

# Leading the way FOR SUCCESS

#### DEAR SHAREHOLDERS,

In 2021, our Board of Trustees and the Physicians Realty Trust (NYSE: DOC) team had a very successful year, serving as a leader in our peer group in growth, balance sheet management, tenant satisfaction, and environmental, social, and governance achievements. Since our IPO in 2013, we have dedicated our company to being the leading owner of medical office facilities by partnering with preferred health care providers to support stronger and healthier communities. Through the efforts of our talented team, we are building an organization designed for long-term success, benefitting our shareholders, our health care provider partners, and their patients.





At DOC, leadership extends beyond the C-suite and Boardroom—it's an ever-evolving process that involves many teams learning and working collectively to achieve outstanding results. Over the past year, we had opportunities to lead in exciting new ways.

#### LEADERSHIP IN GROWTH

In 2021, we acquired over \$1.0 billion in outpatient medical office facilities, bringing our gross real estate investments to just under \$6.0 billion while growing our total portfolio to over 16 million rentable square feet. We also achieved a 95% leased rate, with 65% of our consolidated leased space occupied by investment-grade quality health care providers.

The pandemic that began in early 2020 has shown that health care providers require both on- and off-campus health care facility options in a range of locations, depending upon the care needed. At DOC, we have a favorable balance of on-campus (54% of our rentable square feet) and off-campus (46%) real estate. While COVID-19 patients often need specialized, on-campus care, many patients not needing these services are better accommodated and increasingly prefer the safety and convenience of off-campus outpatient facilities. The momentum to provide care in an outpatient setting, including higher acuity oncology, cardiology, and orthopedics, continues to grow and is here to stay.

In mid-December, DOC closed on a milestone transaction with our long-time partners at Landmark Healthcare Facilities, furthering our goal to build, manage, and grow the highest-quality medical office portfolio in the United States. This transaction included 14 Class-A medical office buildings located in eight states, comprising over 1,433,000 square feet, for an aggregate purchase price of \$750 million and an expected first-year unlevered cash yield of 4.9%.

These facilities are 95% leased, with 75% of the space leased to investment-grade health systems or their subsidiaries. These 14 mission-critical medical office buildings establish 10 new DOC health system relationships for future investment opportunities. Our team has worked closely with Landmark in each market over the past year to complete this partnership, and we welcome them as significant stakeholders in DOC through the operating partnership units they received as part of this transaction. You can learn more about this transaction in the case study featured in this Annual Report.



In addition to the Landmark Portfolio, we completed \$258 million of other investments in 2021, virtually all off-market. These deals include our seventh and eighth transactions with HonorHealth, a premier investment-grade health system serving the rapidly-growing Phoenix metropolitan area. This \$99 million investment included two newly-constructed trophy facilities totaling nearly 170,000 rentable square feet, with one property located on the campus of HonorHealth's flagship location in Scottsdale and the other on the campus of the new Sonoran Crossing Medical Center in Phoenix.



# LEADERSHIP IN FINANCIAL STEWARDSHIP

Medical office real estate is more valuable than ever due to increased interest from public and private capital investors, due in part to the solid rent collections by most MOB owners since the onset of the pandemic. Despite the highest inflationary environment in recent memory, DOC's health care provider tenants demonstrated their financial resiliency throughout the year, delivering 99.9% rent collections in 2021.

Under the leadership of Jeff Theiler, our Executive Vice President and Chief Financial Officer, DOC's 2021 performance and disciplined growth resulted in S&P and Moody's upgrading our investment-grade ratings to 'BBB' and 'Baa2', respectively. These upgrades allowed us to access the long-term public debt market, raising \$500 million at a very attractive 2.625% rate for 10-year unsecured bonds.

We continue to believe our balance sheet deserves an even higher investment-grade rating. We will continue to work with the rating agencies to prove our capabilities under Jeff's careful stewardship of our balance sheet management, credit, and other risks, and his active participation in our investment team's decision-making processes. His leadership is second to none in our business.



Scan for Video Content

"In the worst economic period in recent memory, and thanks to Jeff Theiler, our Board of Trustees, and our organization, we earned an upgrade in our credit, which enabled us to access the markets at the lowest cost of debt that we've ever been able to realize. So with that lower cost of debt, we can acquire more high-quality assets at a favorable spread to our cost of capital, driving strong returns for our shareholders."

John T. Thomas

President and CEO

#### LEADERSHIP IN CULTURE

The DOC culture is a critical component of our short- and long-term success. As a result, each of our financial and human capital investments in 2021 embody dedication to our core values, summarized by C.A.R.E., where we Collaborate and Communicate, Act with Integrity, Respect the Relationship, and Execute Consistently.



In 2021, this commitment was recognized through local and national accolades, including being named one of the Milwaukee Journal Sentinel's Best Places to Work for the 4th consecutive year and as one of GlobeSt.com Real Estate Forum's Best Places to Work in commercial real estate.

Four Time Consecutive Winner

# Modern Healthcare Best Places to Work 2021

We are most proud of attaining recognition as one of Modern Healthcare's Best Places to Work in 2021. Based on anonymous team member survey results, DOC was the highest-rated health care real estate provider among the honorees. This prestigious nationwide ranking is the gold standard in the health care industry for recognizing workplaces that empower employees to provide patients and customers the best care, products, and services.

#### LEADERSHIP IN OPERATIONS

In addition to awards for culture, DOC's awardwinning operations team is comprised of a nationally recognized group of leaders. This team is led by our Executive Vice President of Asset Management, Mark Theine. In 2021, Mark was recognized by GlobeSt.com Real Estate Forum as one of CRE's Best Bosses and as one of their 50 Under 40 young professionals. Recently, he earned a spot on the Milwaukee Business Journal's 40 Under 40 list. Amy Hall, our Senior Vice President of Leasing and Physician Strategy, led us to achieve a 95% leased rate, positioning DOC as a leader in the public medical office REIT industry while furthering the stability of our cash flow. DOC's Senior Vice President of Asset Management, Mark Dukes, was sworn in to serve as Chair and Chief Elected Officer of the Building Owners Management Association International, an association for real estate professionals to grow their careers, serve the commercial industry in all property types, and keep buildings and occupants safe. We are proud to work alongside such tremendous leaders who will continue to drive our internal growth for years to come.



Most importantly, our health care partners recognize us annually for superior tenant satisfaction through online surveys. These assessments are conducted by Kingsley Associates, an independent, third-party survey administrator. In 2021, we received a 76% response rate to our survey requests and were recognized with a Kingsley Excellence Award for Tenant Satisfaction.

Providing superior service to our medical providers so they may focus on their patients—that is leadership!

# LEADERSHIP IN ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

#### **Environmental**

DOC has been committed to environmental sustainability from our beginnings. This dedication continues to build as our portfolio grows, providing scale to increase our opportunities to effect change. In 2021, we completed our first GRESB® application. GRESB® is a mission-driven and



GRESB

industry-led organization providing standardized and validated ESG data to financial markets. In our inaugural submission, we earned a score of 75 out of 100, outperforming the international average of 73 out of 100. In addition, DOC received a GREEN STAR designation, awarded to participants achieving scores of 50+ on the GRESB® measurement of the management and performance sections.



We also received a 2021 ENERGY STAR® Partner of the Year Award from the U.S. Environmental Protection Agency and the Department of Energy and have been an ENERGY STAR® partner since 2014. The ENERGY STAR® award recognizes our efforts to collect and report energy, emissions, water, and waste data while committing to transparency and accountability as we optimize our utilization and minimize our environmental footprint.







Physicians Realty Trust is committed to creating sustainable investments to drive long-term value for our shareholders and community stakeholders. We are proud of the results of our first-year submission to GRESB® and earning the ENERGY STAR® Partner of the Year award. These recognitions reaffirm our progress and long-term commitment to *Invest in better*® for our stakeholders, communities, and planet. However, we have more to do and will continue to push forward as sustainability leaders.

#### **Social**

We are committed to giving back to the communities we serve. In 2021, we provided more than \$448,000 in philanthropic, fundraising, and in-kind donations to community and health care provider organizations, benefiting their research and mission initiatives.

The DOC team also provided **695 hours** of community service, supported in part by our "volunteer time off" employee benefit. Everyone is encouraged to spend a day—with pay—volunteering for an organization in their home community. In addition, DOC organizes volunteer service opportunities as a corporate outing, benefiting charitable causes while building teamwork, leadership skills, and great fun. At one of these events, DOC's team, including most of our senior leadership, stocked over 2,700 pounds of freshly-picked produce for the Hunger Task Force Farm, providing food to those in need in Milwaukee County, Wisconsin.

#### Governance



## AMO® of the Year

In 2021, DOC was awarded the Accredited Management Organization (AMO®) of the Year by the Institute for Real Estate Management ("IREM"). The AMO®

of the Year is IREM's highest honor, recognizing one organization each year among over 600 AMO® designees worldwide for its dedication and efforts to advance the real estate management profession. This award, secured under the leadership of DOC's Vice President of Construction and Project Management, David Domres, recognizes the totality of our business practices, from providing outstanding service to our partners to conducting ourselves at the highest ethical standards to advancing ESG initiatives and more.

We are also pleased to announce the addition of **Ava E. Lias-Booker, Esq.** to the Physicians Realty Trust Board of Trustees. In addition to her brilliant legal and business judgment, she also chairs the DEI committee of her law firm. She will add to our Board



and Management leadership with an emphasis on expanding opportunities for education, promotion, and inclusion at all levels of our organization.











# 2021 RESULTS AND LOOKING FORWARD TO 2022

In 2021, our space leased to tenants with investment-grade quality credit increased from 61% to 65% of our portfolio. Our 95% leased rate differentiates us as a leader in the public medical office REIT industry, as does our average remaining lease term of 6.3 years. In our 2021 consolidated portfolio, we executed more than 972,000 square feet of lease renewals with an average lease term of 8.1 years and new leases totaling 191,000 square feet with an average lease term of 7.7 years. Notably, retention for the year was 80%, demonstrating the overall quality of our portfolio.

At the beginning of 2021, our stock opened on the New York Stock Exchange at a value of \$17.80 and ended the year at \$18.83. Including our dividends, our total shareholder return for the calendar year was +11%.

We have paid 34 consecutive quarterly dividends, representing every quarter of our existence as a public company. As of our annual meeting in May, we will have paid 35 consecutive quarterly dividends.

We are disappointed we did not deliver better stock price appreciation in 2021. Still, we are proud that the safety of our facilities and the safety of our team produced sustainable cash flow to distribute to you. In addition, the quality and strength of our portfolio supported a high dividend payout ratio, which resulted in a 4.9% yield based on our \$0.92 annual dividend per share and stock price at year end.

We had an outstanding year in both operations and new growth in 2021, positioning us well for the future. The value of our underlying assets is higher than ever, and we believe it will be recognized in our current and future value proposition over time.

The future of medical office is very bright. Strong demographic, clinical, and operational trends will drive demand for more complex outpatient care facilities. These facilities will provide higher and higher levels of care and will require both capital and long-standing health care providers to deliver services in those buildings. For growth, we need to continue to lower our cost of capital relative to the high valuations of medical office buildings we finance and own. The opportunities to provide development financing continue to grow, and we expect them to be more accretive than direct acquisitions in the current environment. We will pursue both development and acquisitions, with the best risk-adjusted returns, especially in attractive off-market opportunities.

In short, we will *Invest in better.*® We look forward to sharing more with you during our Annual Meeting of Shareholders on May 3, 2022.

Please stay safe.

Sincerely

Governor Tommy G. Thompson

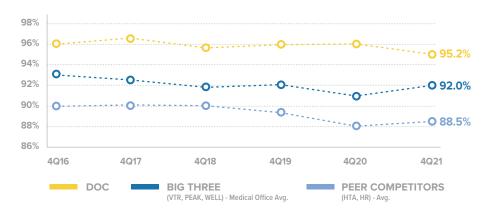
Chairman, Board of Trustees

John T. Thomas

President & Chief Executive Officer

# **INVESTMENT AND PORTFOLIO STATISTICS**

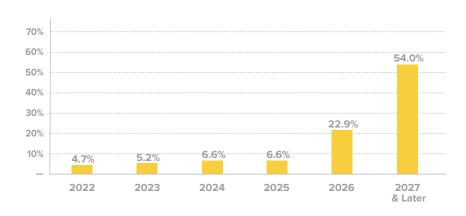
#### **PORTFOLIO LEASED RATE**



DOC's high leased rate and focus on a net-lease model offer investors superior protection against rising operating expenses.

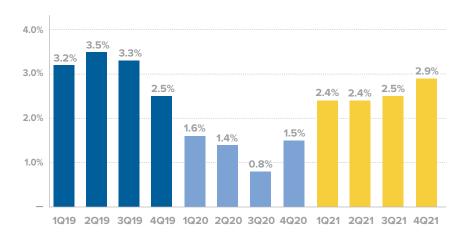
#### **EXPIRING TENANT RENTS**

% Leased Gross Leasable Area



DOC's well-laddered lease expiration schedule provides stability and consistent cash to our investors.

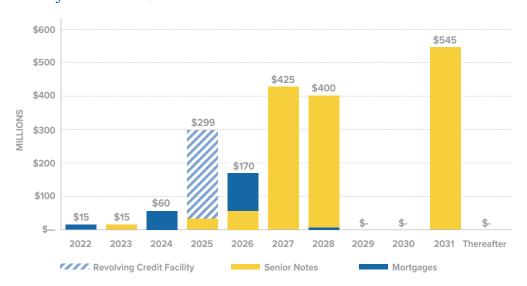
#### MOB SAME-STORE CASH NOI HISTORY



DOC's portfolio has averaged MOB Same-Store Cash NOI growth of 2.35% since 2019, in line with Management's 2% to 3% target range.

#### **DEBT MATURITY SCHEDULE**

As of December 31, 2021



DOC's limited near-term maturities are a direct result of our continued commitment to responsible borrowing. Over 80% of DOC's consolidated debt is fixed at a weighted average borrowing rate of 3.7%, insulating investors from changes in interest rates.



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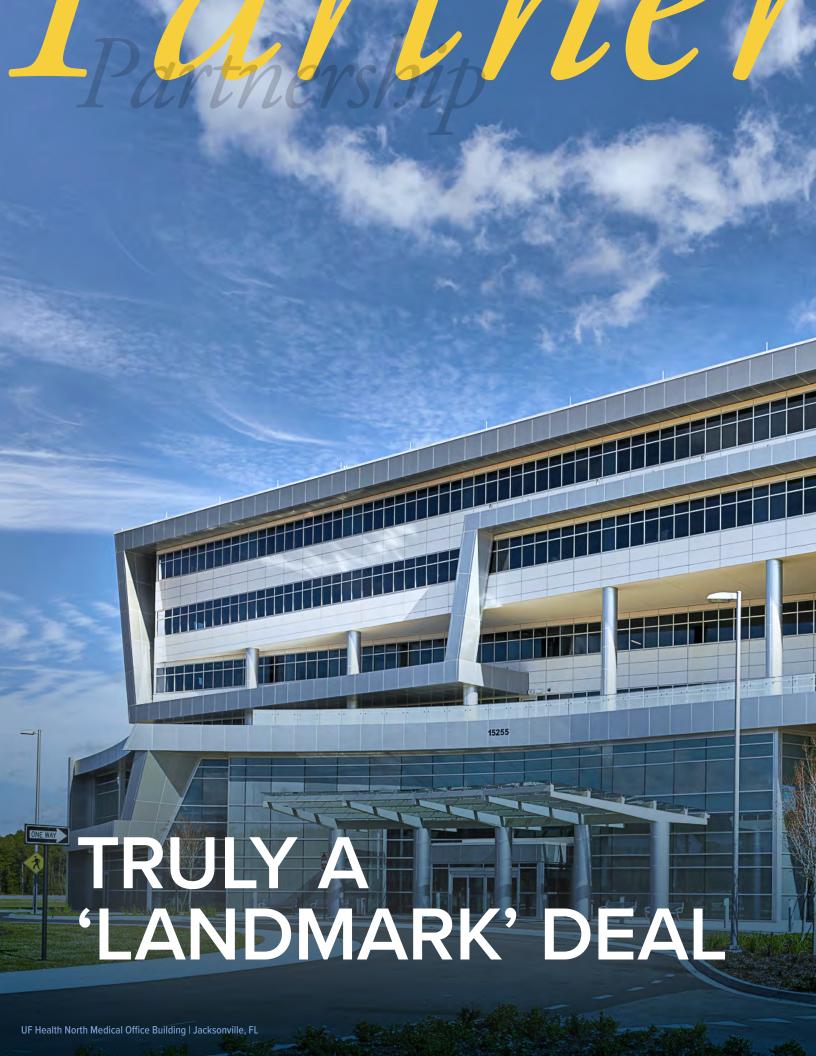
"Our acquisitions and underwriting teams work with surgical precision to decide which assets we want to go after and which ones we don't. So once we decide to move forward, we're confident that we are building our portfolio's quality over the long term. And we can move forward with great speed."

Jeffrey N. Theiler EVP, Chief Financial Officer

#### TOTAL PERFORMANCE RETURN SINCE DOC IPO

As of December 31, 2021







"Dating back to our IPO in 2013, Physicians Realty Trust has always been about doing the hard work and the heavy lifting of sourcing off-market, relationship-driven deals," Mark Theine, DOC's Executive Vice President of Asset Management, shared. "That is simply the DNA of our company."

So, when Milwaukee-headquartered Landmark Healthcare Facilities decided to sell their portfolio of 14 Class-A mission-critical medical office buildings, they turned to their long-time collaborators at another Milwaukee-based company, Physicians Realty Trust.



Scan for Video Content

"The Landmark transaction showcases how relationships continue to power the future of DOC."

Mark Theine EVP, Asset Management

Mark Eisenmann, Landmark's EVP of Finance and CFO, said, "We are very pleased to pass this portion of Landmark's MOB portfolio to DOC, a company that shares our passion for providing the highest quality MOB space throughout the United States. This transaction represents a continuation and expansion of Landmark's longstanding partnership with DOC. This is an exceptional result for DOC, Landmark, and Landmark's health care provider clients."

Landmark Healthcare Facilities LLC, a leading full-service developer, owner, and manager of outpatient medical office buildings with a national portfolio, was founded in 1995. With both DOC and Landmark being Milwaukee-based health care real estate companies, there has been familiarity and mutual respect between the two organizations and their leaders since DOC's beginnings. Still, the relationship began accelerating following DOC's acquisition of two New York-based

Landmark properties in 2016. DOC subsequently partnered with Landmark through \$54.3 million in mezzanine loan financing for Landmark projects, including the University of Florida Health North Medical Office Building in 2020.

Joe Checota, Landmark's Chairman and Chief Executive Officer, added, "DOC has proven to be a great steward of high-quality medical facilities. We are pleased to continue growing our relationship through future development opportunities while ensuring these facilities will continue to be managed in a way that values the health care providers and patients they serve."

The Landmark acquisition closed on Monday, December 20, 2021. "The Landmark portfolio has been recognized as one of the best quality medical office building portfolios by many health care real estate insiders and institutional investors," Mr. Theine said.

"This group of properties boosts every one of our key metrics across our portfolio," Mr. Theine noted. "These trophy buildings have an impressive average size of over one hundred thousand square feet and an average age of 10 years. The occupancy of the portfolio is 95%, with over 75% of that leased to investment-grade hospital systems. We look forward to serving these new physicians and health care systems through our award-winning asset and property management platform in the years to come."

For DOC and its shareholders, the new health system relationships may ultimately prove the most valuable aspect of the transaction.

"The Landmark portfolio represents not only 14 buildings, but also 10 new hospital relationships in 11 markets, including the University of Florida Health, Beaumont Health, Hackensack Meridian Health, Baptist Health Systems, McLaren Health Care, and Allegheny Health. Ultimately, these connections will lead to more opportunities for future development and acquisition opportunities," Mr. Theine added. "Typically, with an off-market deal such as this, we can get slightly better pricing, but the critical benefit is the opportunity to become a trusted, long-term real estate partner to high-quality health care partners."









100%
ON-CAMPUS OR HEALTH
SYSTEM AFFILIATED

4.9%
FIRST-YEAR UNLEVERED CASH YIELD

95% LEASED 75%
INVESTMENT
GRADE

This \$750 million transaction enabled DOC to exceed its yearly acquisition guidance while purchasing 100% ownership of the portfolio on an off-market basis. In addition, the Landmark acquisition is a prime example of how DOC continues to grow its portfolio and create shareholder value by cultivating lasting relationships.

"Incorporating these new facilities and new health care partner relationships has been a team effort,"

Mr. Theine concluded. "The Landmark portfolio, which was already 95% leased at the time of acquisition, has already had some great leasing activity. Further, through the 10 new relationships created as part of this deal, DOC has the opportunity for future investments with these new partners. Taken together, this is a fantastic example of our commitment to 'Invest in better' for our health care partners, for the communities in which we operate, and for our shareholders."

# **OUR PORTFOLIO**

As of December 31, 2021

HEALTH CARE PROPERTIES
Totaling 16,156,908 GLA

STATES
Across the U.S.

\$1.03
BILLION
Invested in 2021







HonorHealth - Sonoran MOB Phoenix, AZ

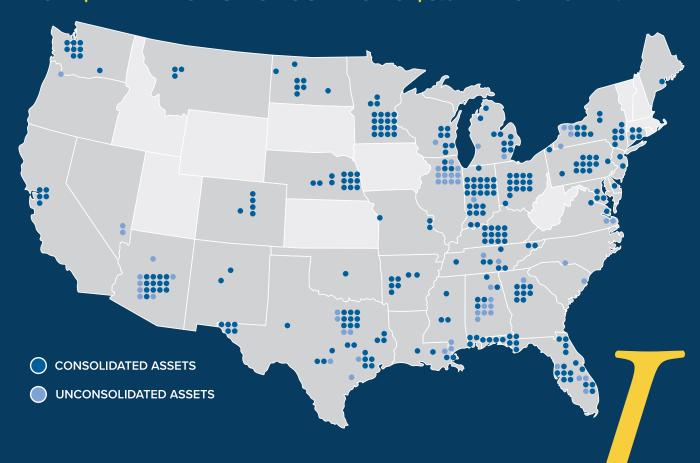


Eden Hill Medical Center Dover, DE



AdventHealth Wesley Chapel MOB II Wesley Chapel, FL

# WE HAVE GROWN OUR GROSS REAL ESTATE ASSET PORTFOLIO FROM \$124 MILLION SINCE OUR IPO TO \$5.9 BILLION TODAY.





#### **BOARD OF TRUSTEES**

Governor Tommy G. Thompson *Chairman of the Board* 

Stanton D. Anderson, Esq. *Compensation Committee Chair* 

Mark A. Baumgartner Audit Committee Chair

Albert C. Black, Jr.

Nominating & Corporate Governance
Committee Chair

Richard A. Weiss, Esq. Finance & Investment Committee Chair

William A. Ebinger, M.D.

