The following is a summary of the acquired lease intangible amortization for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Amortization expense related to in-place leases	$ 1,002	$ 312	$ 2,724	$ 512
Amortization recorded against rental income related to above market leases	86		205	
Amortization recorded to rental income related to below market leases	9		10	

Future aggregate amortization of the acquired lease intangibles as of September 30, 2014, is as follows (in thousands):

	Assets	Liability
2014	$ 1,589	$ 13
2015	6,357	50
2016	6,345	50
2017	6,124	50
2018	5,632	50
Thereafter	23,726	131
Total	$ 49,773	$ 344

The weighted average amortization period for asset lease intangibles and liability lease intangible is 10 years and 7 years, respectively.

Note 5 Debt

The following is a summary of debt as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Mortgage notes, bearing fixed interest from 4.82% to 6.58%, with a weighted average interest rate of 5.24%, and due in 2016, 2017, 2018, 2019, 2021 and 2022 collateralized by ten properties with a net book value of $52,138.	$ 78,987	$ 38,288
Mortgage note, bearing variable interest of LIBOR plus 2.65% and due in 2017, collateralized by one property with a net book value of $2,530.	4,433	4,533
Total Mortgage Debt	83,420	42,821
$400 million unsecured revolving credit facility bearing interest at floating rates, due September 2018.	70,000	
Total debt	$ 153,420	$ 42,821

New Unsecured Credit Facility; Termination of Senior Secured Credit Facility:

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

Table of Contents

On September 18, 2014, the Operating Partnership, as borrower, and the Trust and certain subsidiaries and other affiliates of the Trust, as guarantors, entered into a Credit Agreement (the Credit Agreement) with KeyBank National Association as administrative agent, KeyBanc Capital Markets Inc., Regions Capital Markets and BMO Capital Markets, as joint lead arrangers and joint bookrunners, Regions Capital Markets and BMO Capital Markets, as co-syndication agents, and the lenders party thereto in connection with an unsecured revolving credit facility in the maximum principal amount of $400 million. The Credit Agreement includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing the Trust to increase borrowing capacity by up to an additional $350 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of $750 million. The Credit Agreement replaced the Trust s senior secured revolving credit facility in the maximum principal amount of $200 million under the Prior Credit Agreement.

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

The Credit Agreement contains financial covenants that, among other things, require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as covenants that may limit the Trust s and the Operating Partnership s ability to incur additional debt or make distributions. The Trust may, at any time, voluntarily prepay any loan under the Credit Agreement in whole or in part without premium or penalty. As of September 30, 2014, the Trust was in compliance with all financial covenants.

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

The Credit Agreement provides for revolving credit loans to the Operating Partnership. Base Rate Loans, Adjusted LIBOR Rate Loans and Letters of Credit (each, as defined in the Credit Agreement) will be subject to interest rates, based upon the consolidated leverage ratio of the Trust, the Operating Partnership and its subsidiaries as follows:

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

Scheduled principal payments due on debt as of September 30, 2014, are as follows (in thousands):

2014	$	490
2015		2,008
2016		9,567

2017		33,285
2018		71,100
Thereafter		36,970
Total	$	153,420

Table of Contents

Note 6 Stock-based Compensation

The Trust follows ASC 718 in accounting for its share-based payments. This guidance requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. This cost is recognized as compensation expense ratably over the employee s requisite service period. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred. Share-based payments classified as liability awards are marked to fair value at each reporting period.

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

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

The committee has broad discretion in administering the terms of the plan. Restricted shares granted under the plan are eligible for dividends as well as the right to vote. The Trust granted to management and the Board of Trustees 250,000 restricted common shares upon completion of the IPO under the Trust s 2013 Equity Incentive Plan at a value per share of $11.50 and total value of $2.9 million with a vesting period of three years. In March 2014, an additional 84,266 restricted common shares were granted to management and the Board of Trustees. During the quarters ended June 30, 2014 and September 30, 2014, an additional 5,263 and 60,230 restricted common shares, respectively, were granted to certain Trust employees.

	Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2013	250,000	$ 11.50
Granted	149,759	13.76
Vested	(83,333)	11.50
Share repurchase	(22,154)	14.49
Non-vested at September 30, 2014	294,272	$ 13.85

For all service awards, we record compensation expense for the entire award on a straight-line basis (or, if applicable, on the accelerated method) over the requisite service period. For the three and nine months ended September 30, 2014, the Trust recognized non-cash share compensation of $0.6 million and $1.5 million, respectively. Unrecognized compensation expense at September 30, 2014 was $3.0 million. For the three and nine months ended September 30, 2013, the Trust recognized non-cash share compensation of $0.2 million. The Trust s compensation expense recorded in connection with grants of restricted stock reflects an initial estimated cumulative forfeiture rate of 0% over the requisite service period of the awards. That estimate will be revised if subsequent information indicates that the actual number of awards expected to vest is likely to differ from previous estimates.

Table of Contents

Restricted Share Units:

In March 2014, under the Trust s 2013 Equity Incentive Plan, the Trust granted 55,680 restricted share units at target level to management, which are subject to various criteria and a three-year service period. Also, each restricted share unit contains one dividend equivalent. The recipient will accrue dividend equivalents on awarded share units equal to the cash dividend that would have been paid on the awarded share unit had the awarded share unit been an issued and outstanding common share on the record date for the dividend. The Trust recognized $0.1 million and $0.2 million of non-cash share unit compensation expense for the three and nine month periods ended September 30, 2014, respectively. Unrecognized compensation expense at September 30, 2014 was $0.6 million.

Note 7 Fair Value Measurements

Accounting standards require certain assets and liabilities be reported and/or disclosed at fair value in the financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

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

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

The derivative instruments (Note 8) consists solely of two interest rate swaps that are not traded on an exchange and are recorded at fair value based on a variety of observable inputs including contractual terms, interest rate curves, yield curves, measure of volatility, and correlations of such inputs.

The Trust measures its interest rate swaps at fair value on a recurring basis. The fair values are based on primarily Level 2 inputs described above.

The Trust also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. The following table sets forth by level the fair value hierarchy of the Trust s asset that was accounted for on a non-recurring basis as of September 30, 2014. There were no such assets measured at fair value as of September 30, 2013.

	Fair Value as of December 31, 2013		Non-recurring Fair Value Measurements At Report Date using: Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Losses for Nine Months Ended September 30, 2014
Pickerington, OH, Medical office building	$	1,779	$	1,529	$		$	$	(250)

The carrying amounts of cash and cash equivalents, tenant receivables, payables, and accrued interest are reasonable estimates of fair value because of the short term maturities of these instruments. Fair values for real

Table of Contents

estate loan receivable and mortgage notes are estimated based on rates currently prevailing for similar instruments of similar maturities and are based primarily on level 2 inputs

The following table presents the fair value of other financial instruments (in thousands). The swaps are measured at fair value on a recurring basis.

	September 30, 2014 (unaudited)		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Real estate loan receivable	$ 6,907	$ 6,907	$	$
Credit Facility	$ 70,000	$ 70,000		
Mortgage debt	$ 83,420	$ 83,507	$ 42,821	$ 44,130
Derivative liabilities	$ 456	$ 456	$ 397	$ 397

Note 8 Derivative Financial Instruments

The Trust is exposed to certain risks in the normal course of its business operations. One risk relating to the variability of interest on variable rate debt is managed through the use of derivatives. All derivative financial instruments are reported in the balance sheet at fair value. The Trust has elected not to apply hedge accounting to its derivative financial instrument.

Generally, the Trust enters into swap relationships such that changes in the fair value or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives.

The Trust holds two swaps to pay fixed/receive variable interest rates with a total notional amount of $12.6 million and $7.9 million as of September 30, 2014 and December 31, 2013, respectively. Gains recognized on interest rate swaps of $0.07 million and $0.1 million were included in interest income on real estate loans and other in the consolidated and combined statements of operations for the three and nine months ended September 30, 2014, respectively. Gains recognized on the interest rate swap of $0.02 million and $0.2 million were included in interest income on real estate loans and other in the consolidated and combined statements of operations for the three and nine months ended September 30, 2013, respectively.

Note 9 Tenant Operating Leases

The Trust is lessor of medical office buildings and other healthcare facilities. Leases have expirations from 2014 through 2028. As of September 30, 2014, the future minimum rental payments on non-cancelable leases, exclusive of expense recoveries, were as follows (in thousands):