Pamela J. Kessler *Trustee* 

Ava E. Lias-Booker, Esq. *Trustee* 

John T. Thomas *Trustee* 

#### **LEADERSHIP TEAM**

John T. Thomas President & Chief Executive Officer

Jeffrey N. Theiler Executive Vice President, Chief Financial Officer

D. Deeni Taylor Executive Vice President, Chief Investment Officer

Mark D. Theine Executive Vice President, Asset Management

John W. Lucey Chief Accounting & Administrative Officer

Bradley D. Page, Esq. Senior Vice President, General Counsel

Daniel M. Klein Senior Vice President, Deputy Chief Investment Officer Laurie P. Becker Senior Vice President, Controller

Amy M. Hall Senior Vice President, Leasing & Physician Strategy

W. Mark Dukes
Senior Vice President, Asset Management

David G. Domres

Vice President,

Construction & Project Management

Jennifer A.D. Manna Vice President, Associate General Counsel

Tony R. Bradt Vice President, Property Controller

Michael H. Farina Vice President, Finance & Investor Relations

The Annual Meeting of Shareholders will convene Tuesday, May 3, 2022, at 10:00 am local (Central) time at Black Swan MKE, 309 N. Water Street, Milwaukee, WI. For details on how to join the meeting, please reference our Proxy Statement. Physicians Realty Trust is traded on the NYSE under the ticker symbol "DOC" Member of the National Association of Real Estate Investment Trusts (Nareit) Registrar & Transfer Agent: Computershare, Louisville, KY, 800-368-5948

Registrar & Transfer Agent: Competershare, Louisville, KY, 800-368-5948
Independent Registered Public Accounting Firm: Ernst & Young LLP, Milwaukee, WI, 414-273-5900
Corporate & REIT Tax Counsel: Baker & McKenzte LIP, Chicago, IL, 312-861-8000

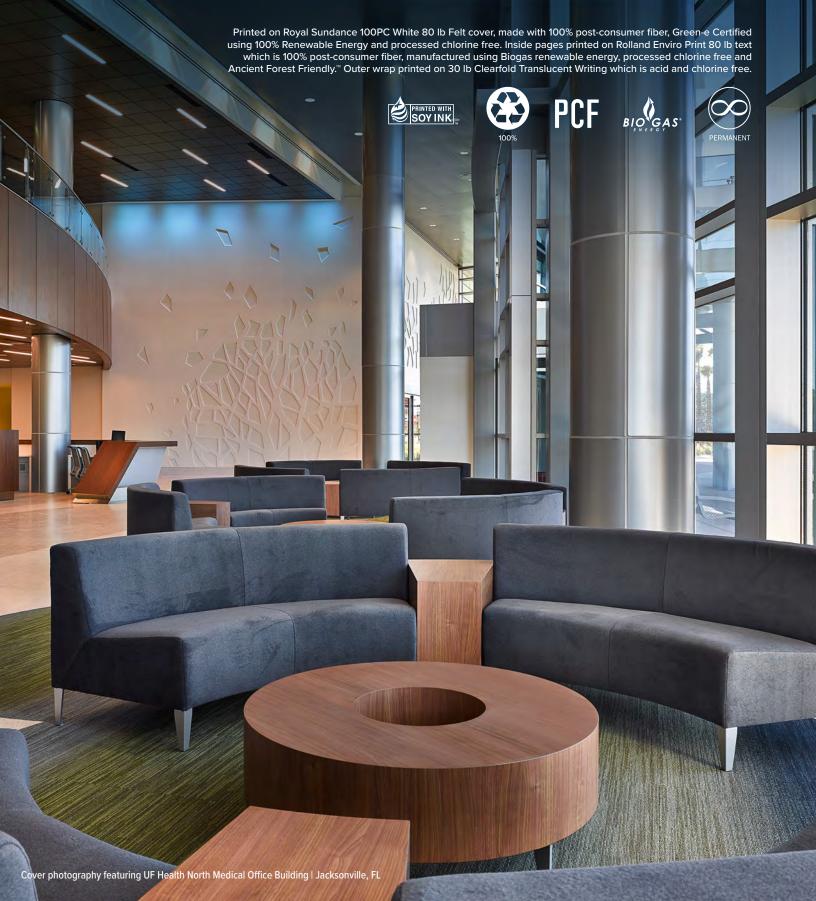


#### PHYSICIANS REALTY TRUST

309 N. Water Street, Suite 500 Milwaukee, WI 53202

DOCREIT.COM | 844-DOC-REIT

DOC LISTED NYSE



#### **UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

#### **FORM 10-K**

☑ ANNUAL REPORT P	URSUANT TO SECTION	N 13 OR 15(d) OF T	HE SECURITIES EXC	CHANGE ACT OF 1934
	For the fisc	al year ended Decembe	er 31, 2021	
☐ TRANSITION REPOR	RT PURSUANT TO SEC	TION 13 OR 15(d) (	OF THE SECURITIES	EXCHANGE ACT OF 1934
	For the transi	tion period from	to	
	Commi	ssion file number: 001-	36007	
	PHYSICL	ANS REALTY	TRUST	
		Registrant as Specified		
Maryland			46-25	19850
(State or Other Jurisdiction of Incorporation or Organization)			(I.R.S. Employer Identification No.)	
309 N. Water S	Street, Suite 500			
Milwaukee, Wisconsin			53202	
(Address of Principal Executive Offices)			(Zip Code)	
	(Registrant's te	(414) 367-5600 lephone number, includi	ng area code)	
	Securities regis	stered under Section 12(l	b) of the Act:	
Title of each	class Tra	ding Symbol(s)	Name of each exchan	ge on which registered
Common Shares, \$0.	)1 par value	DOC	New York St	ock Exchange
	Securities register	ed under Section 12(g) of	of the Act: None	
Indicate by check mark if the registrant	is a well-known seasoned iss	uer, as defined in Rule 4	05 of the Securities Act.	Yes ℤ No □
Indicate by check mark if the registrant	is not required to file reports	pursuant to Section 13 o	or Section 15(d) of the Act.	Yes □ No 🇷
Indicate by check mark whether the reg	istrant (1) has filed all reports	required to be filed by S	Section 13 or 15(d) of the S	decurities Exchange Act of 1934 during a subject to such filing requirements for
Indicate by check mark whether the reg Regulation S-T (§ 232.405 of this chap Yes $\boxtimes$ No $\square$				
Indicate by check mark whether the regemerging growth company. See the defin Rule 12b-2 of the Exchange Act.  Large accelerated filer  Accelerated		filer," "accelerated filer,	" "smaller reporting compa	
If an emerging growth company, indicarevised financial accounting standards				eriod for complying with any new or
Indicate by check mark whether the regunder Section 404(b) of the Sarbanes-C	-		_	internal control over financial reporting issues its audit report. 🗷
Indicate by check mark whether the reg	istrant is a shell company (as	defined in Rule 12b-2 or	f the Act). Yes $\square$ N	No 🗷
The aggregate market value of Physicia upon the closing price reported for such	•	•	es as of June 30, 2021 was a	approximately \$3,983,513,917 based
As of February 15, 2022, there were 22	4,940,301 shares of Physician	s Realty Trust's commo	n shares outstanding.	

#### 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 3, 2022, to be filed with the Securities and Exchange Commission within 120 days after the end of the Registrant's fiscal year ended December 31, 2021.

#### PHYSICIANS REALTY TRUST

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#### **Forward-Looking Statements**

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, property performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as "believe," "expect," "outlook," "continue," "project," "may," "will," "should," "seek," "approximately," "intend," "plan," "pro forma," "estimate," or "anticipate" or the negative of 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, expectations, or intentions.

These forward-looking statements reflect the views of our management regarding current expectations and projections about future events and are based on currently available information. These forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data, or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all).

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- the unknown duration and economic, operational, and financial impacts of the global outbreak of a novel strain of the coronavirus and its variants, including the Delta or Omicron variants and any future variants that may emerge (the "COVID-19 pandemic") and the actions taken by governmental authorities or others in connection with the COVID-19 pandemic will have on the Company's business;
- · 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 indebtedness or to pay down or refinance our indebtedness;
- fluctuations in interest rates and increased operating costs;
- the availability, terms and deployment of debt and equity capital, including our unsecured revolving credit facility;
- our ability to make distributions on our common shares;
- general volatility of the market price of our common shares;
- our increased vulnerability economically due to the concentration of our investments in health care properties;
- our geographic concentration in Texas causes us to be particularly exposed to downturns in the Texas economy or other changes in Texas market conditions;
- changes in our business or strategy;
- our dependence upon key personnel whose continued service is not guaranteed;
- our ability to identify, hire, and retain highly qualified personnel in the future;
- the degree and nature of our competition;
- changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates, taxation of real estate investment trusts ("REITs"), and similar matters;

- defaults on or non-renewal of leases by tenants;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying health care properties to acquire and completing acquisitions;
- competition for investment opportunities;
- any adverse effects to the business, financial position or results of operations of CommonSpirit Health, or one or more
  of the CommonSpirit Health-affiliated tenants, that impact the ability of CommonSpirit Health-affiliated tenants to pay
  us rent;
- the impact of our investments in joint ventures we have and may make in the future;
- 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 health care laws or government reimbursement rates;
- changes in accounting principles generally accepted in the United States ("GAAP");
- lack of or insufficient amounts of insurance;
- other factors affecting the real estate industry generally;
- our failure to maintain our qualification as a REIT for U.S. federal income tax purposes;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes; and
- other factors that may materially adversely affect us, or the per share trading price of our common shares, including:
  - the number of our common shares available for future issuance or sale;
  - our issuance of equity securities or the perception that such issuance might occur;
  - future debt;
  - failure of securities analysts to publish research or reports about us or our industry; and
- securities analysts' downgrade of our common shares or the health care-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.

Factors that may cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements include, without limitation, those discussed in Item 1 - "Business," Item 1A - "Risk Factors," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and our other filings with the United States Securities and Exchange Commission ("SEC").

As used in this report, unless the context otherwise requires, references to "we," "us," "our," and the "Company" refer to Physicians Realty Trust (the "Trust"), a Maryland real estate investment trust, and Physicians Realty L.P. (the "Operating Partnership"), a Delaware limited partnership and the consolidated subsidiary of the Trust through which we conduct our business.

#### **ITEM 1. BUSINESS**

#### Overview

Physicians Realty Trust, a Maryland real estate investment trust, and Physicians Realty L.P., a Delaware limited partnership, were organized in April 2013 to acquire, selectively develop, own, and manage health care properties that are leased to physicians, hospitals, and health care delivery systems. Unless otherwise indicated or unless the context requires otherwise, all references in this report to "we," "us," "our," the "Company," and "Physicians Realty" refer to the Trust, together with its consolidated subsidiaries, including the Operating Partnership. References to the "Operating Partnership" mean collectively the Operating Partnership together with its consolidated subsidiaries. We completed our initial public offering ("IPO") in July 2013. The Trust's common shares are listed on the New York Stock Exchange ("NYSE") and it is included in the MSCI US REIT Index and S&P MidCap 400.

We have grown our consolidated portfolio of gross real estate investments from approximately \$124 million at the time of our IPO to approximately \$5.7 billion as of December 31, 2021. As of December 31, 2021, our consolidated portfolio consisted of 279 health care properties (which excludes one asset classified as held for sale and our Corporate headquarters) located in 33 states with approximately 15,591,533 net leasable square feet, of which approximately 95% was leased with a weighted average remaining lease term of approximately 6.3 years. As of December 31, 2021, approximately 90% of the net leasable square footage of our consolidated portfolio was either on campus with a hospital or other health care facility or strategically affiliated with a hospital or other health care provider organization.

We receive a cash rental stream from health care providers under our leases. Approximately 94% of the annualized base rent payments from our properties as of December 31, 2021, excluding our one asset held for sale, are from absolute net and triple net leases, pursuant to which the tenants are responsible for 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 leases to generate attractive returns on a long-term basis. Our leases typically have initial terms of 5 to 15 years and include annual rent escalators of approximately 1.5% to 4.0%, with an annual weighted average rent escalator of approximately 2.4%. Certain of the Company's leases include provisions indexing annual rent escalators to change in Consumer Price Index ("CPI"), often with a floor or ceiling. As of December 31, 2021, 6.2% of the Company's annual rent escalators are determined by changes in CPI. Our operating results depend significantly on the ability of our tenants to make required rental payments. We believe that our portfolio of medical office buildings and other health care 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, 2021, leases representing a percentage of our consolidated portfolio on the basis of leased square feet will expire as follows:

Year	Portfolio Lease Expirations		
MTM (1)	0.9%		
2022	3.8%		
2023	5.2%		
2024	6.6%		
2025	6.6%		
2026	22.9%		
2027	10.2%		
2028	10.5%		
2029	5.8%		
2030	5.0%		
2031	6.6%		
Thereafter	15.9%		
Total	100.0%		

<sup>(1) &</sup>quot;MTM" means month-to-month. This line also includes eight leases which expired on December 31, 2021, representing 0.3% of leased square feet.

We invest in real estate that is integral to providing high quality health care services. Our properties are typically located on a campus with a hospital or other health care facilities or strategically affiliated with a hospital or other health care system. We believe the impact of government programs and continuing trends in the health care industry create attractive opportunities for us to invest in health care-related real estate. Our management team has significant health care real estate experience and has long established relationships with physicians, hospitals, and health care delivery system decision makers who we believe will provide quality investment and growth opportunities. Our principal investments include medical office buildings ("MOBs"), ambulatory surgery centers ("ASCs"), outpatient treatment facilities, and other real estate integral to health care providers. 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.

The Trust is a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes. 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. The Trust is the sole general partner of our Operating Partnership and, as of February 15, 2022, owned approximately 95% of the Operating Partnership Units ("OP Units").

#### **Our Objectives and Growth Strategy**

#### Overview

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 strategy to achieve our business objective is to utilize our physician and hospital relationships nationwide to identify off-market opportunities in which to invest and own, to manage a diversified portfolio of high quality health care properties, and to understand our tenants' real estate strategies, which we believe will drive high retention, high occupancy, and reliable, increasing rental revenue cash flow and growth.

We intend to grow our portfolio of high-quality health care properties leased to physicians, hospitals, health care delivery systems, and other health care providers primarily through acquisitions of existing health care facilities that provide stable revenue growth and predictable long-term cash flows. We may also selectively finance the development of new health care facilities with premier health care real estate developers. Generally, we expect to make investments in new development properties when approximately 80% 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 health care providers and health care delivery systems that offer need-based health care services in sustainable health care markets. We focus our investment activity on MOBs, ASCs, outpatient treatment facilities, and other real estate integral to health care providers.

We may from time to time also make investments in other health care properties. We believe that trends such as shifting consumer preferences, limited space in hospitals, the desires of patients and health care providers to limit non-essential services provided in a hospital setting, and cost considerations continue to drive the industry towards performing more procedures in outpatient facilities instead of hospital settings. As these trends continue, we believe that demand for MOBs and similar health care properties away from hospital settings and in convenient locations to patients will continue to rise. We intend to exploit this trend and favor outpatient facilities consistent with our investment philosophy and strategies.

While not our focus, we may decide to invest opportunistically in life science facilities, senior housing properties, skilled nursing facilities, specialty hospitals, and treatment centers. Consistent with the Trust's qualification as a REIT, we may also opportunistically invest in companies that provide health care services, and in joint ventures with operating partners structured to comply with the REIT Investment Diversification Act of 2007 ("RIDEA").

As of December 31, 2021, we have grown our consolidated portfolio of gross real estate investments to approximately \$5.7 billion while maintaining a conservative balance sheet. For short-term funding purposes, we may borrow from our unsecured credit facility. From time to time, we replace these borrowings with long-term capital such as senior unsecured notes, equity, and alternative securities. We may selectively utilize capital market transactions in furtherance of our investment strategy.

#### **Business Strategy**

We are focused on maintaining and expanding our portfolio of high-quality health care properties leased to physicians, hospitals, health care delivery systems, and other health care providers. Our strategy includes the following key attributes:

- We seek to invest in properties occupied by health care systems with dominant market shares and high credit quality, especially those who are investing capital in their facilities. In particular, we seek to acquire off-market or selectively marketed assets with attractive demographics, economic growth, and high barriers to entry. We seek to own well-occupied properties that we believe are critical to the delivery of health care by affiliated hospital providers in desirable locations.
- We emphasize ensuring an appropriate and balanced mix of tenants and practices to provide synergies within individual buildings and broader health system campuses. Our primary tenants are health care systems, academic medical centers, and leading physician groups, which typically have strong and stable financial performance. We believe this helps ensure stability in our rental income and tenant retention over time.
- We seek to maintain a core, critical portfolio of properties and to build our reputation as a leading dedicated MOB owner and operator.
- We seek to maintain or increase our average rental rates, actively lease our vacant space, and reduce leasing concessions.

We seek to invest in properties where we can develop strategic alliances with financially sound health care providers and health care delivery systems that offer need-based health care services in sustainable health care markets and consider the potential for long-term relationships and repeat business when assessing acquisition potential.

We actively manage our balance sheet to maintain our investment grade credit rating, to maintain an appropriate level of leverage, and to preserve financing flexibility for funding of future acquisitions. In particular, we:

- Seek to maintain a high level of liquidity, including borrowing availability under our unsecured revolving credit facility.
- Maintain access to multiple sources of capital, including private debt issuances, public bond offerings, public equity offerings, unsecured bank loans, and equity from joint venture partners.
- Periodically review our portfolio to consider the potential dispositions of lower quality properties to reinvest the proceeds into higher quality properties.
- Closely monitor our existing debt maturities and average interest rates, and identify refinancing opportunities.

#### Sustainability Strategy

Since our founding in 2013, the Company has established a track record of environmental stewardship, value creation at the community level, and strong governance. We are also committed to increased transparency and accountability through public disclosure. We believe that sustainable investments are investments in a brighter future. We are committed to being a leader in Environmental, Social, and Governance ("ESG") performance within the REIT industry. Our ESG Committee, formed in 2018, is overseen by our Executive Vice President of Asset Management, who reports to the Company's President and CEO. The Nominating and Corporate Governance Committee of our Board of Trustees provides Board-level oversight of the ESG Committee. Company team members from every workgroup are represented on the ESG Committee. We began issuing our annual ESG Reports in June 2020.

As a result of our commitment to sustainability, we have been recognized with eight Institute of Real Estate Management Certified Sustainable Property ("IREM® CSP") designations in 2019, ten IREM® CSP designations in 2020, and ten IREM® CSP designations in 2021. Approximately 18.6% of our portfolio square footage is certified under the IREM® CSP program. We also received a 2021 ENERGY STAR® Partner of the Year Award from the Environmental Protection Agency and the Department of Energy ("DOE") and have been an ENERGY STAR® partner since 2014. In addition, in order to align our financial and energy commitments with our tenants, we have incorporated green lease provisions into nearly all of our new leases and renewals. A green lease is a lease that includes energy-aligned clauses that unlock mutually beneficial investments in energy efficiency and sustainability. As of December 31, 2021, 49% of our managed portfolio includes green lease language. These efforts resulted in recognition by the Institute for Market Transformation ("IMT") and the DOE Better Buildings Alliance as a Green Lease Leader in 2020. Our portfolio also includes two LEED-certified properties.

In 2021, the Company completed its inaugural GRESB application. GRESB is a mission-driven and industry-led organization providing standardized and validated ESG data to financial markets. In its first year of submission to GRESB, the Company earned a score of 75 out of 100, outperforming the international average of 73 out of 100. In addition, the Company

received a Green Star designation, awarded to participants achieving scores of 50+ on GRESB's measurement of the management and performance sections.

We are committed to giving back to the communities we serve. In 2021, we provided more than \$448,000 in philanthropic, fundraising, and in-kind donations to community and health care provider organizations, benefiting their research and mission initiatives, surpassing our 2021 goal of \$350,000.

Under the Company's "volunteer time off" employee benefit program and Company volunteerism efforts, our team members contributed approximately 695 hours of community service in 2021. Team members are encouraged to spend a day—with pay—volunteering for an organization in their home community. In addition, the Company organizes volunteer service opportunities as a corporate outing, benefiting charitable causes while building teamwork, leadership skills, and fostering our Company culture. For more details on our social responsibility strategies, see the discussion under this Item 1 - "Business" under "Human Capital Management."

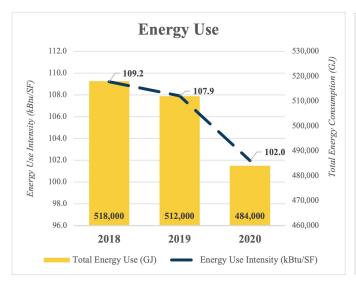
Sustainability Accounting Standards Board ("SASB")

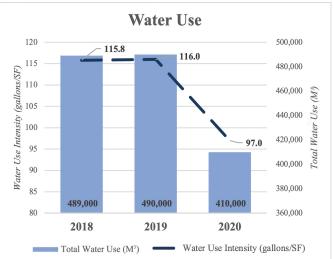
The Real Estate Sustainability Accounting Standard issued by SASB in 2018 proposes sustainability accounting metrics designed for disclosure in mandatory filings. SASB recommendations serve as the framework against which we have aligned our disclosures for sustainability information.

Energy and water data is collected from utility bills and submeters and assured by a third party. The recommended energy and water management activity metrics for the real estate industry include:

- energy consumption data coverage as a percentage of floor area ("Energy Use Intensity");
- total energy consumed by portfolio area ("Total Energy Consumption");
- water withdrawal as a percentage of total floor area ("Water Intensity"); and
- total water withdrawn by portfolio area ("Total Water Consumption").

The charts below detail our Energy Intensity, Total Energy Consumption, Water Intensity, and Total Water Consumption for 2018 through 2020 for which data on occupied and actively managed properties was available. Total energy use is presented in gigajoules (GJ), and total water is presented per thousand cubic meters (M³). (1)





(1) Full 2021 calendar year energy and water data will not be available to be assured by a third party until the second quarter of 2022. 2020 is the most recent year for which complete energy and water data is available and assured by a third party. The charts reflect the performance of 4.5 million square feet, which is approximately 32% of our portfolio and approximately 44% of our actively managed portfolio. The energy scope includes energy produced from fuel, gas, district cooling, and electricity. The water scope includes irrigation and domestic water.

#### Energy Reduction Strategy

Energy reduction is a significant part of our capital improvement strategy as well as our property management training and engagement. We proactively track our assets to determine where capital upgrades, such as LED retrofits and building control systems optimizations, will maximize our efficiency impact.

#### Water Reduction Strategy

In 2020, the COVID-19 pandemic impacted the Company's common area water usage through measures such as disabling public water fountains and reducing traffic to common area restrooms. Company water management policies, low-flow fixtures, irrigation controls, and tenant education are part of our long-term mitigation strategies.

#### Climate Change Adaptation

Approximately 229,100 square feet of the 4.5 million square feet referenced in the chart above, representing three of our medical office buildings, are located in 100-year flood zones designated by the U.S. Federal Emergency Management Agency ("FEMA") as special flood hazard areas ("SFHA"). No other tracked properties are in a high hazard zone.

#### Climate Resilience

We are focused on climate preparedness as part of our sustainability strategy. As a long-term owner and active manager of our real estate assets, we proactively identify climate risks and implement preventive measures to combat these risks. Responsibility for these measures is distributed across several departments within the Company, including Executive Leadership, Asset Management, Construction and Project Management, Leasing, Marketing and Communications, and Property Management. In 2020, the Company implemented the recommendations of the Task Force on Climate-Related Financial Disclosure ("TCFD") and expanded these efforts in 2021. By utilizing data provided by an independent third party expert, the team identified properties exposed to climate risks in seven key categories: flood, earthquake, heat stress, hurricane, sea-level rise, water stress, and wildfire. In addition, we identified the properties that held a "Red Flag" or "High" risk in any of the above categories and committed to creating a mitigation plan for each affected location. Our annual ESG Report is in alignment with TCFD, and includes details on these risks and subsequent mitigation plans.

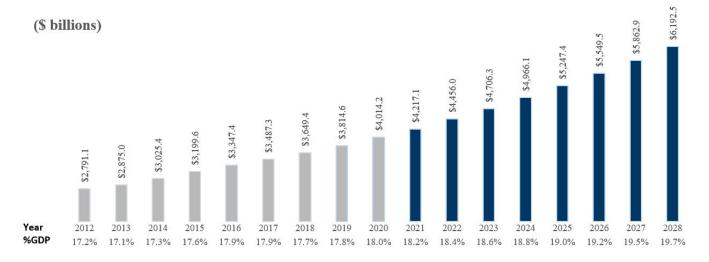
#### **Our Industry and Market Opportunity**

The nature of health care delivery continues to evolve due to the impact of government programs, regulatory changes and consumer preferences. We believe these changes have increased the need for capital among health care providers and increased pressure on these providers to integrate more efficient real estate solutions in order enhance the delivery of quality health care. In particular, we believe the following factors and trends are creating an attractive environment in which to invest in health care properties.

#### \$3.8 Trillion Health Care Industry Projected to Grow to \$6.2 Trillion (and 19.4% of U.S. GDP) by 2028

According to the U.S. Centers for Medicare & Medicaid Services ("CMS"), health care spending accounted for 19.7% of U.S. gross domestic product ("GDP") in 2020. The general aging of the population, driven by the Baby Boomer generation and advances in medical technology and services which increase life expectancy, are key drivers of the growth in health care expenditures. The anticipated continuing increase in demand for health care services, together with an evolving complex and costly regulatory environment, changes in medical technology and reductions in government reimbursements are expected to pressure capital-constrained health care providers to find cost effective solutions for their real estate needs.

We believe the demand by health care providers for health care real estate will increase as health care spending in the United States continues to increase. According to the Centers for Medicare & Medicaid Services' National Health Expenditure Projections 2019-2028, national health care expenditures continue to rise and are projected to grow from an estimated \$3.8 trillion in 2019 to \$6.2 trillion by 2028, representing an average annual rate of growth of 5.4%, reaching a projected 19.7% of GDP in 2028.



Source: Centers for Medicare & Medicaid Services, Office of the Actuary

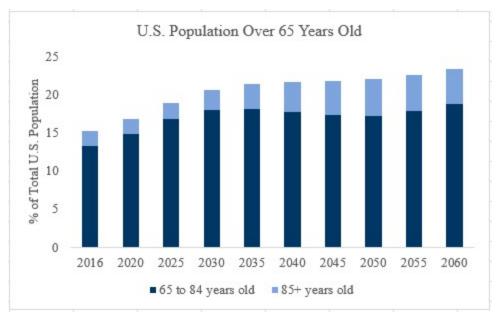
#### Aging Population

The aging of the U.S. population has a direct effect on the demand for health care as older persons generally utilize health care services at a rate well in excess of younger people. According to the U.S. Census Bureau, the U.S. population over 65 years of age is projected to more than double from 49.2 million to nearly 94.7 million, and the 85 and older population is expected to almost triple, from 6.4 million to 19.0 million, between 2016 and 2060. Also, according to the U.S. Census Bureau, the number of older Americans is growing as a percentage of the total U.S. population with the number of persons older than 65 estimated to comprise 15.2% of the total U.S. population in 2016 and projected to grow to more than 20% by 2030.

We believe that health care expenditures for the population over 65 years of age will continue to rise as a disproportionate share of health care dollars is spent on older Americans. To illustrate, in 2012 the elderly (65+ years old) represented only 14% of the population while accounting for 34% of all health care-related spending. We believe the older population group increasingly will require treatment and management of chronic and acute health ailments and that this increased demand for health care services will create a substantial need for additional medical office buildings and other facilities that serve the health care industry in many regions of the United States. Additionally, we believe there will likely be a focus on lowering the cost of outpatient care for the aging U.S. population, which will continue to support medical office and outpatient facility property demand in the long term. For example, beginning in 2019, CMS expanded the list of procedures that

can be performed and reimbursed in outpatient surgery centers to include 12 cardiac catheterization diagnostic procedures and 5 ancillary procedures. CMS continues to expand the list of services for 2022, and has adopted a nomination process expected to begin in March 2022 to allow external parties to nominate surgical procedures to be added to the list of services that can be performed in a surgery center, with coverage expected to be effective January 1, 2023. We believe these trends will result in a substantial increase in the demand for health care space in our facilities and the number of properties meeting our investment criteria.

We believe advances in medical technology will continue to enable health care providers to identify and treat once fatal illnesses and improve the survival rate of critically ill and injured patients who will require continuing medical care in outpatient medical office buildings.



Source: U.S. Census Bureau

#### Affordable Care Act

The Affordable Care Act (as hereinafter defined) constituted a significant overhaul of many aspects of health care regulations and health insurance and created new features in the framework for health care services over the near term. It required every American to have health insurance or be subjected to a tax. Those who cannot afford health insurance are offered insurance subsidies or Medicaid coverage. On December 14, 2018, a federal district court in Texas ruled that the Affordable Care Act's individual mandate was unconstitutional. The United States Supreme Court dismissed the Texas case and upheld the Affordable Care Act in June 2021; however, we expect challenges to the Affordable Care Act may continue.

The U.S. Census Bureau estimated that approximately 50 million Americans did not have health care insurance in 2009, before the Affordable Care Act was enacted. The U.S. Census Bureau calculated that in 2020, approximately 28 million Americans did not have health insurance, continuing a trend after passage of the Affordable Care Act to reduce the number of uninsured. The Affordable Care Act and subsequent legislation, executive orders and events, as well as their potential impact on our business, are discussed more fully under Item 1 - Business, under the caption "Certain Government Regulations."

We believe an increase in the number of Americans with access to health insurance would result in an increase in physician office visits and an overall rise in health care utilization which in turn will drive a need for expansion of medical, outpatient, and smaller specialty hospital facilities. We also believe the increased dissemination of health research through media outlets, marketing of health care products, and availability of advanced screening techniques and medical procedures have contributed to a more engaged population of health care users and has created increased demand for customized facilities providing specialized, preventive, and integrative health care services. With the growth of electronic health care information transmission, physician offices increasingly engage with patients through telehealth. Health care payors, including Medicare, are beginning to reimburse for telehealth services when medical information is transmitted and used between patients and physicians. Telehealth services have also expanded as a result of COVID-19 and the need for social distancing, a trend we expect to continue following the end of the COVID-19 public health emergency.

We further believe the provisions of the Affordable Care Act that are designed to lower certain reimbursement amounts under Medicare and tie reimbursement levels to the quality of services provided will increase the pressure on health care providers to become more efficient in their business models, invest capital in their businesses, lower costs and improve the quality of care, which in turn will drive health care systems to monetize their real estate assets and create demand for new, modern and specialized facilities.

#### Clinical Care Continues to Shift to Outpatient Care

According to the American Hospital Association (the "AHA"), many procedures traditionally performed in hospitals, such as certain types of surgery, are increasingly moving to outpatient facilities driven by advances in clinical science, shifting consumer preferences, limited or inefficient space in existing hospitals, and lower costs in the outpatient environment. This continuing shift toward delivering health care services in an outpatient environment rather than a traditional hospital environment increases the need for additional outpatient facilities and smaller, more specialized and efficient hospitals. Studies by the Medicare Payment Advisory Commission and others have shown that health care is delivered more cost effectively and with higher patient satisfaction when it is provided on an outpatient basis. Increasingly, hospital admissions are reserved for the critically ill, and less critical patients are treated on an outpatient basis with recuperation in their own homes. We believe health care market trends toward outpatient care will continue to push health care services out of larger, older, inefficient hospitals and into newer, more efficient, and conveniently located outpatient facilities and smaller specialized hospitals. We believe that increased specialization within the medical field is also driving demand for medical facilities designed specifically for particular specialities and that physicians want to locate their practices in medical office space that is in or adjacent to these facilities.

#### Impact of BBA on Hospital Outpatient Care

Section 603 Assets: Section 603 of the Bipartisan Budget Act of 2015 (the "2015 BBA") generally prohibits hospital outpatient departments ("HOPDs") from receiving hospital outpatient department rates under the Medicare Outpatient Prospective Payment System ("OPPS") for Medicare patients treated in "off-campus" locations that are not Emergency Departments on or after January 1, 2017, potentially impacting their profitability. These higher Medicare hospital outpatient rates are only permitted if the hospital provides HOPD services in a department within 250 yards of the hospital's main inpatient building, or within 250 yards of a hospital's remote location (second inpatient location off the main campus). A hospital HOPD can be grandfathered from the 2015 BBA payment changes even if the location is outside the 250 yard distance. Under the statutory authority, an off-campus HOPD facility that was furnishing outpatient services on or before November 2, 2015 can be "grandfathered" and can continue to be paid at the OPPS HOPD rates, if, among other things, the hospital was billing HOPD services in that location on a HOPD basis as of November 2, 2015 and continues to provide those services in that location. On November 21, 2018, the Secretary of Health and Human Services (the "Secretary") issued a final rule, effective January 1, 2019, that eliminates the higher, OPPS reimbursement rate for evaluation and management ("E&M") services provided by Grandfathered HOPD locations (the "Final Rule"). The Secretary, instead, will only reimburse for E&M services at the lower, Medicare Physician Fee Schedule rate that new non-grandfathered off-campus HOPD locations receive. The AHA and a number of hospitals have sued the Secretary in federal court to enforce the plain meaning of Section 603 of the 2015 BBA and restore the right to Grandfathered HOPD reimbursement rates. On September 17, 2019, a federal district judge ruled in favor of the AHA. The court stated that CMS did not have the authority to lower payments for off-campus hospital-based departments that were grandfathered under the 2015 BBA. CMS challenged this ruling and requested a stay in the decision, which the court denied on October 21, 2019. In its December 15, 2020 final rule for hospital OPPS rates, CMS continued its efforts to lower payment for certain HOPD services basing reductions on the principle of "site neutrality." These lower payment levels were effective January 1, 2021, notwithstanding the CMS' projections that overall payments under OPPS will increase by 2.4%. For 2022, CMS updated OPPS payment rates for hospitals that meet applicable quality reporting requirements by 2%. Further, CMS continued the payment rate reduction for E&M services furnished in all off-campus HOPDS in 2022. Hospitals with "grandfathered" locations providing HOPD services in our portfolio are referred to as 603 assets in our SEC reports and other public disclosures.

We own a number of assets that will continue to be reimbursed at hospital outpatient department ("OPPS") rates, which we refer to as "603 assets" after the applicable section of the 2015 BBA. Rent derived from these 603 assets accounts for approximately 16% of our total consolidated portfolio annualized base rent as of December 31, 2021. Depending upon the implementation of the regulations and mix of procedures in an HOPD, the 2015 BBA may enhance the value of these 603 assets because existing HOPDs may lose their higher reimbursements rates should they choose to change locations, thus enhancing lease renewal probabilities and rent growth.

#### **Portfolio Summary**

Please see Item 2 - "Properties" for a table that summarizes our consolidated portfolio as of December 31, 2021.

#### **Geographic Concentration**

As of December 31, 2021, approximately 12.0% of our consolidated gross leasable area was derived from properties located in Texas.

As a result of this geographic concentration, we are particularly exposed to downturns in the Texas economy 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 Texas could have a disproportionate effect on our overall business results. In the event of negative economic or other changes in the Texas market, our business, financial condition, and results of operations, our ability to make distributions to our shareholders, and the market price of our common shares may be adversely affected. See 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 Texas, and other areas to which a greater percentage of our revenue is attributed could materially adversely affect our business, results of operations, and financial condition."

#### **Customer Concentration**

We receive substantially all of our revenue as rent payments from tenants under leases of space in our health care properties, with our five largest tenants based upon rental revenue representing approximately \$68.1 million, or 19.3%, of the annualized base rent from our consolidated properties as of December 31, 2021. No one tenant represents more than 5.0% of our total consolidated annualized base rent; however, 14.7% of our total consolidated annualized base rent as of December 31, 2021 is from tenants affiliated with CommonSpirit Health. 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. Our business, financial position, or results of operations could be materially adversely affected if CommonSpirit Health were to experience a material adverse effect on its business, financial position, or results of operations.

#### Competition

We compete with many other entities engaged in real estate investment activities for acquisitions of health care properties, including national, regional and local operators, acquirers, and developers of health care-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 health care-related real estate properties may significantly increase the price that we must pay for health care 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 health care 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 health care properties or other assets may adversely affect our returns from our investments.

We also face competition in leasing available MOBs and other facilities that serve the health care industry to prospective tenants. As a result, we may have to provide rent concessions, incur charges for tenant improvements, offer other inducements, or we may be unable to timely lease vacant space in our properties, all of which may have a material adverse impact on our results of operations.

#### Seasonality

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

#### **Human Capital Management**

Our Company is focused on human capital management, which our Board believes is vital to the health of the Company. We believe that the success of our business depends on a strong, talented, and committed workforce to ensure excellence on behalf of our clients and shareholders. Therefore, we prioritize the well-being of our team members and offer comprehensive benefits packages, opportunities for personal and group volunteer efforts, and paths for life-long learning to our employees. Our employees work with various business units across the Company to diversify their skill sets. Team members

are offered challenging projects, stock ownership as a form of compensation, and a collaborative and inclusive environment with exposure to our top executives.

We are an equal opportunity employer, and we are committed to making employment decisions without regard to race, creed, color, religion, sex, age, ancestry, national origin, sexual preference, sexual orientation, marital status, disability, protected veteran status, minority groups, or any other legally protected status. As of December 31, 2021, we had 89 full-time employees, none of whom were subject to a collective bargaining agreement. We believe that relations with our employees are positive.

The Nominating and Corporate Governance Committee retains oversight over human capital matters, including diversity, equity, and inclusion policies and initiatives, and oversees the Company's DEI Council. Our Board receives regular reports from our CEO regarding annual employee engagement results conducted through an independent third party, and in 2021, the Company had 93% participation in this survey. In addition, our Board members periodically attend employee events, participate in our annual Management Summit event, and attend all-team holiday gatherings. Also, in 2021, Dr. William Ebinger, a member of our Board of Trustees, hosted an all-company meeting to discuss the COVID-19 crisis and answer vaccination questions.

#### Employee Engagement

In 2021, the Company offered team member training, including courses on leadership, freedom from harassment through a positive work environment, and unconscious bias, among other topics. Our team also routinely participates in training opportunities related to ESG and workplace best practices to pursue continued professional development. In addition, employees participate in an annual book club discussion and training events, including regular Company-wide "lunch and learn" discussions on leadership, wellness, mentorship, team-building, the REIT industry, and advanced computer skills.

We have a strong commitment to team involvement in the workplace. Employees lead committees focusing on social, environmental, philanthropic, and health and wellness topics that shape the Company's policies. Annual engagement surveys are conducted by an independent third party to provide anonymous team member feedback, and in 2021, the response rate to this survey was approximately 93%. We believe that continuous improvement and investment in our team are the keys to our continued success.

#### Diversity, Equity, and Inclusion

To represent our commitment to DEI, we established a DEI Council in 2019 that sets ambitious, attainable, and authentic goals, develops educational platforms, and plans activities to promote DEI at all levels of our organization. We take a personalized approach, driven by a 16-member DEI Council that represents all workgroups within our Company. Strategies include promoting the inclusion of diverse candidates in recruitment efforts, providing enhanced career development support for underrepresented populations, and ensuring that we continue to offer benefits and compensation that attracts and retains diverse team members.

Our DEI Council, which meets monthly, operates under the direction and full support of our Senior Vice President and Deputy Chief of Investments, who reports on activities to our President and CEO. In addition, the DEI Council is overseen by the Nominating and Corporate Governance Committee and reports to the entire Board as needed. We feel that this level of visibility leads to high engagement, accountability, and fulfillment of our DEI goals.

#### 2021 Successes

**Internal Team**: All five of the Company's 2021 summer interns were diverse, representing those who identify as female, LGBTQ+, or BIPOC, supporting our efforts to build a young, diverse, and talented leadership pipeline. In addition, all internal and external candidate recruitment focuses on seeking diverse candidates, using organizations, resources, and job boards with diverse followings. The Company also committed to observing Martin Luther King, Jr. Day as a paid day off for team members for action and education. Finally, our executive performance reviews also now include a DEI element.

**Culture**: In 2021, the Company hosted Company-wide DEI town halls with topics including mental health, women in leadership, and working styles and recognition differences. Our annual management summit, which included over 300 team members and partner property management, leasing, and engineering professionals, featured a dedicated DEI keynote speaker.

**Financial Investments**: In coordination with NAIOP Wisconsin and the Marquette University Center for Real Estate, the Company supported the Real Estate Exchange ("REEX") Summer Programs. This organization's mission is to expose diverse high school students to career opportunities in commercial real estate. We provided \$11,000 in financial support and in-kind services for scholarships to diverse high school students interested in careers in commercial real estate.

**Industry**: Our President and CEO signed the CEO Action for Diversity & Inclusion pledge in July 2021, which aims to rally the business community from across industries and sectors to advance diversity, equity, and inclusion within the workplace. We are also proud of our representation on the national Nareit Social Responsibility Council in 2021, and our team members regularly attend continuing education on DEI matters through Nareit conferences.

**Community Engagement**: The Company continued its ongoing partnership with Year Up, a national organization whose mission connects talented young adults and top companies to launch careers, power businesses, and build communities. Our 2021 activities included virtual networking events and mock interviews that have fostered ongoing mentorships among our team members and recent program graduates.

#### 2022: Looking Ahead

Our team has developed targeted DEI goals to make a tangible and meaningful impact on our Company, industry, and communities, ultimately advancing DEI principles and better business performance. Our forthcoming ESG Report will showcase our successes to date and 2022 roadmap in greater detail.

#### COVID-19 Response

Throughout the COVID-19 pandemic, we have prioritized the health and safety of our team members. For example, to encourage and support COVID-19 vaccination, the Company provided two paid "Wellness Days" in 2021 to assist our team members with the potential immediate side-effects from the vaccination, which could also be used for overall mental health wellness. The Company also facilitated communication and education related to mental health and wellness, including a Company-wide, team-led town hall discussion. In addition, we supported various COVID-19 relief efforts alongside our health care partners across the country. Our efforts have included donating supplies, allowing local government agencies to store personal protective equipment at our facilities, establishing a temporary COVID-19 vaccine site at one of our facilities available for lease, establishing and managing drive-through COVID-19 testing locations at our facilities, and coordinating COVID-19 screening at building entrances.

#### Compensation and Benefits

Our leadership has championed the importance of providing a robust benefits package. We offer competitive pay and compensation packages including an annual bonus, paid medical and dental insurance, paid time off benefits, paid holidays, yearly paid volunteer time off, immediate vesting in 401(k) with matching, Company-sponsored short- and long-term disability benefits, life insurance, and paid parental leave. We provide equity compensation after one year of employment. Through our employee stock purchase program and annual stock grant, our team members are also owners of the Company. The Company also offers a graduate degree sponsorship program and a health plan option with a health savings account, which to date, has included an annual company contribution.

In response to the COVID-19 pandemic, the Company has adopted a two-day-a-week work-from-home approach to meet the changing needs of our team. Additionally, the Company debuted a one-month "work from anywhere" policy per year.

#### Community and Philanthropy

In addition to volunteer activities, the Company provides monetary support to various nonprofit organizations. In 2021, the Company contributed over \$448,000 in philanthropy, fundraising, and in-kind donations for causes and sponsorships nationwide, exceeding our 2021 goal of \$350,000. Team members are actively involved in the Company's philanthropic decisions through a team-led committee, an annual philanthropy survey, and quarterly "Jeans Week" drives with charitable recipients chosen from team-nominated organizations nationwide.

#### **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 health care laws and regulations relating to fraud and abuse practices, government reimbursement, licensure, protection of patient health information, and certificate of need and similar laws governing the operation of health care facilities, and we expect that the health care industry, in general, will continue to face increased regulation and pressure in the areas of fraud, waste and abuse, cost control, health care 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 health care 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 health care industry is heavily regulated, and new laws or regulations, changes to existing laws and regulations, health policies, reimbursement levels from third-party payors, 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."

In 2017, Congress came within a single vote of repealing of the Affordable Care Act and substantially reducing funding to the Medicaid program. New legislation may be introduced in the future, proposing changes, if not full repeal of the Affordable Care Act. Beyond this, significant changes to commercial health insurance and government-sponsored insurance (e.g., Medicare and Medicaid) remain possible. Commercial and government payors are likely to continue imposing larger discounts and tighter cost controls upon operators, through reductions in reimbursement rates and changes in payment methodologies, discounted fee structures, the assumption by health care providers of all or a portion of the financial risk or otherwise. A shift toward less comprehensive health insurance coverage and increased consumer cost-sharing on health expenditures could have a material adverse effect on certain of our operators' liquidity, financial condition, and results of operations and, in turn, their ability to satisfy their contractual obligations, including making rental payments under and otherwise complying with the terms of our leases.

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

Health Reform Laws. On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act of 2010 (the "Affordable Care Act") and the Health Care and Education Reconciliation Act of 2010, which amends the Affordable Care Act (collectively with other subsequently enacted federal health care laws and regulations, the "Health Reform Laws"). The Health Reform Laws contain various provisions that may directly impact us or the operators and tenants of our properties. Some provisions of the Health Reform Laws may have a positive impact on our operators' or tenants' revenues, by, for example, increasing coverage of uninsured individuals, while others may have a negative impact on the reimbursement of our operators or tenants by, for example, altering the market basket adjustments for certain types of health care facilities. The Health Reform Laws also enhance certain fraud and abuse penalty provisions that could apply to our operators and tenants, in the event of one or more violations of the federal health care regulatory laws. In addition, there are provisions that impact the health coverage that we and our operators and tenants provide to our respective employees. The Health Reform Laws also provide additional Medicaid funding to allow states to carry out the expansion of Medicaid coverage to certain financiallyeligible individuals beginning in 2014, and have also permitted states to expand their Medicaid coverage to these individuals since April 1, 2010, if certain conditions are met. On June 28, 2012, the United States Supreme Court upheld the individual mandate of the Health Reform Laws but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion allows states not to participate in the expansion-and to forego funding for the Medicaid expansion-without losing their existing Medicaid funding. As of December 1, 2020, 12 states have pursued the option not to adopt the Medicaid expansion. Thirty-nine states and the District of Columbia have adopted the expansion. The participation by states in the Medicaid expansion could have the dual effect of increasing our tenants' revenues, through new patients, but could also further strain state budgets. While the federal government paid for approximately 100% of those additional costs from 2014 to 2016, states now are expected to pay for part of those additional costs.

Challenges to the Health Reform Laws and Potential Repeal and/or Further Reforms under Trump Administration. Since the enactment of the Health Reform Laws, there have been multiple attempts through legislative action and legal challenge to repeal or amend the Health Reform Laws, including the case that was before the U.S. Supreme Court, King v. Burwell. Although the Supreme Court in Burwell upheld the use of subsidies to individuals in federally-facilitated health care exchanges on June 25, 2015, which ultimately did not disrupt significantly the implementation of the Health Reform Laws, we cannot predict whether other current or future efforts to repeal, amend or challenge the validity of all or part of the Health Reform Laws will be successful, nor can we predict the impact that such a repeal, amendment or challenge would have on our operators or tenants and their ability to meet their obligations to us.

In 2017, President Trump and Congress unsuccessfully sought to repeal and replace the Affordable Care Act. On January 20, 2017, President Trump issued an Executive Order stating that it is the administration's official policy to repeal the Affordable Care Act and instructing the Secretary of Health and Human Services and the heads of all other executive departments and agencies with authority and responsibility under the Affordable Care Act to, among other matters, delay implementation of or grant an exemption from any provision of the Affordable Care Act that would impose a fiscal burden on any state or a cost, fee, tax, penalty, or regulatory burden on individuals, families, health care providers, health insurers, patients, and others. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act, among other things, reduces the Affordable Care Act's individual mandate penalty to zero beginning in 2019. The elimination of the penalties does not remove the requirement to obtain health care coverage; however, without penalties there effectively will be no enforcement. On December 14, 2018, a federal district court in Texas ruled that the Affordable Care Act's individual mandate was unconstitutional. The court also ruled that the provisions of the individual mandate were not severable from the remainder of the Affordable Care Act, rendering the remainder of the Affordable Care Act invalid as well. President Biden formally revoked President Trump's Executive Order regarding the Affordable Care Act on January 28, 2021. The United States Supreme Court heard the Texas case following a series of appeals and dismissed the case and upheld the Affordable Care Act in June 2021. Despite action by the current administration and the Supreme Court's decision to uphold the Affordable Care Act, it is possible that Congress will continue to consider other legislation to repeal the Affordable Care Act or repeal and replace some or all elements of the Affordable Care Act.

The US Department of Labor ("DOL") issued a final rule on June 21, 2018 authorizing the creation of Association Health Plans ("AHP"). This rule was one of three components of a 2017 Executive Order to increase consumer health insurance options and also created short-term limited duration health insurance and health reimbursement arrangements. On March 28, 2019, the US District Court for the District of Columbia vacated the AHP. On April 26, 2019, the Department of Justice ("DOJ") appealed that decision and the appeal is ongoing.

On June 24, 2019, President Trump signed an Executive Order on Improving Price and Quality Transparency in American Health Care to Put Patients First. The Order was intended to increase the availability of meaningful price and quality information for patients. CMS included in its final rule for Medicare hospital outpatient payment, the requirement that hospitals

make public their standard charges, along with payer-specific negotiated rates, in a consumer-friendly format. This requirement was to be effective January 1, 2020. In 2019, the AHA and other hospital groups initiated litigation against DHHS/CMS to prevent implementation of this price transparency rule. The AHA was unsuccessful in challenging this rule which became effective January 1, 2021. The public availability of hospital charges may give patients information to select physician office-based care rather than in the hospital.

We cannot predict the effect of Trump or Biden Executive Orders, the Tax Act's 2019 repeal of the individual mandate penalty on the Affordable Care Act, or whether future attempts by Congress to challenge or change the law will be successful. Further, we cannot predict how the Affordable Care Act might be amended or modified, either through the legislative or judicial process, and how any such modification might impact our tenants' operations or the net effect of this law on us. If the operations, cash flows or financial condition of our operators and tenants are materially adversely impacted by any repeal or modification of the law, our revenue and operations may be materially adversely affected as well.

No Surprises Act. Effective January 1, 2022, facilities and providers must comply with several new policies required by No Surprises Act ("NSA"). Specifically, the NSA prohibits "balance billing" for: (i) emergency services provided by an out-of-network provider; and (ii) non-emergency (e.g., scheduled) services provided by an out-of-network provider at an in-network facility. For such out-of-network services, health plans are prohibited from imposing higher cost-sharing amounts (i.e., copayment, coinsurance, or deductible) than the amount that would have applied had the service been provided by an in-network provider. The NSA allows the patient to waive their balance billing and cost-sharing protections in some scenarios, but this requires the out-of-network provider to comply with the patient notice and consent requirements under the Act, and does not apply to most ancillary physician services (e.g., emergency, radiology, anesthesiology, pathology, neonatology, and services provided by hospitalists, assistant surgeons, and intensivists). For purposes of compliance with the balance billing and patient cost-sharing protections, a "facility" is defined under the NSA to include hospitals, critical access hospitals, hospital outpatient departments, and ambulatory surgery centers.

The NSA also requires providers and facilities to provide a good faith estimate ("GFE") of expected charges to uninsured and self-pay patients upon scheduling or upon request. Health and Human Services ("HHS") has deferred enforcement of the GFE requirements for insured individuals who intend to submit a claim to the plan for scheduled items/ services until future rulemaking is issued. While the balance billing and patient cost-sharing requirements (described above) do not apply to freestanding physician clinics, such freestanding clinics must comply with the GFE requirements under the NSA. The NSA requires providers and facilities to provide patients with disclosures of their new rights under the law.

The enforcement provisions under the NSA permit the Secretary of HHS to apply a civil monetary penalty against a provider/facility in an amount not to exceed \$10,000 per violation of the NSA, including: (i) violations of the balance billing protections under the NSA (including all mandated disclosures and notices); and (ii) in circumstances where a provider/facility fails to provide a good faith estimate ("GFE") of expected charges to uninsured/self-pay patients in violation of the NSA. Notably, the balance billing, patient cost sharing protections, and GFE requirements under NSA are in addition to any requirements under applicable state law. Many of our operators and tenants are now subject to these laws, and some of them may be subject to monetary penalties if they fail to comply with applicable laws.

#### Fraud and Abuse Enforcement

There are various extremely complex federal and state laws and regulations governing health care 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 health care 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 health care items or services and the Eliminating Kickbacks in Recovery Act of 2018 ("EKRA"), an all-payor statute enacted in 2018 prohibiting kickbacks related to remuneration for referrals to recovery homes, clinical treatment facilities and laboratories, (iii) federal and state physician selfreferral 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 health care 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 health care 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 health care 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 health care programs, such as the federal Medicare program, state Medicaid programs, and non-governmental payors, such as insurance payors, managed care organizations ("MCOs"), health maintenance organizations ("HMOs"), and Accountable Care Organizations ("ACOs"). As federal and state governments focus on health care 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.

We cannot predict whether future Congressional action will reduce physician reimbursements. Efforts by other payors to reduce health care costs are likely to continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. Further, revenue realizable under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement process or as a result of post-payment audits. For example, payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable, because additional documentation is necessary or because certain services were not covered or were not medically necessary. The Health Care Reform Laws and regulatory changes could impose further limitations on government and private payments to health care providers. In some cases, states have enacted or are considering enacting measures designed to reduce their Medicaid expenditures and to make changes to private health care insurance. In addition, the failure of any of our tenants to comply with various laws and regulations could lead to overpayments and resulting repayment obligations to, as well as jeopardize their ability to continue participating in Medicare, Medicaid, and other government sponsored payment programs. The financial impact on our tenants' failure to comply with such laws and regulations could restrict their ability to make rent payments to us.

#### Health Care Licensure and Certificate of Need

Certain health care 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 and laboratories, handle radioactive materials, and operate equipment. Many states require certain health care providers to obtain a certificate of need, which requires prior approval for the construction, expansion, purchase of certain capital equipment, and closure of certain health care 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.

#### COVID-19 Pandemic

COVID-19 Relief. The Coronavirus Aid, Relief, and Economic Security ("CARES") Act (2020) and the Coronavirus Response and Consolidated Appropriations Act (2021) ("CAA") provided economic assistance for health care providers. The CAA continued many of these programs by adding new phases, new allocations, and new guidance to address issues related to the continuation of the COVID-19 pandemic. Through the CARES Act, the federal government authorized \$175 billion in payments to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). The CAA added another \$3 billion in funding to the PRF program. The government has apportioned the PRF in several tranches, including (i) a \$50 billion Phase 1 general distribution to Medicare providers, (ii) a \$18 billion Phase 2 general distribution to Medicaid providers, (iii) a \$24.5 billion Phase 3 general distribution based on financial losses and expenses attributable to COVID-19, and (iv) approximately \$60 billion in targeted distributions to hospitals in high-impact areas and certain other specific providers.

Payments from the PRF are not loans and, therefore, they are generally not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost revenues and COVID-related expenses as defined by HHS, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. Recipients of PRF payments must comply with reporting requirements described in the terms and conditions and specified in HHS reporting guidelines. HHS has indicated that it will be closely monitoring and, along with the Office of Inspector General, auditing providers to ensure that recipients comply with the terms and conditions of the PRF program and to prevent fraud and abuse. Providers will be subject to civil and criminal penalties for any deliberate omissions, misrepresentations or falsifications of any information given to HHS.

Noncompliance with applicable terms and conditions is grounds for HHS to recoup some or all of the payments made from the

PRF. Further, HHS has indicated that PRF payments that have not been expended for permitted uses by applicable deadlines must be returned to HHS.

HHS has released multiple updates and revisions on the reporting requirements for providers that accepted grants from the Provider Relief Fund, with the most recent update on June 11, 2021. The current reporting requirements impose deadlines on utilizing PRF funds for permitted uses and reporting time period for such PRF funds that are based on the applicable period in which the PRF funds were received. PRF funds received in each of the six month periods ending June 30, 2020, December 31, 2020, June 30, 2021, and December 31, 2021 have deadlines for using such funds of June 30, 2021, December 31, 2021, June 30, 2022, and December 31, 2022, respectively, and reporting time periods during three month period after each respective deadline. Due to the multiple ongoing changes and updates in HHS guidance, there continues to be areas of potential uncertainty and ambiguity around the reporting requirements for PRF funds and the extent to which any PRF funds may have to be returned or may be subject to recoupment by HHS based on such requirements.

More recently, on December 10, 2021, Congress passed the Protecting Medicare and American Farmers from Sequester Cuts Act, extending the moratorium on the 2% Medicare sequestration until April 2022, then reducing the amount taken from payments to 1% for another three months. The law also prevents the statutory Pay-As-You-Go cuts to Medicare, which total 4% of Medicare payments, and certain rate cuts finalized in the Medicare Physician Fee Schedule final rule from November 2021. Additionally, the law will delay payment cuts for clinical laboratories and postpone the launch of the radiation oncology bundled payment model, which was slated to start in January 2022. These changes are intended to support the financial viability of physician practices and maintain access to outpatient care during the continuing public health emergency.

Based on the uncertainty around reporting of PRF funds and potential impacts of further updates to HHS guidance, we cannot provide any assurances as to whether any tenant or operator may be required to derecognize and return any portion of PRF funds it has recognized as income, or predict whether a tenant or operator may be eligible to receive any additional allocations of Provider Relief Funds in the future or whether it will be able to recognize such amounts as PRF grant income under HHS reporting requirements. There are also no assurances regarding the future of Medicare Physician Fee Schedule payments and scheduled reductions to payments thereunder. These ongoing risks will continue to create risk of non-payment of rent from our tenants.

Vaccine Mandates. On November 4, 2021, CMS released its Interim Final Rule ("IFR") requiring COVID-19 vaccinations for individuals working in Medicare- and Medicaid-participating facilities, as well as individuals working in certain other settings involving face-to-face interactions with patients. On the same date, the Occupational Safety and Health Administration ("OSHA") released its new Emergency Temporary Standard ("ETS") requiring companies with 100 or more employees to mandate vaccination of their employees.

On January 13, 2022, the Supreme Court handed down a pair of decisions on the CMS vaccine mandate rule and the OSHA vaccine-or-test rule. In short, the Court ruled in its opinion that CMS is not prohibited from implementing its IFR. In a separate opinion, the Court held that OSHA may not enforce or implement its vaccine-or-ETS.

These quickly evolving (and at times, conflicting) regulatory requirements and court decisions will likely create legal and operational challenges for health care providers, including our tenants that are hospitals, surgery centers, and certain physician practices, and may exacerbate existing challenges around staffing, leading to increased costs for temporary or contract labor and potential business disruptions, any of which may adversely affect our tenants' ability to pay us rent.

#### **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.

In addition, the Trust's Board of Trustees has established a Code of Business Conduct and Ethics that applies to our officers, including our President and Chief Executive Officer, 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 "Corporate Information - Governance Documents." Any amendments to or waivers from the

Code of Business Conduct and Ethics will be disclosed on our website incorporated by reference into, this Annual Report on Form 10-K.	. Information contained on our website is not part of, or

#### ITEM 1A. RISK FACTORS

#### **Summary Risk Factors**

An investment in our common shares involves a high degree of risk. You should carefully read and consider the risks discussed below and described more fully along with other risks in Part I, Item 1A "Risk Factors" of this report, before investing in our common shares. The following summarizes the most significant 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.

#### Risks Related to Our Business

- Our business and operations and those of our tenants have and may continue to be adversely affected by the COVID-19 pandemic.
- Our portfolio is concentrated in health care properties, making us dependent on the health care industry generally, and possibly more vulnerable economically than if our investments were diversified across different industries.
- Economic and other conditions that negatively affect geographic areas in which we conduct business could materially adversely affect our business, results of operations, financial condition.
- Our health care properties and tenants face competition and we may not realize the benefits that we anticipate from
  focusing on health care properties that are strategically aligned with a care delivery system and from the relationships
  established through such strategic alignments.
- We may not be successful in identifying and consummating suitable investment acquisitions or investment
  opportunities, which may impede our growth and negatively affect our business, financial condition, and results of
  operations.
- We have and may in the future make investments in development projects, which may not yield anticipated returns which could directly affect our operating results and reduce the amount of funds available for distributions.
- Environmental compliance costs and liabilities associated with owning, leasing, developing, and operating our properties may affect our results of operations.
- Cybersecurity incidents, attacks or other significant disruptions of our information technology systems or the information technology systems of our third party property managers could disrupt our business and result in the compromise of confidential information of ours and third parties, including our tenants.

#### **Risks Related to the Health Care Industry**

- The health care industry is heavily regulated, and new laws or regulations, changes to existing laws, regulations, health policies, or reimbursement levels from third-party payors, 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.
- Changes to health care 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.
- 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.
- The COVID-19 pandemic is affecting operations and financial condition of tenants and operators and future results of operations could continue to be negatively impacted and, consequently, their ability to meet obligations to us.

### Risks Related to the Real Estate Industry

- Our operating performance is subject to risks associated with the real estate industry, including vacancies or our
  inability to lease space on favorable terms, our inability to collect rent from tenants, changes in the demand for certain
  health care-related properties, and impacts from periods of economic slowdown or recession such as the recent U.S.
  economic downturn.
- We face risks associated with the potential impacts of severe weather events and climate change.
- Our investments in, or originations of, mezzanine and term loans will be subject to specific risks relating to the particular property or entity obligated to repay the loan, and our loans will involve greater risks of loss than senior loans secured by income-producing properties.

#### **Risks Related to Financings**

- Required payments of principal and interest on our indebtedness 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 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.

#### Risks Related to Our Portfolio and Structure

- 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 failure to qualify and maintain our qualification as a REIT in any taxable year would result in adverse tax consequences that would substantially reduce funds available for distribution to our shareholders.
- Certain provisions of Maryland law, the Trust's declaration of trust and the partnership agreement of the Operating Partnership contain limits and restrictions on the transferability of our outstanding shares of beneficial interest, which may have the effect of delaying, discouraging or preventing a transaction or change of control of our company.

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

#### **Risks Related To Our Business**

Our business and operations have and may continue to be adversely affected by the global outbreak of the novel coronavirus and its variants, including the Delta variant, the Omicron variant, and any other variants that may emerge (the "COVID-19 pandemic"), and may be adversely affected by other outbreaks of pandemic disease.

The COVID-19 pandemic and the measures to prevent its spread have had, and could continue to have, and any other global outbreaks of pandemic disease could have, a material adverse effect on our business, results of operations, and financial condition. The extent of the impact of the COVID-19 pandemic on the Company's business, financial condition, and results of operations, including liquidity, capital, and financing resources will depend on numerous evolving conditions that the Company cannot predict.

The COVID-19 pandemic has materially adversely impacted regional and global economies and financial markets. The impact of the outbreak has been rapidly evolving and, as cases of COVID-19 and new variants have continued to be identified in the United States, governmental authorities, including in many states and cities where we own properties, either directly or through joint ventures, where we have development projects, and where our principal place of business is located, have reacted by instituting measures to prevent its spread, including quarantines, social distancing mandates, face mask mandates, vaccine mandates and restrictions on travel. In addition, some states have imposed restrictions and mandates in the wake of increased COVID-19 cases due to new variants. For example, recent increases in COVID-19 cases in certain areas of the country have resulted or may result in the imposition of additional protocols or restrictions by state and local governments. We cannot predict if additional states and cities will implement similar restrictions or initiatives, when restrictions and initiatives currently in place will expire, if additional restrictions or initiatives will be imposed, or if these or other restrictions or initiatives will be imposed in the future and the impact on our business of any such restrictions or initiatives. Adverse economic conditions resulting from the COVID-19 pandemic, especially any downturns in the geographic areas in which we operate, and particularly in Texas and Georgia, or any downturn in the health care industry as a whole, may lower our occupancy levels and in certain cases, have required us to agree to rental concessions. In some cases, we have restructured some "tenants" long-term rent obligations and may not be able to do so on terms that are as favorable to us as those currently in place.

Further, certain of our tenants have been able to secure stimulus funds under the CARES Act, the CAA or other government assistance programs. There is significant uncertainty regarding whether the U.S. Congress or state governmental authorities will pass further laws providing for additional stimulus, funding, or relief, and we are unable to predict whether additional stimulus measures will be enacted, whether our tenants will be eligible or will apply for any such funds, whether the funds, if available, could be used by tenants to pay rent or could affect or limit our tenants' future operations, and/or whether the funds will be sufficient for tenants' rent and other obligations to us. There can be no assurance as to the total amount of

financial and other types of assistance our tenants may receive under these programs, and we cannot predict the impact of any such future legislation on our tenants' operations. Moreover, we are unable to assess the extent to which potential negative impacts on our tenants, and, in turn, to us, arising from the COVID-19 pandemic will be offset by amounts or benefits to be received under any government assistance programs. Any inability by our tenants to secure any such funds may impact their ability to pay their rent or other obligations to us, which could have a material adverse effect on our business, financial condition, and results of operations.

In light of health and safety concerns, certain of our employees are currently working remotely, while many others are on hybrid schedules spending a percentage of each week in the office and the remainder working from home. The effects of periods of remote work arrangements, could create increased vulnerability to cybersecurity breaches or incidents involving us or our third party managers, which could disrupt our business, compromise our confidential information and confidential information of our tenants and other third parties damage our reputation, and subject us to liability claims or regulatory penalties, any and all of which could have an adverse effect on our business, financial condition, and results of operations. In addition, we depend upon the performance of our property managers to effectively manage certain of our properties and real estate assets. Remote work arrangements and other effects of the COVID-19 pandemic could impair our property managers' abilities to effectively manage our properties, which could also adversely impact our business and results of operations.

The COVID-19 pandemic, or a future pandemic, could also have material adverse effects on our ability to successfully operate our business, our financial condition, our results of operations, and our ability to make distributions to our shareholders due to, among other factors:

- a complete or partial closure of, or other operational issues at, one or more of our properties resulting from government or tenant action:
- the reduced economic activity impacting our "tenants" businesses, including a suspension or a reduction in elective medical or surgical procedures that can be deferred, which may have a material adverse effect on our tenant's financial condition and liquidity and may cause one or more of our tenants to be unable to pay their rent to us in full, or at all, or to otherwise seek rental concessions or modifications of their monetary obligations under their leases;
- difficulty finding suitable replacement tenants in the event of a tenant default or non-renewal of our leases, especially for our properties in smaller markets;
- reduced economic activity that could result in a recession or other prolonged adverse economic condition that could negatively impact the real estate industry, resulting in declining demand for real estate, which may affect our ability to sell any of our properties at a profit, or at all, in the future;
- the general decline in business activity and demand for real estate transactions, which has adversely affected, and is likely to continue affecting, our ability to acquire additional properties;
- the decline in the market price of our common shares, which could adversely impact our ability to access equity capital markets and require us to try to rely on debt financing to fund our capital needs, which may not be available on acceptable terms or at all;
- any debt financing we may be able to secure could increase our leverage, which could place us at a competitive
  disadvantage compared to our competitors who have less debt, and could place us at a competitive disadvantage
  compared to our competitors who have debt on more favorable terms;
- any inability to comply with covenants under our debt agreements, which could result in a default under the applicable
  debt agreement and could trigger a cross-default under other indebtedness, which could cause an acceleration of our
  indebtedness, result in a downgrade in our credit rating, or negatively impact our ability to incur additional
  indebtedness;
- any impairment in value of our tangible or intangible assets which could be recorded as a result of weaker economic conditions or if a tenant at one of our properties fails to pay rent; and
- the potential negative impact on the health of our personnel, particularly if a significant number of them are impacted, could impair our ability to perform critical functions and may cause a disruption in our business operations.

The extent to which the COVID-19 pandemic impacts, and will continue to impact, our operations and those of our tenants will depend on future developments, which are highly uncertain and cannot be predicted, including the scope, severity, and duration of the pandemic including whether there are additional waves or other additional periods of increased COVID-19 cases, the further spread of the Delta variant and the Omicron variant or the emergence of other new or more contagious variants that may render vaccines ineffective or less effective, and the availability and effectiveness of vaccines or an effective treatment and the willingness of individuals to receive a vaccine or otherwise comply with various mandates, the actions taken to contain the pandemic or mitigate its impact including mandatory closures, shelter-in-place or social distancing measures, face mask measures, travel restrictions, or quarantine mandates, and the direct and indirect economic effects of the pandemic and containment measures, among others. The rapid development and fluidity of this situation precludes our ability to predict the full adverse impact of the COVID-19 pandemic. If we are unable to respond and manage the impact of these events, our

business, financial condition, and results of operations including liquidity, capital, and financing resources may continue to be adversely affected.

Our real estate investments are concentrated in health care properties, and any downturn in the health care industry could materially affect our business.

We acquire, own, manage, operate, and selectively develop properties for lease primarily to physicians, hospitals, and health care delivery systems. We are subject to risks inherent in concentrating investments in real estate, and further from the concentration of our investments in the health care sector. Any adverse effects that result from these risks could be more pronounced than if we diversified our investments outside of health care properties. Given our concentration in this sector, our tenant base is especially concentrated and dependent upon the health care 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 health care delivery system. Accordingly, a downturn in the health care industry generally, or in the health care-related facility specifically, could adversely affect our business, financial condition, and results of operations, our ability to make distributions to our shareholders, and the market price of our common shares.

Economic and other conditions that negatively affect geographic areas in which we conduct business, and in particular Texas, and other 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, pandemics, hurricanes, tornadoes, floods, the effects of climate change, 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.

As of December 31, 2021, approximately 1.9 million square feet of our gross leasable area and \$47.8 million of our total consolidated annualized base rent was derived from properties located in Texas (12.0% of our gross leasable area and 13.5% of our total consolidated annualized base rent). As a result of this geographic concentration, we are particularly exposed to downturns in the Texas economy 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 Texas 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 market price of our common shares may be adversely affected.

One of our strategies is to capitalize on shifting consumer preferences and other demographic and market trends by pursuing off-campus properties consistent with our investment philosophy and strategies. We may not be successful in identifying and acquiring suitable off-campus properties that meet our investment criteria or that we can acquire on satisfactory terms. Further, if such preferences and trends do not continue, such off-campus properties may not produce the expected benefits or command the same rent as our on-campus affiliated properties, and we may not be able to lease such properties on terms acceptable to us, or at all. If we are unable to successfully acquire, lease, and operate such off-campus properties, our business, financial condition, and results of operations could be adversely impacted.

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

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

- our joint venture partners may make decisions with which we disagree or that are not in our best interest;
- we may be prevented from taking actions that are opposed by our joint venture partners;
- our ability to transfer our interest in a joint venture to a third party may be restricted;

- our joint venture partners might become bankrupt or fail to fund their share of required capital contributions which may delay construction or development of a health care related facility or increase our financial commitment to the joint venture;
- our joint venture partners may have economic or business interests or goals with respect to the health care related facility or the joint venture that are or become inconsistent with our business interests and goals which could increase the likelihood of disputes regarding the ownership, management, or disposition of the health care related facility or the joint venture may compete with us for property acquisitions;
- disputes may develop with our joint venture partners over decisions affecting the health care related facility or the joint venture which may result in litigation or arbitration that would increase our expenses and distract our officers and/or trustees from focusing their time and effort on our business and possibly disrupt the daily operations of the health care related facility;
- we may suffer losses as a result of the actions of our joint venture partners with respect to our joint venture investments; and
- our joint venture partners may be structured differently than us for tax purposes, which could create conflicts of interest and risks to our REIT status.

Joint venture investments involve risks that may not be present with other methods of ownership. In addition to those risks identified above, our partners may be in a position to take action or withhold consent contrary to our instructions or requests. In the future, in certain instances, we or our partners may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partners' interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partners' interest may be limited if we do not have sufficient cash, available borrowing capacity, or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it. Joint ventures may require us to share decision-making authority with our partners, which could limit our ability to control the properties in the joint ventures. Even when we have a controlling interest, certain major decisions may require partner approval, such as the sale, acquisition or financing of a property.

Our health care properties and tenants face competition from nearby hospitals and other health care properties, and we may not realize the benefits that we anticipate from focusing on health care properties that are strategically aligned with a health care delivery system and from the relationships established through such strategic alignments. Further, we may not be able to maintain or expand our relationships with our existing and future hospital and health care delivery system clients.

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

The success of our business depends, to a large extent, on our current and future relationships with hospital and health care 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.

Any failure, inability, or unwillingness by our tenants to pay rent or other amounts under leases could materially adversely affect our financial results; 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.

Our portfolio of health care properties is leased to physicians, hospitals, health care delivery systems, and other health care providers and our revenues are subject to the financial strength of our tenants. We cannot provide assurance that our tenants will have sufficient assets, income, and access to financing to enable them to satisfy their respective obligations to us, and any failure, inability or unwillingness by our tenants to do so could adversely affect our financial results.

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, 2021, leases representing 3.8% and 5.2% of leased square feet at our consolidated properties will expire in 2022 and 2023, respectively, and leases representing 0.3% of leased square feet had expired as of December 31, 2021. 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 or improve 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 health care 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.

If the business, financial position, or results of operations of CommonSpirit Health or one or more of our CommonSpirit Health-affiliated tenants suffer or are adversely affected, it could have a material adverse effect on our business, financial position, or results of operations.

As of December 31, 2021, tenants affiliated with CommonSpirit Health ("CommonSpirit"), represented approximately 14.7% of our total consolidated annualized base rent. Although CommonSpirit is not a party to nor a guarantor of the related lease agreements, it controls each of the subsidiaries and affiliates that are parties to a master lease agreement we have with CommonSpirit tenants. Given this control, if CommonSpirit's business, financial position or results of operations suffer or are adversely affected, it could adversely affect its ability to provide any financial or operational support for the subsidiaries and affiliates it controls, which could adversely affect one or more of the CommonSpirit-affiliated tenants' ability to pay rent to us. In addition, if CommonSpirit were to cause its subsidiaries or affiliates to terminate any of their leases, vacate the leased premises, or consolidate, downsize, or relocate their operations from any of our premises, or if the subsidiaries and affiliates do not comply with the health care regulations to which the leased properties and operations are subject, we may be required to find other lessees for any affected leased properties and there could be a decrease or cessation of rental payments by CommonSpirit's subsidiaries and affiliates. Additionally, if CommonSpirit's business, financial position, or results of operations were to suffer or its credit ratings were to be downgraded, it could cause investors to lose confidence in our ability to collect rent from CommonSpirit-affiliated tenants and could cause our stock price to decline. Moreover, there can be no assurance that CommonSpirit's subsidiaries and affiliates will have sufficient assets, income, and access to financing to enable them to satisfy their payment obligations under their lease agreements. The inability of any of these subsidiaries and affiliates to meet their rent obligations could materially adversely affect our business, financial position, or results of operations including our ability to pay dividends to our stockholders as required to maintain our status as a REIT. The inability of CommonSpirit's subsidiaries and affiliates to satisfy their other obligations under their lease agreements such as the payment of taxes, insurance, and utilities could have a material adverse effect on the condition of the leased properties as well as on our business, financial

position, and results of operations. For these reasons, if CommonSpirit were to experience a material adverse effect on its business, financial position, or results of operations, our business, financial position, or results of operations could also be materially adversely affected.

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.

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 health care properties, including national, regional, and local operators, acquirers and developers of health care-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 health care-related real estate properties has increased the price that we must pay for health care 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 health care 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 has increased demand for these assets and therefore increases prices paid for them. Those higher prices for health care properties or other assets may adversely affect our returns from our investments.

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

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

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

If our investments in development projects do not yield anticipated returns for any reason, including those set forth above, our business, financial condition, and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares may be adversely affected.

Some of our existing properties are, and properties we acquire in the future may be, subject to ground leases with fixed lease terms, use restrictions, rights reserved by ground lessors, and restrictions on doing business with competitors.

Ninety-seven of our consolidated properties, representing approximately 51.1% of our total leasable square feet and 50.3% of our annualized revenue based on rental payments as of December 31, 2021, are subject to ground leases that contain certain fixed lease terms and use restrictions and rights reserved by ground lessors. As a lessee under a ground lease, we are exposed to the possibility of losing the property upon expiration of the initial term, and any extension terms of the ground lease, or upon the earlier termination of the ground lease due to our breach of the ground lease. Our ground leases typically include restrictions on our ability to lease space to competitors and to other tenants who are not affiliated with, or on the staff of, the hospital or health system that owns the land underlying the MOB and limits the types of medical procedures that our tenants may perform in the MOB. Our ground leases also include rights reserved by the hospitals or health systems that own the underlying land, like purchase rights and rights of first offer and first refusal with respect to sales of the property. Our ground leases also restrict us from selling the property to competitors, usually within certain geographic limitations.

## If we are required to accept lower rental rates than anticipated or if we are required to undertake significant capital expenditures to procure new tenants, then our business and results of operations may suffer.

Our growth could be impeded if we are required to lease or re-lease space in our MOBs at lower than expected rental rates, including annual rent escalators. We may not be able to lease or re-lease 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 lease or re-lease space in our MOBs, if the rates upon such leasing or re-leasing are significantly lower than expected, or if we are required to undertake significant capital expenditures in connection with leasing or re-leasing the space in our MOBs, our business, financial condition and results of operations, our ability to make distributions to our shareholders, and the market price of our common shares 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, and we require our tenants, property managers, and vendors to maintain when appropriate, desirable, or necessary, comprehensive liability property (including fire, flood, earthquake, wind as deemed necessary or as required by our lenders), extended coverage, builders risk, pollution, and business interruption and rental loss insurance with respect to our properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to pandemics and other communicable diseases, 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 health care-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, 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 market price of our common shares may be adversely affected.

# 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. In addition, compliance with new laws or regulations or stricter interpretation of existing laws may require us to incur significant expenditures. For example, proposed legislation to address climate change could result in increased capital expenditures to improve the energy efficiency and resiliency of our existing properties. 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 market price of our common shares may be adversely affected.

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

Substantially all of our assets are held through the Operating Partnership, which holds substantially all of its properties and assets through subsidiaries. Our Operating Partnership's cash flow is dependent upon cash distributions to it by its subsidiaries, and in turn, substantially all of the Trust's cash flow is dependent upon cash distributions to it by the Operating Partnership. The creditors of each of our direct and indirect subsidiaries are entitled to payment of that subsidiary's obligation to them, as and when due and payable, before distributions may be made by that subsidiary to its equity holders. Therefore, our Operating Partnership's ability to make distributions to holders of OP Units, including the Trust, depends on its subsidiaries' ability first to satisfy their obligations to their creditors and then to make distributions to the Operating Partnership. Finally, the Trust's ability to pay dividends to holders of common shares depends upon our Operating Partnership's ability to first satisfy its obligations to its creditors and then to make distributions to the Trust.

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 distributions 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 are made at the discretion of our Board of Trustees. Any inability to make distributions, or to make distributions at expected levels in the future, 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, or other significant disruptions to the Company's information technology systems involving us, our MOBs, our tenants, or any third party property managers, including attempts to gain unauthorized access to our confidential data, and other electronic security breaches, including those resulting from human error or technology failures. Cybersecurity incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. These cybersecurity risks may be heightened as a result of our tenants increased use of telehealth services. Such cyber attacks can range from individual attempts to gain unauthorized access to our information technology systems to more sophisticated security threats. In the past, we have experienced cybersecurity breaches, which to date have not had a material impact on our operations, but there can be no assurance that any future breach or disruption will not have a material adverse effect on our business, financial condition or operations. 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. Even well-protected information technology systems remain vulnerable, as techniques used in such attempted attacks continually evolve and in some cases are designed not to be detected and may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

In addition, we rely on third party property managers to manage certain of our properties and real estate assets. We face risks associated with cybersecurity attacks or breaches affecting such third party property managers. A cybersecurity attack or a security breach at any such third party could be perceived as a cybersecurity attack or a breach of our system. Cybersecurity incidents or other disruptions could disrupt our business, compromise confidential information of ours and third parties, including our tenants, damage our reputation, subject us to liability claims or regulatory penalties and could have an adverse effect on our business, financial condition, and results of operations.

# A 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 may adversely affect the market price of our common shares and, as a result, the cost and availability of equity capital to us.

In addition, 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, including pursuant to our ATM programs, may cause dilution to our shareholders and could have an adverse effect on the per share market 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.

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

One of the factors that influences the market price of our common shares is the dividend yield on common shares (as a percentage of the price of our common shares) relative to market interest rates. In response to the global financial crisis, the U.S. Federal Reserve took actions which resulted in low interest rates prevailing in the marketplace for a historically long period of time. From 2015 to 2018, the U.S. Federal Reserve raised its benchmark interest rate. While the U.S. Federal Reserve decreased its benchmark interest rate in 2019 and again in 2020 in response to the impacts of the COVID-19 pandemic, they may increase the benchmark interest rate in 2022. Further increases in market interest rates may lead prospective purchasers of our common shares to expect a higher dividend yield (with a resulting decline in the market price of our common shares) and higher interest rates would likely increase our borrowing costs for both our existing and future indebtedness 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, 2021, we had approximately \$379.6 million of variable-rate indebtedness outstanding that has not been swapped for a fixed interest rate. Certain indebtedness in the future, including borrowings under our unsecured revolving credit facility since December 31, 2021 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.

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, that these arrangements may result in higher interest rates than we would otherwise have, 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 market price of our common shares.

## The income from certain of our properties is dependent on the ability of third party property managers to successfully manage those properties.

We depend upon the performance of third party property managers to effectively manage certain of our properties and real estate assets. Approximately 41.9% of our total portfolio gross leasable area is managed by third party property managers. We do not control third party property managers, and are accordingly subject to various risks generally associated with outsourcing of management of day-to-day activities. The income we recognize from any properties managed by third party property managers is dependent on the ability of the property manager of such property to successfully manage the property, which such property management is not within our control. Property managers generally compete with other companies in the management of properties, with respect to the quality of care provided, reputation, physical appearance of the property, and price and location, among other attributes. A property manager's inability to successfully compete with other companies on one or more of the foregoing aspects could adversely impact our business and results of operations. Additionally, because we do not control third party property managers, any adverse events such as issues related to insufficient internal controls, cybersecurity incidents, or other adverse events may impact the income we recognize from properties managed by such third party property managers. We may be unable to anticipate such events or properly assess the magnitude of any such events because we do not control third party property managers who provide property management services to us.

#### **Risks Related to the Health Care Industry**

The health care industry is heavily regulated, and new laws or regulations, changes to existing laws and regulations, health policies, reimbursement levels from third-party payors, 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 health care 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, along with other U.S. health care reform efforts, has resulted in significant health care reform since it was signed into law in 2010, including by changing how health care services are covered, delivered, and reimbursed through expanded coverage of uninsured individuals and reduced Medicare program spending. The complexities and ramifications of the Affordable Care Act are significant and were implemented in a phased approach which began in 2010. It remains 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, partial repeal, and possible full repeal. Further, we are unable to foresee how individuals and businesses will respond to the choices afforded them by the Affordable Care Act, or the effect of any potential changes made to the Affordable Care Act or other health care laws and programs. 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 January 20, 2017, President Trump issued an Executive Order stating that it is the administration's official policy to repeal the Affordable Care Act and instructing the Secretary of Health and Human Services and the heads of all other executive departments and agencies with authority and responsibility under the Affordable Care Act to, among other matters, minimize the economic and regulatory impacts of the Affordable Care Act to the extent permitted by law. On December 22, 2017, the Tax Act was signed into law. The Tax Act, amongst other things, repeals the Affordable Care Act's individual mandate penalty beginning in 2019. The elimination of the penalties does not remove the requirement to obtain health care coverage; however, without penalties there effectively will be no enforcement. On December 14, 2018, a federal district court in Texas ruled that the Affordable Care Act's individual mandate was unconstitutional. President Biden formally revoked President Trump's Executive Order regarding the Affordable Care Act on January 28, 2021. The United States Supreme Court heard the Texas case following a series of appeals, and dismissed the case and upheld the Affordable Care Act in June 2021.

Despite action by the current administration and the Supreme Court's decision to uphold the Affordable Care Act we cannot predict how the Affordable Care Act may be amended or modified, either through the legislative or judicial process, and how any such modification might impact our tenants' operations or the net effect of this law on us. Both our tenants and we may be materially adversely affected by the law or its repeal, amendment, or replacement, and if the operations, cash flows, or financial condition of our operators and tenants are materially adversely impacted by any repeal or modification of the law, our revenue and operations may be materially adversely affected as well.

Additionally, certain of our operators and tenants will be subject to the new requirements of the NSA, and at risk for civil monetary penalties for violations of its requirements. This could adversely affect their ability to pay us rent and accordingly, could have a material adverse effect on our financial condition and results of operations.

These quickly evolving (and at time conflicting) laws, regulations or other requirements and court decisions will likely create legal and operational challenges for health care providers, including our tenants that are hospitals, surgery centers, and certain physicians practices, and may exacerbate existing challenges around staffing, leading to increased costs for temporary or contract labor and potential business disruptions, any of which may adversely affect our tenant's ability to pay us rent.

Changes to health care 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, regulatory, and reimbursement policy changes and judicial decisions may impact one or more specific providers that lease space in any of our facilities. The laws and regulations applicable to the health care industry are subject to frequent and substantial changes that may have a dramatic effect on the permissible or impermissible activities, costs of doing business, availability, and amount of reimbursement by both government and other third-party payors, and the costs of complying with such laws and regulations. Such changes could adversely affect the ability of our tenants to make rent payments to us, which may have an adverse effect on our business, operations, and financial condition. This may in turn have an adverse effect on our ability to make distributions to our shareholders and the market price of our common shares.

For example, our tenants are generally subject to laws and regulations covering, among other things, laws protecting consumers against deceptive practices, laws relating to the operation of properties and businesses, such as fire, health and safety, data security and privacy laws, laws affecting hospitals, clinics, and other health care providers that participate in Medicare and/or Medicaid that specify reimbursement rates, pricing, reimbursement procedures, payment policies, HOPD eligibility, quality of services and care, background checks, anti-kickback and physician referral laws, EKRA, the Americans with Disabilities Act of 1990 ("ADA") and similar state and local laws, regulations established by the Occupational Safety and Health Administration ("OSHA"), requirements and regulations established by CMS, and other legislation such as the CARES Act and the CAA.

These laws, policies and regulations and any amendments or newly established laws or regulations may have an adverse financial impact on the net operating revenues and profitability of many of our tenants, including MOBs and other physician offices. This could adversely affect their ability to pay us rent and accordingly, could have a material adverse effect on our financial condition and results of operations.

Many states also regulate the establishment and construction of health care facilities and services, and the expansion of existing health care 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, or encounter delays in approvals due to the ongoing COVID-19 pandemic, these tenants could be prevented or delayed 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 market price of our common shares.

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

The health care industry is currently experiencing, among other things:

- changes in the demand for and methods of delivering health care services, such as telehealth services;
- changes in third party reimbursement methods and policies;
- consolidation and pressure to integrate within the health care industry through acquisitions, joint ventures, and managed service organizations;
- increased scrutiny of billing, pricing, referral, and other practices by U.S. federal and state authorities;
- competition among health care providers;
- staffing and supply chain challenges resulting from the COVID-19 pandemic; and
- increased scrutiny of control over release of confidential patient medical information.

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 market 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 leases.

Sources of revenue for our tenants typically include private insurance payors, the U.S. federal Medicare program, state Medicaid programs, MCOs, HMOs, and ACOs. Health care providers continue to face government and private payor pressure to control or reduce health care costs and significant reductions in health care reimbursement, including changes to payment methodologies under the Affordable Care Act and other federal or state health care legislation. 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. On September 15, 2020, CMS advised states on implementing value-based care ("VBC") programs, with a particular emphasis on Medicaid. VBC programs hold providers financially accountable for providing quality care, reducing health disparities, eliminating unnecessary procedures, and lowering costs. 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 health care 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 market 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 health care providers who participate in, receive payments from, or are in a position to make referrals in connection with government-sponsored health care 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 significant 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. Further, the government has taken the position, and some courts have held, that violations of these and other laws, such as the Stark Law, can also be a violation of the False Claims Act. We expect government enforcement of federal fraud and abuse laws to continue.

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 health care 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 market price of our common shares. Further, we enter into leases and other financial relationships with health care delivery systems that are subject to or impacted by these laws. We also have other investors who are health care providers in certain of our subsidiaries that own our health care 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 health care provider investors may be subject to significant civil and/or criminal penalties.

Our health care-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 health care industry violations.

As is typical in the health care industry, our tenants may 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 health care properties and health care-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 health care 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 market 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 market price of our common shares.

The Health Insurance Portability and Accountability Act, commonly referred to as HIPAA, was established to set national standards for the confidentiality, security, and transmission of personal health information ("PHI"). Health care providers are required, under HIPAA and its implementing regulations, to protect and keep confidential any PHI. HIPAA also sets limits and conditions on use and disclosure of PHI without patient authorization. The law gives patients specific rights to their health information, including rights to obtain a copy of or request corrections to their medical records. The physician or the medical practice can be liable if there are improper disclosures of PHI, including from employee mishandling of PHI, medical records security breaches, lost or stolen electronic devices, hacking, social media breaches or failure to get patient authorizations. Violations could result in multi-million dollar penalties. Actual or potential violations of HIPAA could subject our tenants to government investigations, litigation or other enforcement actions which could adversely affect our tenants' ability to pay rent and 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 market price of our common shares.

## The COVID-19 pandemic is affecting operations and financial condition of tenants and operators and future results of operations could continue to be negatively impacted and, consequently, their ability to meet obligations to us.

Increased demands for care put strain on resources and staff, which may require tenants and operators to utilize higher-cost temporary labor and to pay premiums above standard compensation for essential workers. Even with appropriate protective measures, exposure to COVID-19 increases the risk that physicians, nurses and other workers contract the virus, which could result in workforce disruptions and impact tenants' ability to treat patients who seek care. Tenants and operators may be subject to lawsuits from patients, employees and others exposed to COVID-19 and/or related to vaccine requirements.

The COVID-19 pandemic could further impact the cost of medical supplies, and supply shortages and delays may impact tenants' and operators' ability to treat patients. The pandemic has placed additional stress on information technology systems, and the risk of cybersecurity threats or other disruption to these systems is elevated in the current environment. Broad economic factors resulting from the COVID-19 pandemic, including increased unemployment rates and reduced consumer spending, may impact service volumes and revenues. Business closings and layoffs may lead to increases in the uninsured and underinsured populations and adversely affect demand for services, as well as the ability of patients to pay for services.

The CARES Act and related legislative and regulatory actions have provided relief measures intended to mitigate some of the economic disruption caused by the COVID-19 pandemic; however, interpretations of and regulations relating to these laws are subject to change in ways that may adversely affect tenants' receipt of funding or eligibility to participate. federal, state, and local governments may consider additional stimulus and relief efforts, but we are unable to predict whether any such measures will be enacted or their impact on tenants' operations. There can be no assurance that the amounts or benefits received under current or future relief measures related to the COVID-19 pandemic will be sufficient to offset negative impacts on the tenants or operators arising from the COVID-19 pandemic.

#### Trends in the methods of delivering health care services could reduce demand for medical office space.

The health care industry is experiencing, among other things, changes in the demand for and methods of delivering health care services such as telehealth, and telehealth services have also expanded rapidly in response to the COVID-19 pandemic and the need for social distancing. During the COVID-19 pandemic, both government and other third-party payors have incentivized physicians, providers, and patients to utilize technology for medical encounters by paying and reimbursing for such encounters as if they were in-office encounters, and CMS has made several changes in the manner in which Medicare will pay for telehealth visits. It is unclear whether these incentives and other changes will remain in place permanently or will be rolled-back following the COVID-19 pandemic, although the Company expects that the availability and popularity of patients using telehealth services will continue to increase from pre-COVID levels over time. While the revenues and efficiencies of telehealth services may increase the service offerings of our tenants, a long-term increase in telehealth services could reduce demand for medical office space, which could increase non-renewal of leases by our tenants and adversely impact our ability to maintain current rental and occupancy rates and could adversely affect our revenues, financial condition, and results of operations.

### 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 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 health care properties and changes in the demand for certain health care-related properties;
- increases in the supply of medical office space;
- increases in expenses associated with our real estate operations, including, but not limited to, insurance costs, third party management fees, energy prices, real estate assessments, and other taxes and costs of compliance with laws, regulations and governmental policies, and restrictions on our ability to pass such expenses on to our tenants; and
- changes in, and changes in interpretation or enforcement of, laws, regulations, and governmental policies associated with real estate, including, without limitation, health, safety, environmental, real estate and zoning and tax laws, increases in real property tax rates and taxation of REITs, 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 market 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 or at all. 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 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 market price of our common shares.

#### Uncertain market conditions could cause us to sell our health care 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 Executive Leadership and the Trust's Board of Trustees may exercise their discretion as to whether and when to sell a property, and we will have no obligation to sell our buildings at any particular time. We generally intend to hold our health care 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 health care 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 health care properties at inopportune times which could result in us selling the affected property at a substantial loss. Accordingly, the extent to which we will pay 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 health care property could adversely impact our ability to make debt payments and distributions to our shareholders.

### We face risks associated with the potential impacts of severe weather events and climate change.

The impacts of climate change on our operations are highly uncertain and could have material adverse effects on our properties, operations, and business. To the extent that severe weather events or significant changes in climate occur in the geographic locations where our properties are located or cause damage to any of the properties, we may experience revenue loss, cost increase, construction delays, tenant disruption or displacement of their operations, and decreased demand for properties located in such geographic areas or affected by such changes. Climate change and severe weather may also have indirect effects on our business by increasing the cost of, or decreasing the availability of, property insurance on terms we find acceptable, by increasing the cost of energy, maintenance, repair of water and/or wind damage, and snow removal at our properties. In addition, changes in federal and state laws and regulations intended to reduce the impacts of climate change could result in, among other things, increased capital expenditures to improve energy efficiency at our properties, increased costs of property insurance or render such insurance unavailable on terms acceptable to us, and increased costs of developing properties without corresponding increases in revenue.

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

We periodically evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based upon factors such as market conditions, tenant performance, and legal structure. For example, the termination of a lease by a major tenant may lead to an impairment charge. If we determine that an impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have an adverse effect on our results of operations in the period in which the impairment charge is recorded. We have had tenant defaults that have caused us to record impairment charges in the past, and it is possible we may have tenant defaults in the future, which could lead to impairment charges.

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

As of December 31, 2021, we have 12 mezzanine loans, two term loans, and one construction loan outstanding, and in the future, we may originate further 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 is in a subordinated position and there may not be sufficient proceeds remaining to repay the loan after foreclosure and sale of the property by the senior lender. 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 loan. If a borrower defaults on a loan or debt senior to our loan, or in the event of a borrower bankruptcy, such 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 loans. As a result, we may not recover some or all of our initial expenditure. Mezzanine and term 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 and term 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 and term 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, 2021, we had approximately \$181.0 million of mortgage debt on individual properties and approximately \$274.0 million of borrowings outstanding under our unsecured credit facility. In addition, in January 2016, August 2016, March 2017, December 2017, and October 2021 we issued and sold \$150.0 million, \$75.0 million, \$400.0 million, \$350.0 million, and \$500.0 million respectively, 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;
- 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:
- 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 market price of our common shares.

In addition, in July 2017, the U.K. Financial Conduct Authority announced that it would phase out LIBOR as a benchmark by the end of 2021. While our unsecured credit facility includes provisions for establishing alternative reference rates when LIBOR is no longer available, the consequences of the adoption of any such alternative reference rates cannot be predicted and could have an adverse impact on the amount of interest and commitment fees that we pay under the facility. It is unclear whether new methods of calculating LIBOR will be established after 2021. We are unable to predict the effect of any changes, any alternative reference rates, or any other reforms to LIBOR or any replacement of LIBOR that may be enacted in the United Kingdom or elsewhere. Such changes, reforms, or replacements relating to LIBOR could have a material adverse impact on the market for, or value of, any of our LIBOR-linked loans, derivatives, and other indebtedness or on our financial condition or results of operations.

As of December 31, 2021, we had approximately \$274.0 million of borrowings outstanding under our unsecured credit facility. Since 2016, we have issued an aggregate of \$1.5 billion of debt. All of these items are 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 market price of our common shares.

As of December 31, 2021, there were approximately \$274.0 million of borrowings outstanding under our unsecured credit facility. Since 2016 we have issued \$1.5 billion of 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 the 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 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. 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 market price of our common shares and dilute their interest in us.

The derivative instruments that we may use to hedge against interest rate fluctuations may not be successful in mitigating our risks associated with interest rates and could reduce the overall returns on our shareholders' investment.

We may use derivative instruments to hedge exposure to changes in interest rates on certain of our variable rate loans, but no hedging strategy can protect us completely. We cannot assure our shareholders that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging of these transactions will not result in losses. Any settlement charges incurred to terminate unused derivative instruments may result in increased interest expense, which may reduce the overall return on our investments. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the 75% or 95% REIT income tests.

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 Internal Revenue Code of 1986, as amended (the "Code"), we are required, among other things, to distribute each year to our shareholders at least 90% of our taxable income, without regard to the deduction for dividends paid and excluding net capital gain. Because of this distribution requirement, we may not be able to fund all of our future capital needs from cash retained from operations, including capital needed to make investments and to satisfy or refinance maturing obligations. As a result, we expect to rely upon external sources of capital, including debt and equity financing, to fund future capital needs. If we are unable to obtain needed capital on satisfactory terms or at all, we may not be able to make the investments needed to expand our business or to meet our obligations and commitments as they mature. Our access to capital will depend upon a number of factors over which we have little or no control, including general 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. Moreover, additional equity offerings may result in substantial dilution of our shareholders' interests, and additional debt financing may substantially increase our leverage, either of which could cause the per share price of our common shares to decline.

If we become highly leveraged in the future, the resulting increase in outstanding debt could adversely affect our ability to make debt service payments, to pay our anticipated distributions, to obtain additional financing, and to make the distributions required to qualify as a REIT.

As of December 31, 2021, our indebtedness represented approximately 32% of our gross assets. 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, to obtain additional financing, 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, or credit ratings, our ability to make distributions to our shareholders, and the market 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.

### A downgrade in our credit ratings could materially adversely affect our business and financial condition.

Our credit rating and the credit ratings assigned to our debt securities could change based upon, among other things, our financial condition. These ratings are subject to ongoing evaluation by credit rating agencies, and any rating could be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant such action.

If any of the credit rating agencies that have rated our securities downgrades or lowers its credit rating, or if any credit rating agency indicates that it has placed any such rating on a "watch list" for a possible downgrade or lowering, or otherwise indicates that its outlook for that rating is negative, such action could have a material adverse effect on our costs and availability of funding, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows, the market price of our securities, and our ability to satisfy our debt service obligations, among other obligations.

## If securities analysts downgrade our common shares or the health care-related real estate sector, the market price of our common shares could decline.

The 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 the Operating Partnership to meet our obligations.

The Trust conducts substantially all of its operations through the Operating Partnership. As of February 15, 2022, the Trust owned approximately 95% of the OP Units and apart from this ownership interest, the Trust does not have any independent operations. As a result, the Trust relies upon distributions from the Operating Partnership to pay any distributions that the Trust might declare on the Trust's common shares. We also rely upon distributions from the Operating Partnership to the Trust to meet our obligations, including tax liability on taxable income allocated to the Trust from the Operating Partnership (which might make distributions to the Trust not equal to the tax on such allocated taxable income). Consequently, shareholders' claims will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of the Operating Partnership and its subsidiaries. Therefore, in the event of bankruptcy, liquidation or reorganization of the Trust, claims of the Trust's shareholders will be satisfied only after all of the Trust's and the Operating Partnership's and its subsidiaries' liabilities and obligations have been paid in full.

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, the rest of our executive leadership team, and other key employees. We do not maintain key person life insurance on any of our officers. Our ability to continue to acquire and develop health care properties depends upon the significant relationships that our senior management team has developed over many years.

Although the Trust has entered into employment agreements with our management team we cannot provide any assurance that any of them will remain employed by the Trust. Our ability to retain our leadership 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. Failure to attract, retain, and motivate highly qualified employees, or failure to develop and implement a viable succession plan, could result in inadequate depth of institutional knowledge, an ineffective culture, or lack of certain skill sets, significantly impacting our future performance and adversely affecting our business. Competition for talented employees is intense, and we cannot guarantee that we will retain our key officers and employees or that we will be able to attract and retain other highly qualified individuals in the future.

Certain provisions of Maryland law, the Trust's declaration of trust and the partnership agreement of the Operating Partnership contain limits and restrictions on transferability of our outstanding shares of beneficial interest, which may have the effect of delaying, discouraging 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 the Trust's 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. Subject to certain exceptions, the Trust's 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, though the Trust has 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 entity. As a result, the acquisition of less than 9.8% of our outstanding shares of any class or series by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding shares of any class or series of our shares of beneficial interest and to be subject to the Trust's declaration of trust's ownership limit. The Trust's 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. Further, the partnership agreement of the Operating Partnership contains certain provisions such as redemption rights, restrictions on transfer of OP Units, consent and other rights of the Trust as the general partner of the Operating Partnership, and rights of the limited partners of the Operating Partnership to consent to certain transfers of the general partnership interest. The share ownership restrictions of the Code for REITs and the 9.8% share ownership limit, and other restrictions contained in the Trust's declaration of trust and the Operating Partnership's partnership agreement may inhibit market activity in our shares of beneficial interest, restrict our business combination opportunities, or otherwise delay, deter or prevent a transaction or change of control that our shareholders otherwise believe to be in their best interests.

In addition, certain provisions of the Maryland General Corporation Law, ("MGCL"), applicable to Maryland real estate investment trusts may have the effect of inhibiting, delaying, deferring, or preventing a third party from making a proposal to acquire the Trust (and, indirectly, the Operating Partnership) or of impeding or delaying a change of control under circumstances that otherwise could provide the Trust's common shareholder with the opportunity to realize a premium over the then-prevailing market price of 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 Trust (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.

The Trust's 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 the Board of Trustees (including a majority of trustees who are not affiliates or associates of such person). In addition, the Trust's bylaws contain a provision exempting any and all acquisitions of our shares from the control share provisions of the MGCL. However, the 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 the Board of Trustees, without shareholder approval and regardless of what is currently provided in the Trust's declaration of trust or bylaws, to implement certain corporate governance provisions with respect to the Trust, 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.

The Trust's Board of Trustees, without shareholder approval, has the power under the Trust's 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 of the Trust that we are authorized to issue, and to authorize us to issue authorized but unissued common shares or preferred shares. In addition, under the declaration of trust, the 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 the Board of Trustees has no such intention at the present time, it could establish a class or series of preferred shares that could, depending on the terms of such class or series, delay, defer, or prevent a transaction or a change of control that might involve a premium price for our common shares or that our shareholders otherwise believe to be in their best interests.

#### 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.

Since our formation, the Trust has been organized and has 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 distribution to our shareholders. If we fail to qualify as a REIT in any taxable year, we would face serious tax consequences that would substantially reduce the funds available for distribution 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 possibly be subject to 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.

#### 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 to the extent that the actual amount that we pay out to our shareholders in a calendar year is less than a separate minimum amount specified under the Code.

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

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

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 taxable REIT subsidiaries ("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 20% of the value of our total assets can be represented by the securities of one or more TRSs. Further, debt instruments that do not otherwise qualify as real estate assets (because they are not secured by interests in real property or in certain entities that directly or indirectly own real property or because they are not issued by other publicly offered REITs) will generally not be treated as "securities" 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% penalty 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 transactions tax equal to 100% of net gain upon a disposition of real property. Although a safe harbor from 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.

Any ownership of a TRS 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 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, 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. We will monitor the value of our respective investments in any TRS 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 on such transactions. There can be no assurance, however, that we will be able to comply with the 20% limitation or avoid application of the 100% excise tax.

If leases of our properties are not respected as true leases for federal income tax purposes, we could fail to qualify as a REIT and could 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 the Operating Partnership by third party lessees and any TRS lessee 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 could fail to qualify as a REIT.

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.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### **ITEM 2. PROPERTIES**

## **Geographic Diversification/Concentration**

The following table lists the states in which our consolidated properties are located and provides certain information regarding our consolidated portfolio's geographic diversification/concentration, excluding one asset classified as held for sale, as of December 31, 2021:

State	Number of Properties	GLA (1) (square feet)	Percent of GLA	Annualized Base Rent (2) (thousands)	Percent of Annualized Base Rent
Alabama	7	312,439	2.0 %	\$ 7,965	2.2 %
Arizona	15	903,062	5.8 %	21,003	5.9 %
Arkansas	7	270,200	1.7 %	4,690	1.3 %
California	5	93,011	0.6 %	2,203	0.6 %
Colorado	5	134,331	0.9 %	3,170	0.9 %
Connecticut	4	166,196	1.1 %	4,273	1.2 %
Delaware	1	140,205	0.9 %	3,131	0.9 %
Florida	25	894,118	5.7 %	24,490	6.9 %
Georgia	8	1,071,093	6.9 %	25,322	7.2 %
Illinois	3	139,450	0.9 %	2,755	0.8 %
Indiana	22	1,042,071	6.7 %	22,825	6.4 %
Kentucky	12	980,639	6.3 %	17,940	5.1 %
Louisiana	4	249,832	1.6 %	8,131	2.3 %
Maine	1	44,677	0.3 %	1,347	0.4 %
Maryland	3	166,594	1.1 %	4,375	1.2 %
Michigan	9	661,544	4.2 %	15,764	4.5 %
Minnesota	19	828,008	5.3 %	17,653	5.0 %
Mississippi	3	261,480	1.7 %	5,675	1.6 %
Missouri	3	159,340	1.0 %	4,699	1.3 %
Montana	3	185,085	1.2 %	5,618	1.6 %
Nebraska	13	979,275	6.3 %	19,091	5.4 %
New Jersey	2	115,967	0.7 %	4,280	1.2 %
New Mexico	2	53,029	0.3 %	1,493	0.4 %
New York	13	613,520	3.9 %	14,053	4.0 %
North Dakota	8	434,215	2.8 %	8,443	2.4 %
Ohio	14	766,468	4.9 %	15,247	4.3 %
Oklahoma	1	52,000	0.3 %	583	0.2 %
Pennsylvania	13	400,657	2.6 %	8,103	2.3 %
Tennessee	8	706,805	4.5 %	13,254	3.7 %
Texas	29	1,863,733	12.0 %	47,815	13.5 %
Virginia	2	153,567	1.0 %	3,753	1.1 %
Washington	9	543,037	3.5 %	10,159	2.9 %
Wisconsin (3)	6	205,886	1.3 %	4,777	1.3 %
Total	279	15,591,534	100.0 %	\$ 354,080	100.0 %

<sup>(1) &</sup>quot;GLA" means gross leasable area.

<sup>(2)</sup> Annualized base rent is calculated by multiplying (a) base rental payments for the month ended December 31, 2021, by (b) 12.

<sup>(3)</sup> Excludes the Company's 108,843 square foot corporate office building.

#### **Scheduled Lease Expirations**

The following table provides a summary of lease expirations for our consolidated properties, excluding the one asset classified as held for sale, as of December 31, 2021, for the periods indicated:

Expiration (1)	Number of Leases Expiring	GLA	Percent of GLA	Annualized Base Rent (thousands)	Percent of Annualized Base Rent	Annualized Base Rent Leased per Square Foot (2)
2022	135	565,347	3.6 %	\$ 14,071	4.0 %	\$ 24.89
2023	136	766,646	4.9 %	18,124	5.1 %	23.64
2024	129	982,018	6.3 %	23,477	6.6 %	23.91
2025	148	983,864	6.3 %	24,207	6.8 %	24.60
2026	161	3,397,372	21.8 %	76,449	21.6 %	22.50
2027	111	1,508,784	9.7 %	32,845	9.3 %	21.77
2028	96	1,562,894	10.0 %	35,249	10.0 %	22.55
2029	48	864,640	5.5 %	26,815	7.6 %	31.01
2030	57	743,592	4.8 %	17,526	4.9 %	23.57
2031	41	977,290	6.3 %	22,339	6.3 %	22.86
Thereafter	102	2,381,695	15.3 %	60,477	17.1 %	25.39
Month to month (3)	69	123,257	0.8 %	2,501	0.7 %	20.29
Vacant		734,134	4.7 %			_
Total / Weighted average	1,233	15,591,533	100.0 %	\$ 354,080	100.0 %	\$ 23.83

- (1) Excludes leases related to the Company's 108,843 square foot corporate office building.
- (2) Annualized base rent per leased square foot is calculated by dividing (a) annualized base rent as of December 31, 2021 by (b) square footage under executed leases as of December 31, 2021.
- (3) Includes eight leases which expired on December 31, 2021, representing 0.3% of portfolio leasable square feet.

#### **Tenants**

As of December 31, 2021, our consolidated properties were approximately 95% leased. No single tenant accounted for more than 5.0% of our total annualized base rent or 5.5% of total base revenue as of December 31, 2021; however, 14.7% of our total annualized base rent as of December 31, 2021 was from tenants affiliated with CommonSpirit.

The following table sets forth certain information about the 10 largest tenants in our consolidated portfolio based on total annualized base rent as of December 31, 2021:

Tenant	# of Properties	Leased GLA	% Leased GLA	Annualized Base Rent (thousands)	% of Portfolio Annualized Base Rent
CommonSpirit - CHI - Nebraska	13	898,975	6.1 %	\$ 17,658	5.0 %
Northside Hospital	7	676,889	4.6 %	15,646	4.4 %
UofL Health - Louisville, Inc.	9	617,157	4.2 %	12,744	3.6 %
US Oncology	10	403,751	2.7 %	11,180	3.2 %
HonorHealth	8	426,715	2.9 %	10,896	3.1 %
Baylor Scott and White Health	2	268,639	1.8 %	8,156	2.3 %
Ascension - St. Vincent's - Indianapolis	3	363,118	2.4 %	7,907	2.2 %
UF Health - Jacksonville	2	223,748	1.5 %	7,778	2.2 %
CommonSpirit - CHI - St. Alexius	7	359,209	2.4 %	6,816	1.9 %
UnitedHealth Group Incorporated	7	191,171	1.3 %	5,801	1.6 %
Total	68	4,429,372	29.9 %	\$ 104,582	29.5 %

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, security deposits, or

personal guarantees 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 and Air Space Leases**

We lease the land upon which 97 of our consolidated properties are built and the air in which one property occupies, representing approximately 51.5% of our total leasable square feet and 50.7% of our annualized base revenue as of December 31, 2021. The ground and air leases subject these properties to certain restrictions. These restrictions may limit our ability to lease space in such facilities to tenants who are not affiliated with the health care delivery system that owns the underlying land and may limit the types of medical procedures that may be performed at the facilities. On-campus ground leases typically include purchase options, rights of first offer and rights of first refusal for the underlying health system or hospital owner, and restrictions from doing business with competitors.

### 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.

#### PART II

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

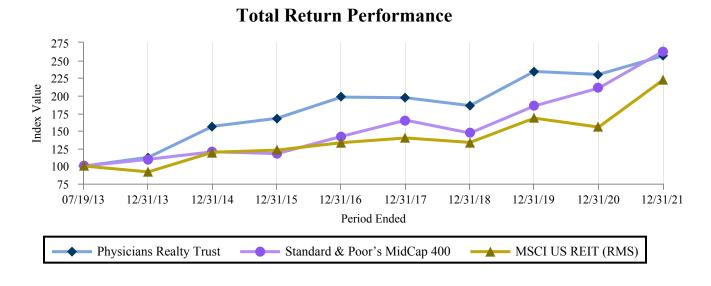
The Trust's common shares are traded on the NYSE under the symbol "DOC." As of February 15, 2022, the Trust had 413 registered shareholders of record of the Trust's common shares.

It has been the Trust's policy to declare quarterly dividends to its 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.

### **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 Standard & Poor's MidCap 400, and the MSCI US REIT Index (RMS), from the date of our listing on the NYSE on July 19, 2013 through December 31, 2021. 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.



	Index				
Period Ending	Physicians Realty Trust	St	tandard & Poor's MidCap 400		MSCI US REIT (RMS)
7/19/2013	\$ 100.00	\$	100.00	\$	100.00
12/31/2013	\$ 112.34	\$	109.53	\$	91.70
12/31/2014	\$ 156.36	\$	120.23	\$	119.56
12/31/2015	\$ 167.72	\$	117.61	\$	122.57
12/31/2016	\$ 197.82	\$	142.01	\$	133.11
12/31/2017	\$ 196.89	\$	165.07	\$	139.86
12/31/2018	\$ 185.68	\$	146.78	\$	133.47
12/31/2019	\$ 234.20	\$	185.23	\$	167.96
12/31/2020	\$ 229.91	\$	210.53	\$	155.24
12/31/2021	\$ 256.17	\$	262.66	\$	222.09

### **Recent Sales of Unregistered Securities**

From time to time, the Operating Partnership issues OP Units to the Trust, as required by the Partnership Agreement, to reflect additional issuances of common shares by the Trust and to preserve equitable ownership ratios.

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth information relating to repurchases of our common shares of beneficial interest and OP Units during the three months ended December 31, 2021:

### ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased		ge Price Paid are (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2021 - October 31, 2021	49,830	(1)	\$ 18.17	N/A	N/A
November 1, 2021 - November 30, 2021	_			N/A	N/A
December 1, 2021 - December 31, 2021	672,978	(2)	 17.75	N/A	N/A
Total	722,808		\$ 17.78		

- (1) Represents OP Units redeemed by holders in exchange for cash.
- (2) Represents Series A Preferred Units redeemed in exchange for cash on December 28, 2021 in connection with the Landmark Portfolio. As a result of this redemption, there are no Series A Preferred Units outstanding as of December 31, 2021.

## ITEM 6. [RESERVED]

## 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 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 1. "Business" and Part I, Item 1A. "Risk Factors" and elsewhere in this report.

#### **Company Highlights**

- Reported total revenue of \$457.7 million for the year ended December 31, 2021, compared to total revenue of \$437.5 million for the year ended December 31, 2020, an increase of 4.6%.
- Reported net income of \$86.8 million for the year ended December 31, 2021, compared to net income of \$68.5 million for the year ended December 31, 2020, an increase of 26.7%.
- Generated net income per share of \$0.39 for the year ended December 31, 2021, on a fully diluted basis, compared to net income per share of \$0.32 for the year ended December 31, 2020, on a fully diluted basis.
- Generated Normalized FFO of \$1.04 per share for the year ended December 31, 2021, on a fully diluted basis, compared to Normalized FFO of \$1.05 per share for the year ended December 31, 2020, on a fully diluted basis.
- Completed investments of \$997.0 million during the year ended December 31, 2021.
- For the year ended December 31, 2021, the Company sold seven properties and five adjacent parcels of vacant land for approximately \$94.4 million.
- Issued and sold 14,656,078 common shares at a weighted average price of \$18.45 per share, resulting in net proceeds of approximately \$267.7 million pursuant to the ATM Programs (as defined herein) during the year ended December 31, 2021.
- Issued \$500 million of public senior notes on October 13, 2021, with maturity of 10 years and a coupon rate of 2.625%.

#### Overview

We are a self-managed health care real estate company organized in April 2013 to acquire, selectively develop, own, and manage health care properties that are leased to physicians, hospitals, and health care delivery systems. We invest in real estate that is integral to providing high quality health care services. Our properties are typically located on a campus with a hospital or other health care facilities or strategically affiliated with a hospital or other health care facilities. We believe the impact of government programs and continuing trends in the health care industry create attractive opportunities for us to invest in health care related real estate. In particular, we believe the demand for health care will continue to increase as a result of the aging population as older persons generally utilize health care services at a rate well in excess of younger people. Our management team has significant health care real estate experience and has long-established relationships with physicians, hospitals, and health care delivery system decision makers that we believe will provide quality investment and growth opportunities. Our principal investments include MOBs, ASCs, outpatient treatment facilities, as well as other real estate integral to health care providers. In recent years, we have seen increased competition for health care properties and we expect this trend to continue. 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.

As of December 31, 2021, leases representing a percentage of our consolidated portfolio, excluding the one asset classified as held for sale, on the basis of leased square feet will expire as follows:

Year	Portfolio Lease Expirations
MTM (1)	0.9%
2022	3.8%
2023	5.2%
2024	6.6%
2025	6.6%
2026	22.9%
2027	10.2%
2028	10.5%
2029	5.8%
2030	5.0%
2031	6.6%
Thereafter	15.9%
Total	100.0%

(1) Includes eight leases which expired on December 31, 2021, representing 0.3% of portfolio occupied leasable square feet.

We receive a cash rental stream from these health care providers under our leases. Approximately 94% of the annualized base rent payments from our properties as of December 31, 2021 are from absolute net and triple net leases, pursuant to which the tenants are responsible for 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 4% of the annualized base rent payments from our properties as of December 31, 2021 are from modified gross leases which allow us to pass through certain increases in 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 5 to 15 years and include annual rent escalators of approximately 1.5% to 4.0%, with an annual weighted average rent escalator of approximately 2.4%. 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 health care 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.

We intend to grow our portfolio of high-quality health care properties leased to physicians, hospitals, health care delivery systems, and other health care providers primarily through acquisitions of existing health care facilities that provide stable revenue growth and predictable long-term cash flows. We may also selectively finance the development of new health care facilities through joint venture or fee arrangements with health care real estate developers or health system development professionals. Generally, we only expect to make investments in new development properties when approximately 80% 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 health care providers and health care delivery systems that offer need-based health care services in sustainable health care markets. We focus our investment activity on MOBs and ambulatory surgery centers.

We may from time to time also make investments in other health care properties. We believe that trends such as shifting consumer preferences, limited space in hospitals, the desire of patients and health care providers to limit non-essential services provided in a hospital setting, and cost considerations, continue to drive the industry towards performing more procedures in off-campus outpatient facilities versus the hospital setting. As these trends continue, we believe that demand for medical office buildings and similar health care properties away from hospital settings and in convenient locations to patients will continue to rise. We intend to exploit this trend and seek off-campus properties consistent with our investment philosophy and strategies.

While not our focus, we may choose to invest opportunistically in life science facilities, senior housing properties, skilled nursing facilities, specialty hospitals, and treatment centers. Consistent with our qualification as a REIT, we may also opportunistically invest in companies that provide health care services, and in joint venture entities with operating partners, structured to comply with RIDEA.

The Trust is a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes. 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. The Trust is the sole general partner of our Operating Partnership and, as of December 31, 2021, owned approximately 95.0% of the OP Units. As of February 15, 2022, we have 224,940,301 common shares outstanding.

#### **2021 Investment Activity**

During 2021, the Company completed the acquisition of 24 operating health care properties, which includes the purchase of the remaining 51% membership interest in the Eden Hill Joint Venture (as defined herein), and three medical condominiums located in 14 states, for an aggregate purchase price of approximately \$973.2 million, excluding the conversion of a previously outstanding construction loan of \$15.5 million. The Company also paid \$0.3 million of additional purchase consideration on one property under an earn-out agreement. Additionally, the Company funded three mezzanine loans for \$8.9 million and closed on a \$10.5 million construction loan, funding \$7.3 million as of December 31, 2021. The Company also acquired membership interests in one joint venture property for approximately \$7.3 million, resulting in total investments of \$997.0 million.

During 2021, the Company sold seven properties and five adjacent parcels of vacant land located in five states for approximately \$94.4 million and recognized a net gain of approximately \$24.2 million.

### **Recent Developments**

On December 22, 2021, the Trust's Board of Trustees authorized and declared a cash distribution of \$0.23 per common share and OP Unit for the quarterly period ended December 31, 2021. The distribution was paid on January 18, 2022 to common shareholders and OP Unit holders of record as of the close of business on January 4, 2022.

#### 2022 Investment Activity

On January 12, 2022, the Company acquired a 49% membership interest in three properties through the Davis Joint Venture for an aggregate purchase price of approximately \$21.5 million. This transaction was funded with \$14.0 million of mortgage debt, \$4.5 million of cash, and the conversion of \$3.0 million of mezzanine loans.

On January 19, 2022, the Company sold one medical office building located in Michigan for approximately \$2.0 million and recognized a net loss on the sale of approximately \$0.2 million. This asset was classified as held for sale as of December 31, 2021. The Company recorded an impairment on this asset for \$0.3 million during 2021.

# **Results of Operations**

# Year Ended December 31, 2021 compared to the Year Ended December 31, 2020.

The following table summarizes our results of operations for the years ended December 31, 2021 and 2020 (in thousands):

	2021	 2020	Change	%
Revenues:				
Rental and related revenues	\$ 436,893	\$ 418,190	\$ 18,703	4.5 %
Interest income on real estate loans and other	20,806	19,315	1,491	7.7 %
Total revenues	457,699	 437,505	20,194	4.6 %
Expenses:				
Interest expense	60,136	57,179	2,957	5.2 %
General and administrative	37,757	33,763	3,994	11.8 %
Operating expenses	137,408	128,198	9,210	7.2 %
Depreciation and amortization	157,870	149,590	8,280	5.5 %
Impairment loss	340	4,872	(4,532)	NM
Total expenses	393,511	373,602	19,909	5.3 %
Income before equity in loss of unconsolidated entities				
and gain on sale of investment properties, net:	64,188	63,903	285	0.4 %
Equity in loss of unconsolidated entities	(1,570)	(1,257)	(313)	NM
Gain on sale of investment properties, net	24,165	5,842	18,323	313.6 %
Net income	\$ 86,783	\$ 68,488	\$ 18,295	26.7 %

NM = Not Meaningful

## Revenues

Total revenues increased \$20.2 million, or 4.6%, for the year ended December 31, 2021 as compared to the year ended December 31, 2020. An analysis of selected revenues follows.

Rental and related revenues. Rental and related revenues increased \$18.7 million, or 4.5%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. Rental and related revenues was comprised of the following based upon contractual billing terms (in thousands):

	2021	 2020 Change		<u>%</u>	
Rental revenues	\$ 324,839	\$ 314,846	\$	9,993	3.2 %
Expense recoveries	112,054	 103,344		8,710	8.4 %
Rental and related revenues	\$ 436,893	\$ 418,190	\$	18,703	4.5 %

Rental revenues increased \$10.0 million, or 3.2%, for the year ended December 31, 2021 as compared to the year ended December 31, 2020. Our 2021 and 2020 acquisitions resulted in additional revenue of \$6.0 million and \$6.4 million, respectively. This increase was partially offset by a decrease in rental revenue of \$2.6 million associated with properties sold during 2021.

Expense recoveries increased \$8.7 million, or 8.4%, for the year ended December 31, 2021 as compared to the year ended December 31, 2020. Expense recoveries increased due to a \$4.7 million increase in reimbursable operating expenses from our existing portfolio, explained below, and an additional net \$3.9 million of expense recoveries from properties purchased and sold in 2021 and 2020.

Interest income on real estate loans and other. Interest income on real estate loans and other increased \$1.5 million, or 7.7%, for the year ended December 31, 2021 as compared to the year ended December 31, 2020. This increase is due to additional interest income of \$2.0 million as a result of an increase in the Company's outstanding real estate loans receivable and \$0.4 million from tenant improvement income. The increase is offset by a decrease of \$0.9 million related to interest income on our notes receivables.

# Expenses

Total expenses increased by \$19.9 million, or 5.3%, for the year ended December 31, 2021 as compared to the year ended December 31, 2020. An analysis of selected expenses follows.

Interest expense. Interest expense increased \$3.0 million, or 5.2%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase was due to a loss on the extinguishment of debt for \$4.0 million related to the October 2021 payoff of our credit facility term loan, \$3.0 million related to our Senior Notes, and an \$0.8 million increase related to interest rate swap contracts. The increase is partially offset by a lower effective interest rate on our credit facility of \$3.1 million and lower average debt balances of \$1.9 million. Our weighted average effective interest rate on our credit facility was 0.9% and 1.8% for the year ended December 31, 2021 and 2020, respectively.

General and administrative. General and administrative expenses increased \$4.0 million, or 11.8%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase is mainly attributable to increased salaries and benefits of \$2.3 million, travel expenses of \$1.1 million, and marketing expenses of \$0.6 million. The increase in travel and marketing expenses were the result of resuming normal activities previously limited by the COVID-19 pandemic.

Operating expenses. Operating expenses increased \$9.2 million, or 7.2%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The net impact on operating expenses on properties purchased and sold in 2021 and 2020 was an increase of \$4.4 million. Operating expenses on the remaining properties increased by \$4.7 million, or 3.8% year over year, mainly due to additional utility charges of \$1.6 million, real estate taxes of \$1.1 million, insurance costs of \$1.1 million, maintenance costs of \$0.6 million, and property management costs of \$0.4 million.

Depreciation and amortization. Depreciation and amortization increased \$8.3 million, or 5.5%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase is due to our 2021 and 2020 property acquisitions which resulted in additional depreciation and amortization of \$6.8 million and \$3.3 million, respectively. This was offset by a reduction in depreciation and amortization of \$1.7 million associated with our sold properties.

Impairment Loss. During the year ended December 31, 2021, the Company recorded an impairment charge of \$0.3 million related to a medical office building in Traverse City, Michigan. In 2020, the Company recorded an impairment charge of \$4.9 million related to a medical office building in Grand Rapids, Michigan, one of the Company's original properties owned at the time of the IPO.

Equity in loss of unconsolidated entities. The change in equity in loss of unconsolidated entities for the year ended December 31, 2021 compared to the year ended December 31, 2020 is due to our additional investment of \$7.3 million in the Davis Joint Venture in 2021.

Gain on sale of investment properties, net. In 2021 we sold seven properties and five adjacent parcels of vacant land for approximately \$94.4 million and recognized a net gain of approximately \$24.2 million. In 2020 we sold two properties for approximately \$20.5 million, realizing a net gain of \$5.8 million

# Year Ended December 31, 2020 compared to the Year Ended December 31, 2019.

A discussion of the results of operations for the year ended December 31, 2019 is found in Item 7 of Part II of our Annual Report on Form 10-K/A for the year ended December 31, 2020, filed with the SEC on April 9, 2021, which is available free of charge on the SEC's website at www.sec.gov and in the Investor Relations portion of our website (<a href="www.docreit.com">www.docreit.com</a>).

Cash Flows

Year Ended December 31, 2021 compared to the Year Ended December 31, 2020 (in thousands).

	 2021	2020
Cash provided by operating activities	\$ 247,555	\$ 233,297
Cash used in investing activities	(603,220)	(201,913)
Cash provided by (used in) financing activities	363,026	(31,224)
Increase in cash and cash equivalents	\$ 7,361	\$ 160

Cash flows from operating activities. Cash flows provided by operating activities were \$247.6 million during the year ended December 31, 2021 compared to \$233.3 million during the year ended December 31, 2020, representing an increase of \$14.3 million. Net cash provided by operating activities increased primarily due to the impact of our 2021 and 2020 acquisitions, partially offset by our 2021 and 2020 dispositions.

Cash flows from investing activities. Cash flows used in investing activities was \$603.2 million during the year ended December 31, 2021 compared to cash flows used in investing activities of \$201.9 million during the year ended December 31, 2020, representing a change of \$401.3 million. The increase in cash flows used in investing activities was primarily attributable to a \$645.1 million increase in cash spent on the acquisitions of investment properties and an increase in leasing commissions paid of \$1.3 million. This was partially offset by an increase of \$72.4 million from proceeds on the sale of investment properties and an increase of repayments of real estate loans receivable of \$63.7 million. Additionally, real estate loans issued decreased \$99.0 million in 2021 and there was a \$9.3 million decrease in investment of unconsolidated entities.

Cash flows from financing activities. Cash flows provided by financing activities was \$363.0 million during the year ended December 31, 2021 compared to cash flows used in financing activities of \$31.2 million during the year ended December 31, 2020, representing a change of \$394.3 million. This is primarily due the issuance of senior unsecured notes with net proceeds of \$495.7 million, issuance of \$136.1 million of mortgage debt, a decrease of \$31.0 million of net paydowns to our credit facility in 2021, and a decrease of \$12.5 million of principal payments on mortgage debt and was partially offset by repurchases of Series A Preferred Units of \$151.2 million, a decrease of \$96.3 million in sales of our common shares pursuant to the ATM Programs (as defined herein), and by an increase of \$11.8 million of dividends paid to shareholders. Additionally, there was \$8.3 million of payments made on a financing lease, \$7.3 million of costs related to debt issuance, and repurchases of OP Units of \$5.7 million.

# Year Ended December 31, 2020 compared to Year Ended December 31, 2019 (in thousands).

A discussion of cash flows for the year ended December 31, 2019 is found in Item 7 of Part II of our Annual Report on Form 10-K/A for the year ended December 31, 2020, filed with the SEC on April 9, 2021, which is available free of charge on the SEC's website at www.sec.gov and in the Investor Relations portion of our website (<a href="www.docreit.com">www.docreit.com</a>).

# **Non-GAAP Financial Measures**

This report includes Funds From Operations ("FFO"), Normalized FFO, Normalized Funds Available For Distribution ("FAD"), Net Operating Income ("NOI"), and Cash NOI, which are non-GAAP financial measures. For purposes of Item 10(e) of Regulation S-K promulgated under the Securities Act, a non-GAAP financial measure is a numerical measure of a company's historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable financial measure calculated and presented in accordance with GAAP in the statement of operations, balance sheet, or statement of cash flows (or equivalent statements) of the company, or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable financial measure so calculated and presented. As used in this report, GAAP refers to generally accepted accounting principles in the United States of America. Pursuant to the requirements of Item 10(e) of Regulation S-K promulgated under the Securities Act, we have provided reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

#### 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. We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (Nareit). Nareit defines FFO as net income or loss (computed in accordance with GAAP) before noncontrolling interests of holders of OP units, excluding preferred distributions, gains (or losses) on sales of depreciable operating property, impairment write-downs on depreciable assets, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs). Our FFO computation includes our share of required adjustments from our unconsolidated joint ventures and may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the 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, includes depreciation and amortization expenses, gains or losses on property sales, impairments, and noncontrolling interests. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from the operations of our properties. To facilitate a clear understanding of our historical operating results, FFO should be examined in conjunction with net income (determined in accordance with GAAP) as presented in our financial statements. FFO does not represent cash generated from operating activities in accordance with GAAP, should not be considered to be an alternative to net income or 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, acceleration of deferred financing costs, net change in fair value of contingent consideration, 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 (computed in accordance with GAAP), as an indicator of our financial performance or of cash flow from operating activities (computed in accordance with GAAP), or as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our 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 per share data):

		Ye	ar En	ded December	31,		
		2021		2020		2019	
Net income	\$	86,783	\$	68,488	\$	77,186	
Earnings per share - diluted	\$	0.39	\$	0.32	\$	0.39	
Net income	\$	86,783	\$	68,488	\$	77,186	
Net income attributable to noncontrolling interests - partially owned properties		(607)		(574)		(548)	
Preferred distributions		(13)		(1,241)		(1,209)	
Depreciation and amortization expense		157,437		149,208	146,072		
Depreciation and amortization expense - partially owned properties		(280)		(297)		(282)	
Gain on sale of investment properties, net		(24,165)		(5,842)		(31,309)	
Impairment loss		340		4,872			
Proportionate share of unconsolidated joint venture adjustments		8,860		7,063		715	
FFO applicable to common shares	\$	228,355	\$	221,677	\$	190,625	
FFO per common share	\$	1.02	\$	1.05	\$	0.99	
Net change in fair value of derivative		_				1	
Loss on extinguishment of debt		4,025		_		_	
Net change in fair value of contingent consideration		_		(715)		(37)	
Normalized FFO applicable to common shares	\$	232,380	\$	220,962	\$	190,589	
Normalized FFO per common share	\$	1.04	\$	1.05	\$	0.99	
Weighted average number of common shares outstanding	2	23,060,556	2	211,145,917		191,626,320	

#### Normalized FAD

We define Normalized FAD, a non-GAAP measure, which excludes from Normalized FFO non-cash share compensation expense, straight-line rent adjustments, amortization of acquired above-market or below-market leases and assumed debt, amortization of lease inducements, amortization of deferred financing costs, and loan reserve adjustments, including our share of all required adjustments from unconsolidated joint ventures. We also adjust for recurring capital expenditures related to tenant improvements and leasing commissions, and cash payments from seller master leases and rent abatement payments, including our share of all required adjustments for unconsolidated joint ventures. Other REITs or real estate companies may use different methodologies for calculating Normalized FAD, and accordingly, our computation may not be comparable to those reported by other REITs. Although our computation of Normalized FAD may not be comparable to that of other REITs, we believe Normalized FAD provides a meaningful supplemental measure of our performance due to its frequency of use by analysts, investors, and other interested parties in the evaluation of our performance as a REIT. Normalized FAD should not be considered as an alternative to net income or loss attributable to controlling interest (computed in accordance with GAAP) or as an indicator of our financial performance. Normalized FAD 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 Normalized FAD (in thousands):

	Year Ended December 31,						
		2021		2020		2019	
Net income	\$	86,783	\$	68,488	\$	77,186	
Normalized FFO applicable to common shares	\$	232,380	\$	220,962	\$	190,589	
Normalized FFO applicable to common shares	\$	232,380	\$	220,962	\$	190,589	
Non-cash share compensation expense		15,032		12,486		10,115	
Straight-line rent adjustments		(8,671)		(12,395)		(9,986)	
Amortization of acquired above/below-market leases/assumed debt		3,459		3,462		3,485	
Amortization of lease inducements		1,157		1,156		1,312	
Amortization of deferred financing costs		2,325		2,372		2,416	
TI/LC and recurring capital expenditures		(25,532)		(19,042)		(19,544)	
Loan reserve adjustments		(133)		84		_	
Proportionate share of unconsolidated joint venture adjustments		(998)		(624)		(36)	
Normalized FAD applicable to common shares	\$	219,019	\$	208,461	\$	178,351	

# 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 and other investments before general and administrative 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, including our share of all required adjustments from our unconsolidated joint ventures. 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. 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, including our share of all required adjustments from unconsolidated joint ventures. Other non-cash and normalizing items include items such as the amortization of lease inducements, loan reserve adjustments, payments received from seller master leases and rent abatements, and changes in fair value of contingent consideration. 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. Our use of the term Cash NOI may not be comparable to that of other real estate companies as such other companies may have different methodologies for computing this amount.

The following is a reconciliation from the Trust's 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,						
		2021		2020		2019	
Net income	\$	86,783	\$	68,488	\$	77,186	
General and administrative		37,757		33,763		33,099	
Depreciation and amortization		157,870		149,590		146,436	
Interest expense		60,136		57,179		65,022	
Net change in the fair value of derivative		_		_		1	
Gain on sale of investment properties, net		(24,165)		(5,842)		(31,309)	
Impairment loss		340		4,872		_	
Proportionate share of unconsolidated joint venture adjustments		14,358		10,458		1,048	
NOI	\$	333,079	\$	318,508	\$	291,483	
NOI	\$	333,079	\$	318,508	\$	291,483	
Straight-line rent adjustments		(8,671)		(12,395)		(9,986)	
Amortization of acquired above/below-market leases		3,521		3,524		3,547	
Amortization of lease inducements		1,157		1,156		1,312	
Loan reserve adjustments		(133)		84		_	
Change in fair value of contingent consideration		_		(715)		(37)	
Proportionate share of unconsolidated joint venture adjustments		(690)	_	(581)	_	(36)	
Cash NOI	\$	328,263	\$	309,581	\$	286,283	

#### **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, 2021, we had a total of \$9.9 million of cash and cash equivalents and \$726.0 million is available to borrow without adding additional properties to the unencumbered borrowing base of assets or exercising our accordion feature. Our primary sources of cash include rent we collect from our tenants, borrowings under our unsecured credit facility, and financings of debt and equity securities. 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 12 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, proceeds from select property dispositions and joint

venture transactions, and, in connection with acquisitions of additional properties, the issuance of OP Units of our Operating Partnership.

Our ability to access capital in a timely and cost-effective manner is essential to the success of our business strategy as it affects our ability to satisfy existing obligations, including repayment of maturing indebtedness, and to make future investments and acquisitions. Factors such as general market conditions, interest rates, credit ratings on our debt and equity securities, expectations of our potential future earnings and cash distributions, and the market price of our common shares, each of which are beyond our control and vary or fluctuate over time, all impact our access to and cost of capital. In particular, to the extent interest rates continue to rise, we may experience a decline in the trading price of our common shares, which may impact our decision to conduct equity offerings for capital raising purposes. We will likely also experience higher borrowing costs as interest rates rise, which may also impact our decisions to incur additional indebtedness, or to engage in transactions for which we may need to fund through borrowing. We expect to continue to utilize equity and debt financings to support our future growth and investment activity.

We also continuously evaluate opportunities to finance future investments. New investments are generally funded from temporary borrowings under our primary unsecured credit facility and the proceeds from financing transactions such as those discussed above. Our investments generate cash from net operating income and principal payments on loans receivable. Permanent financing for future investments, which generally replaces funds drawn under our primary unsecured credit facility, has historically been provided through a combination of the issuance of debt and equity securities and the incurrence or assumption of secured debt.

We intend to invest in additional properties as suitable opportunities arise and adequate sources of financing are available. We are currently 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's 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 equity or debt securities.

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

# Credit Facility

On September 24, 2021, the Operating Partnership, as borrower, and the Trust, as guarantor, executed the Third Amended and Restated Credit Agreement (the "Credit Agreement"), which extended the maturity date of the revolving credit facility under the Credit Agreement to September 24, 2025 and reduced the interest rate margin applicable to borrowings. The Credit Agreement includes an unsecured revolving credit facility of \$1.0 billion and contains a term loan feature of \$250 million, bringing total borrowing capacity to \$1.3 billion. The Credit Agreement also includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing the Trust to increase borrowing capacity by up to an additional \$500 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of \$1.75 billion. The revolving credit facility under the Credit Agreement also includes two, six-month extension options.

As of December 31, 2021, the Company had \$274.0 million of borrowings outstanding under its unsecured revolving credit facility. As defined by the Credit Agreement, \$726.0 million is available to borrow without adding additional properties to the unencumbered borrowing base of assets or exercising our accordion feature. On October 13, 2021, the Company used the proceeds from the senior notes to pay off and extinguish the \$250 million term loan feature of the Credit Agreement. The Operating Partnership simultaneously terminated the existing pay-fixed receive-variable rate swaps associated with the full term loan borrowing of \$250.0 million. As defined by the Credit Agreement, the term loan feature is no longer available to the Company. See Note 6 (Debt) to our accompanying consolidated financial statements for a further discussion of our credit facility.

#### Senior Notes

As of December 31, 2021, we had \$1.5 billion aggregate principal amount of senior notes issued and outstanding by the Operating Partnership, comprised of \$15.0 million maturing in 2023, \$25.0 million maturing in 2025, \$70.0 million maturing in 2026, \$425.0 million maturing in 2027, \$395.0 million maturing in 2028, and \$545.0 million maturing in 2031. See Note 6 (Debt) to our accompanying consolidated financial statements for a further discussion of our senior notes.

On October 13, 2021, the Operating Partnership issued \$500.0 million in aggregate principal amount of 2.625% Senior Notes due November 1, 2031 (the "2031 Senior Notes") in a public offering (the "October Debt Offering") through underwriters for whom J.P. Morgan Securities LLC, Credit Agricole Securities (USA) Inc., and PNC Capital Markets LLC acted as representatives (the "Representatives") pursuant to an underwriting agreement, dated October 7, 2021 (the "Underwriting Agreement"), among the Operating Partnership, the Trust, and the Representatives.

The 2031 Senior Notes were registered under the Securities Act on the Trust's and the Operating Partnership's automatic shelf registration statement on Form S-3ASR (File No. 333-236725), filed with the Commission on February 27, 2020.

The 2031 Senior Notes began accruing interest on October 13, 2021 and began paying interest semi-annually beginning May 1, 2022. The 2031 Senior Notes were sold at an issue price of 99.789% of their face value, before the underwriters' discount. Our net proceeds from the offering, after deducting underwriting discounts and expenses, were approximately \$495.1 million. We used the net proceeds of the October Debt Offering to pay off the existing balance of the unsecured revolving credit facility and the term loan feature of the Credit Agreement. The Operating Partnership simultaneously terminated each of the existing pay-fixed receive-variable rate swaps associated with the term loan borrowing.

The 2031 Senior Notes are subject to customary events of default, which may result in the accelerated maturity of the 2031 Senior Notes

# ATM Programs

During the fiscal year-ended December 31, 2021, we issued and sold pursuant to the ATM Programs (as defined herein) 14,656,078 common shares at a weighted average price of \$18.45 per share, resulting in net proceeds to us of approximately \$267.7 million. See to Note 1 (Organization and Business) to our accompanying consolidated financial statements for further detail.

# Dividend Reinvestment and Share Purchase Plan

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 December 31, 2021, the Company had issued 177,451 common shares under the DRIP since its inception.

## Critical Accounting Policies

Our consolidated 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 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 financial statements.

#### 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 are 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 statements of income 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 and above/below-market leases, and rent abatements. 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 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

We expect to record the majority of our future investments as asset acquisitions and as a result will capitalize acquisition costs. The purchase price, inclusive of acquisition costs, will be allocated to tangible and intangible assets and liabilities based on their relative fair values. Tangible assets primarily consist of land and buildings and improvements. Intangible assets primarily consist of above-market or below-market leases, in-place leases, above-market or below-market debt assumed, right-of-use assets, and lease liabilities. Any future contingent consideration will be recorded when the contingency is resolved. The determination of the fair value requires the Company to make certain estimates and assumptions. See Note 2 (Summary of Significant Accounting Policies) to our accompanying consolidated financial statements for details on our policies for recording purchases of investment properties.

# 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 40 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 life 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 are 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, occupancy rates, lease rates, and capitalization rates 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 recorded. Long-lived assets classified as held-for-sale are recorded at the lower of carrying value or fair value less estimated costs to sell.

#### Revenues

We recognize rental revenues in accordance with ASC 842, *Leases*. ASC 842 requires that rental revenue and adjustments relating to lease inducements and above-market and below-market leases be recognized on a straight-line basis over the term of the lease when collectability is probable. 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 the Company determines that collectability of straight-line rents is not probable, rental revenue is limited to the lease payments collected from the lessee, including any variable lease payments.

Rental and related revenues also include expense recoveries, which relate to tenant reimbursement of real estate taxes, insurance, and other operating expenses that are recognized in the period the applicable expenses are incurred. The reimbursements are recorded gross, as these costs are incurred by the Company and reimbursed by the tenants. We have certain tenants with absolute net leases. Under these lease agreements, the tenant is responsible for operating and building expenses and we do not recognize expense recoveries.

## Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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 we could incur substantial tax liabilities which could have an adverse impact upon our results of operations, liquidity, and distributions to our shareholders.

#### Off-Balance Sheet Arrangements

As of December 31, 2021, we have investments in two unconsolidated joint ventures with ownership interests of 49% and 12.3%. The aggregate carrying amount of debt, including both our and our partners' share, incurred by these ventures was approximately \$762.1 million (of which our proportionate share is approximately \$129.6 million). See Note 2 (Summary of Significant Accounting Policies) to our accompanying consolidated financial statements for additional information. We have no other off-balance sheet arrangements that we expect would materially affect our liquidity and capital resources.

# Inflation

Historically, inflation has not had a significant impact on the operating performance of our properties. Some of our lease agreements contain provisions designed to mitigate the adverse impact of inflation. These provisions include clauses that enable us to receive 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. As of December 31, 2021, 6.2% of the Company's annual rent escalators are determined by changes in CPI or other measures. Most of our lease agreements also 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.

# 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 one interest rate swap. See Note 2 (Summary of Significant Accounting Policies) and Note 7 (Derivatives) to our consolidated financial statements included in Item 7 to this report for further detail on our interest rate swap.

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.

## Fixed Interest Rate Debt

As of December 31, 2021, our consolidated fixed interest rate debt totaled \$1.5 billion, which represented 78.5% of our total consolidated debt, excluding the impact of our interest rate swap. We entered into a pay-fixed receive-variable rate swap for \$36.1 million of our mortgage debt, fixing the LIBOR component of the borrowing rate to 1.43%, for an all-in fixed rate as of December 31, 2021 of 3.33%. Both the borrowing and pay-fixed receive-variable swap have a maturity date of October 31, 2024.

Assuming the effects of the interest rate swap agreement, our fixed interest rate debt would represent 80.3% of our total consolidated debt. Interest rate fluctuations on our fixed interest rate debt will generally not affect our future earnings or cash flows unless such instruments mature or are otherwise terminated. However, interest rate changes could affect the fair value of our fixed interest rate debt.

As of December 31, 2021, the fair value and the carrying value of our consolidated fixed interest rate debt were approximately \$1.6 billion. The fair value estimate of our fixed interest rate debt was estimated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated on December 31, 2021. As we expect to hold our fixed interest rate debt instruments to maturity, based on the underlying structure of the debt instrument, and the amounts due under such instruments are limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that market fluctuations in interest rates, and the resulting change in fair value of our fixed interest rate debt instruments, would have a significant impact on our operating cash flows.

# Variable Interest Rate Debt

As of December 31, 2021, our consolidated variable interest rate debt totaled \$415.7 million, which represented 21.5% of our total consolidated debt. Assuming the effects of the interest rate swap agreement, our variable interest rate debt would represent 19.7% of our total consolidated debt. Interest rate changes on our variable rate debt could impact our future earnings and cash flows but would not significantly affect the fair value of such debt. As of December 31, 2021, we were exposed to market risks related to fluctuations in interest rates on \$379.6 million of consolidated borrowings. Assuming no increase in the amount of our variable rate debt, if LIBOR and SOFR were to change by 100 basis points, interest expense on our variable rate debt as of December 31, 2021 would change by approximately \$2.8 million and \$1.0 million annually, respectively.

#### **Derivative Instruments**

As of December 31, 2021, we had one outstanding interest rate swap that was designated as a cash flow hedge of interest rate risk, with a total notional amount of \$36.1 million. See Note 7 (Derivatives) within our consolidated financial statements for further detail on our interest rate swap. We are exposed to credit risk of the counterparty to our interest rate swap agreements in the event of non-performance under the terms of the agreements. If we were not able to replace this swap in the event of non-performance by the counterparty, we would be subject to variability of the interest rate on the amount outstanding under our debt that is fixed through the use of the swap.

#### Indebtedness

As of December 31, 2021, we had total consolidated indebtedness of approximately \$1.9 billion. The weighted average interest rate on our consolidated indebtedness was 3.20% (based on the 30-day LIBOR rate of 0.10% and a SOFR rate of 0.05% as of December 31, 2021). As of December 31, 2021, we had approximately \$379.6 million, or approximately 19.7%, of our outstanding long-term debt exposed to fluctuations in short-term interest rates.

The following table sets forth certain information with respect to our consolidated indebtedness outstanding as of December 31, 2021 (in thousands):

	Principal	Fixed/Floating Rate	Rate	Maturity
Senior Unsecured Revolving Credit Facility	\$ 274,000	Floating	LIBOR + 0.85%	9/24/2025
Senior Unsecured Notes				
January 2016 - Series A	15,000	Fixed	4.03 %	1/7/2023
January 2016 - Series B	45,000	Fixed	4.43 %	1/7/2026
January 2016 - Series C	45,000	Fixed	4.57 %	1/7/2028
January 2016 - Series D	45,000	Fixed	4.74 %	1/7/2031
August 2016 - Series A	25,000	Fixed	4.09 %	8/11/2025
August 2016 - Series B	25,000	Fixed	4.18 %	8/11/2026
August 2016 - Series C	25,000	Fixed	4.24 %	8/11/2027
March 2017 Notes	400,000	Fixed	4.30 %	3/15/2027
December 2017 Notes	350,000	Fixed	3.95 %	1/15/2028
October 2021 Notes	500,000	Fixed	2.625 %	11/1/2031
Mid Coast Hospital MOB (1)	5,629	Floating	LIBOR + 2.75%	11/13/2028
Eden Hill Medical Center (2)	36,050	Fixed	3.33 %	10/31/2024
CareMount Medical - Lake Katrine MOB	24,234	Fixed	4.63 %	11/6/2024
Gwinnett Physicians Center	15,111	Fixed	4.83 %	12/1/2022
University of Florida Health North MOB	60,000	Floating	SOFR + 1.85%	12/20/2026
Jackson Baptist Medical Center - Belhaven	20,000	Floating	SOFR + 1.85%	12/16/2026
Old Bridge Medical Office Building	20,000	Floating	SOFR + 1.85%	12/20/2026
Total principal	1,930,024			
Unamortized deferred financing costs	(9,694)			
Unamortized discounts	(8,423)			
Unamortized fair value adjustments	11			
Total	\$1,911,918			

- (1) We own a 66.3% interest in the joint venture that owns this property. Debt shown in this schedule is the full amount of the mortgage indebtedness on this property.
- (2) Our mortgage debt related to Eden Hill Medical Center bears interest at a rate equal to LIBOR + 1.90%. We have entered into a pay-fixed receive-variable interest rate swap, fixing the LIBOR component of this rate at 1.43%, resulting in an effective interest rate of 3.33%.

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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The report of Physicians Realty Trust's independent registered public accounting firm (PCAOB ID:42) with respect to the above-referenced financial statements and their report on internal control over financial reporting are included in Item 8 and Item 9A of this Form 10-K at the page number referenced above. Their consent appears as Exhibit 23 of this form 10-K.

#### Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Trustees of Physicians Realty Trust

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Physicians Realty Trust (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and financial statement schedule included in the Index at Item 15 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, 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 24, 2022 expressed an unqualified opinion thereon.

#### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

# **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### Evaluation of net real estate property for impairment

# Description of the Matter

As of December 31, 2021, the Company's consolidated balance sheet included net real estate property of \$4.6 billion. As described in Note 2 to the consolidated financial statements, the Company periodically evaluates its long-lived assets, primarily consisting of investments in real estate, for impairment whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. If indicators of impairment are present, the Company evaluates the carrying value of the related long-lived assets in relation to its expected undiscounted future cash flows. The Company adjusts the net book value of long-lived assets to fair value if the sum of the expected future undiscounted cash flows is less than book value.

Auditing management's long-lived assets impairment analysis was complex and involved a high degree of subjectivity due to the significant estimation required to determine the estimated undiscounted future cash flows of long-lived assets. In particular, the future cash flow estimates were sensitive to significant assumptions such as future rental revenues, operating expenses, occupancy, and capitalization rates which are affected by expectations about future market or economic conditions, as well as management's intent to hold and operate the property over the term and in the manner assumed in the analysis.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's long-lived assets impairment review process, including controls over management's review of the significant assumptions described above.

To test the Company's evaluation of long-lived assets for impairment, we performed audit procedures that included, among others, assessing the methodologies used, evaluating the significant assumptions discussed above, and testing the completeness and accuracy of the underlying data used by the Company in its analysis. We compared the significant assumptions used by management to current market data and performed sensitivity analyses of the significant assumptions discussed above. The evaluation of the Company's methodology and significant assumptions was performed with the assistance of our valuation specialists.

#### **Purchases of Investment Property**

# Description of the Matter

During the year ended December 31, 2021, the Company acquired controlling interests in 24 operating health care properties for an aggregate purchase price of \$972.5 million. The transactions were accounted for as asset acquisitions and the purchase prices were allocated based on the relative fair values of the tangible and identified intangible assets acquired and liabilities assumed. As more fully described in Note 2 to the consolidated financial statements, the estimates used in determining the relative fair values may be based on appraisals, internal analyses of recently acquired and existing comparable properties in the Company's portfolio and other available market data.

Auditing the Company's estimate of the fair value of the acquired tangible and identified intangible assets and liabilities is complex and requires a higher degree of auditor judgment due to the judgment used by management in selecting key assumptions based on recent comparable transactions or other market data, which are primarily unobservable inputs. The allocation of purchase price to the components of properties acquired could have an effect on the Company's net income due to the varying useful lives applicable to each component and the recognition of the related depreciation or amortization expense in the Company's consolidated statements of income and comprehensive income.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process for estimating the fair value of acquired assets and liabilities and allocating purchase price to the various components, including controls over management's determination and review of the significant assumptions used in the analyses and described above.

We evaluated the use of the key assumptions in the valuation models and recalculated the model's results. To test the fair values of acquired tangible and intangible assets and liabilities used in the purchase price allocation, we performed procedures to evaluate the valuation methods and significant assumptions used by management. We evaluated the completeness and accuracy of the underlying data supporting the determination of the various inputs. We involved our real estate valuation specialists to assist us in evaluating the Company's methodology and assumptions, including those related to land and building values, estimated replacement costs and market rental rates.

/s/ Ernst & Young LLP We have served as the Company's auditor since 2014. Milwaukee, Wisconsin February 24, 2022

#### **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Trustees of Physicians Realty Trust

# **Opinion on Internal Control over Financial Reporting**

We have audited Physicians Realty Trust's internal control over financial reporting as of December 31, 2021, 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). In our opinion, Physicians Realty Trust (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Physicians Realty Trust at December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and financial statement schedule included in the Index at Item 15 and our report dated February 24, 2022 expressed an unqualified opinion thereon.

# **Basis for Opinion**

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

# **Definition and Limitations of Internal Control Over Financial Reporting**

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.

/s/ Ernst & Young LLP Milwaukee, Wisconsin February 24, 2022

# Physicians Realty Trust Consolidated Balance Sheets

(In thousands, except share and per share data)

	 Decem	ber 31	,
<u>ASSETS</u>	2021		2020
Investment properties:			
Land and improvements	\$ 235,453	\$	231,621
Building and improvements	4,612,561		3,824,796
Tenant improvements	86,018		73,145
Acquired lease intangibles	 498,221		406,935
	5,432,253		4,536,497
Accumulated depreciation	 (821,036)		(687,554)
Net real estate property	4,611,217		3,848,943
Real estate held for sale	1,964		
Right-of-use lease assets, net	235,483		137,180
Real estate loans receivable, net	117,844		198,800
Investments in unconsolidated entities	 69,793		77,755
Net real estate investments	5,036,301		4,262,678
Cash and cash equivalents	9,876		2,515
Tenant receivables, net	4,948		4,757
Other assets	 131,584	_	144,000
Total assets	\$ 5,182,709	\$	4,413,950
<u>LIABILITIES AND EQUITY</u>			
Liabilities:			
Credit facility	\$ 267,641	\$	412,322
Notes payable	1,464,008		968,653
Mortgage debt	180,269		57,875
Accounts payable	6,651		7,007
Dividends and distributions payable	57,246		52,116
Accrued expenses and other liabilities	86,254		91,929
Lease liabilities	104,957		74,116
Acquired lease intangibles, net	 21,569		6,641
Total liabilities	2,188,595		1,670,659
Redeemable noncontrolling interests - Series A Preferred Units (2020) and partially owned properties	7,081		28,289
owned properties	7,001		20,209
Equity:			
Common shares, \$0.01 par value, 500,000,000 common shares authorized,			
224,678,116 and 209,550,592 common shares issued and outstanding as of	2.247		2.006
December 31, 2021 and December 31, 2020, respectively	2,247		2,096
Additional paid-in capital	3,610,954		3,303,231
Accumulated deficit	(776,001)		(658,171)
Accumulated other comprehensive loss	 (892)		(5,859)
Total shareholders' equity	2,836,308		2,641,297
Noncontrolling interests:			
Operating Partnership	150,241		73,302
Partially owned properties	484		403
Total noncontrolling interests	150,725		73,705
Total equity	 2,987,033		2,715,002
Total liabilities and equity	\$ 5,182,709	\$	4,413,950

# Physicians Realty Trust Consolidated Statements of Income

(In thousands, except share and per share data)

			D	ecember 31,		
		2021		2020		2019
Revenues:						
Rental and related revenues	\$	436,893	\$	418,190	\$	404,379
Interest income on real estate loans and other		20,806		19,315		10,902
Total revenues		457,699		437,505		415,281
Expenses:						
Interest expense		60,136		57,179		65,022
General and administrative		37,757		33,763		33,099
Operating expenses		137,408		128,198		124,819
Depreciation and amortization		157,870		149,590		146,436
Impairment loss		340		4,872		
Total expenses		393,511		373,602		369,376
Income before equity in loss of unconsolidated entities and gain on sale of investment properties, net:		64,188		63,903		45,905
Equity in loss of unconsolidated entities		(1,570)		(1,257)		(28)
Gain on sale of investment properties, net		24,165		5,842		31,309
Net income		86,783		68,488		77,186
Net income attributable to noncontrolling interests:						
Operating Partnership		(2,211)		(1,797)		(2,155)
Partially owned properties (1)		(607)		(574)		(548)
Net income attributable to controlling interest		83,965		66,117		74,483
Preferred distributions		(13)		(1,241)		(1,209)
Net income attributable to common shareholders	\$	83,952	\$	64,876	\$	73,274
Net income per share:						
Basic	\$	0.39	\$	0.32	\$	0.39
Diluted	\$	0.39	\$	0.32	\$	0.39
Weighted average common shares:						
Basic	2	16,135,385	2	04,243,768	1	85,770,251
Diluted	2	23,060,556	2	11,145,917	1	91,626,320
Dividends and distributions declared per common share	\$	0.92	\$	0.92	\$	0.92
(1) In all day an account attails stable to made an able man account alline interests						

(1) Includes amounts attributable to redeemable noncontrolling interests.

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

		D	ecember 31,	
	2021		2020	2019
Net income	\$ 86,783	\$	68,488	\$ 77,186
Other comprehensive income (loss):				
Change in fair value of interest rate swap agreements, net	1,672		(10,180)	(10,112)
Reclassification of accumulated losses on interest rate swap to earnings	3,295			
Total other comprehensive income (loss)	4,967		(10,180)	(10,112)
Comprehensive income	91,750		58,308	67,074
Comprehensive income attributable to noncontrolling interests - Operating Partnership	(2,461)		(1,522)	(1,863)
Comprehensive income attributable to noncontrolling interests - partially owned properties	(607)		(574)	(548)
Comprehensive income attributable to common shareholders	\$ 88,682	\$	56,212	\$ 64,663

# Physicians Realty Trust Consolidated Statements of Equity (In thousands)

	Par Value	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity	Operating Partnership Noncontrolling interest	Partially Owned Properties Noncontrolling Interest	Total Noncontrolling Interests	Total Equity
Balance at January 1, 2019	\$ 1,824	\$ 2,791,555	\$ (428,307)	\$ 14,433	\$ 2,379,505	\$ 67,477	\$ 678	\$ 68,155	\$ 2,447,660
Cumulative effect of changes in accounting standards	_	(239)	_	_	(239)	_	_	_	(239)
Net proceeds from sale of common	74	131,555			131,629			_	131,629
shares Restricted share award grants, net	2	7,918	(898)	_	7,022	_	_	_	7,022
Purchase of OP Units		7,716	(878)		7,022	(14,023)		(14,023)	(14,023)
Dividends/distributions declared	_	_	(172,324)	_	(172,324)	(4,947)	_	(4,947)	(177,271)
Preferred distributions	_	_	(1,209)	_	(1,209)	(.,,,,,)	_	(.,,,,,)	(1,209)
Issuance of OP Units in connection with acquisition	_	_	_	_	_	22,598	_	22,598	22,598
Contributions	_	_	_	_	_	_	572	572	572
Distributions	_	_	_	_	_	_	(174)	(174)	(174)
Change in market value of Redeemable Noncontrolling Interest in Operating Partnership	_	(309)	(939)	_	(1,248)	_	_	_	(1,248)
Buyout of Noncontrolling Interest -		(122)			(122)		(000)	(000)	(1.112)
Change in fair value of interest rate swap agreements	_	(122)	_	(10,112)	(122)	_	(990)	(990)	(1,112)
Adjustment for Noncontrolling Interests ownership in Operating					, , ,				
Partnership	_	1,563		_	1,563	(1,563)	_	(1,563)	
Net income			74,483		74,483	2,155	253	2,408	76,891
Balance at December 31, 2019  Cumulative effect of changes in	1,900	2,931,921	(529,194)	4,321	2,408,948	71,697	339	72,036	2,480,984
accounting standards  Net proceeds from sale of common	_	(147)	_	_	(147)	_	_	_	(147)
shares	194	364,194	_	_	364,388	_	_	_	364,388
Restricted share award grants, net	2	9,510	(1,783)	_	7,729	_	_	_	7,729
Purchase of OP Units	_	_	_	_	_	(515)	_	(515)	(515)
Conversion of OP Units	_	41	_	_	41	(41)	_	(41)	_
Dividends/distributions declared		_	(190,751)	_	(190,751)	(5,123)		(5,123)	(195,874)
Preferred distributions	_	_	(1,241)	_	(1,241)	_	_	_	(1,241)
Issuance of OP Units in connection with acquisitions	_	_	_	_	_	3,067	_	3,067	3,067
Distributions  Change in market value of Redeemable Noncontrolling Interest	_	_	_	_	_	_	(210)	(210)	(210)
in Operating Partnership  Change in fair value of interest rate	_	132	(1,319)	_	(1,187)	_	_	_	(1,187)
swap agreements Adjustment for Noncontrolling	_	_	_	(10,180)	(10,180)	_	_	_	(10,180)
Interests ownership in Operating Partnership	_	(2,420)	_	_	(2,420)	2,420	_	2,420	_
Net income			66,117		66,117	1,797	274	2,071	68,188
Balance at December 31, 2020	2,096	3,303,231	(658,171)	(5,859)	2,641,297	73,302	403	73,705	2,715,002
Net proceeds from sale of common shares	147	267,979	_	_	268,126	_	_	_	268,126
Restricted share award grants, net	4	10,722	(1,312)	_	9,414	_	_	_	9,414
Purchase of OP Units	_	_	_	_	_	(6,237)	_	(6,237)	(6,237)
Dividends/distributions declared	_	_	(200,926)	_	(200,926)	(6,457)	_	(6,457)	(207,383)
Preferred distributions	_	_	(13)	_	(13)	_	_	_	(13)
Issuance of OP Units in connection with acquisitions  Distributions	_	_	_	_	_	116,467	- (224)	116,467	116,467
Change in market value of		_	_	_		_	(224)	(224)	(224)
Redeemable Noncontrolling Interest in Operating Partnership	_	(23)	456	_	433	_	_	_	433
Derecognition of cash flow hedge	_	_	_	3,295	3,295	_	_	_	3,295
Change in fair value of interest rate swap agreements		_	_	1,672	1,672	_	_	_	1,672
Adjustment for Noncontrolling Interests ownership in Operating Partnership	_	29,045	_	_	29,045	(29,045)	_	(29,045)	_
						( , - )		( , - )	
Net income	_	_	83,965	_	83,965	2,211	305	2,516	86,481

# Physicians Realty Trust Consolidated Statements of Cash Flows

(in thousands)

	Y	ear Ended December 3		
	2021	2020	201	9
Cash Flows from Operating Activities:				
Net income	\$ 86,783	\$ 68,488	\$	77,186
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	157,870	149,590		146,436
Amortization of deferred financing costs	2,325	2,372		2,416
Amortization of lease inducements and above/below-market lease intangibles	4,678	4,680		4,859
Straight-line rental revenue/expense	(8,671)	(12,395)		(9,986)
Amortization of discount on unsecured senior notes	737	629		603
Amortization of above market assumed debt	(62)	(62)		(62)
Derecognition of cash flow hedge	3,295	_		
Loss on extinguishment of deferred financing costs	730	_		_
Gain on sale of investment properties, net	(24,165)	(5,842)		(31,309)
Equity in loss of unconsolidated entities	1,570	1,257		28
Distributions from unconsolidated entities	6,928	5,515		119
Change in fair value of derivatives	_	15		1
Provision for bad debts	(90)	513		2,206
Non-cash share compensation	15,032	12,486		10,115
Net change in fair value of contingent consideration	_	(715)		(37)
Impairment on investment properties	340	4,872		_
Change in operating assets and liabilities:				
Tenant receivables	(2,863)	(1,404)		(5,902)
Other assets	4,185	(7,201)		(2,955)
Accounts payable	(356)	659		2,462
Accrued expenses and other liabilities	(711)	9,840		4,997
Net cash provided by operating activities	247,555	233,297		201,177
Cash Flows from Investing Activities:				
Proceeds on sale of investment properties	92,711	20,269		20,934
Acquisition of investment properties, net	(718,179)	(73,040)		(113,081)
Investment in unconsolidated entities	(9,069)	(18,390)		(25,954)
Acquisition of noncontrolling interests	_	_		(1,112)
Escrowed cash - acquisition deposits/earnest deposits	(781)	(179)		(10)
Capital expenditures on investment properties	(32,566)	(33,887)		(40,137)
Issuances of real estate loans receivable	(16,213)	(115,220)		(100,744)
Repayments of real estate loans receivable	84,874	21,194		7,855
Leasing commissions	(3,997)	(2,660)		(3,057)
Lease inducements	_	_		(2)
Net cash used in investing activities	(603,220)	(201,913)		(255,308)
Cash Flows from Financing Activities:				, ,
Net proceeds from sale of common shares	268,126	364,388		131,629
Proceeds from credit facility borrowings	710,541	364,000		454,000
Repayments on credit facility borrowings	(852,541)	(537,000)		(330,000)
Proceeds from issuance of mortgage debt	136,050	_		_
Proceeds from issuance of senior unsecured notes	495,695	_		_
Principal payments on mortgage debt	(13,027)	(25,477)		(25,184)
Debt issuance costs	(7,380)	(63)		(117)
Payments made on financing lease	(8,300)	(03)		(117)
Dividends paid - shareholders	(198,541)	(186,721)		(170,880)
Distributions to noncontrolling interests - Operating Partnership	(5,024)	(5,092)		(4,838)
Preferred distributions paid - OP Unit holders	(303)	(1,268)		(1,176)
Contributions to noncontrolling interests	(505)	(1,200)		572
Distributions to noncontrolling interests - partially owned properties	(648)	(628)		(582)
. ,	` '			
Payments of employee taxes for withheld stock-based compensation shares  Purchases of Series A Preferred Units	(4,183)	(2,848)		(2,076)
Purchases of OP Units	(151,202)			(14.022)
	(6,237)	(515)		(14,023)
Net cash provided (used in) by financing activities	363,026	(31,224)		37,325
Net increase (decrease) in cash and cash equivalents	7,361	160		(16,806)
Cash and cash equivalents, beginning of year	2,515	2,355	•	19,161
Cash and cash equivalents, end of year	\$ 9,876	\$ 2,515	\$	2,355
Supplemental disclosure of cash flow information - interest paid during the year	\$ 50,814	\$ 54,813	\$	62,633
Supplemental disclosure of noncash activity—settlement of note receivable in exchange for Series A Preferred Units	\$ 20,646	<u>\$</u>	\$	
Supplemental disclosure of noncash activity - change in fair value of interest rate swap agreements and redeemable	\$ 1,670	¢ (10.190)	•	(10.112)
equity - property  Supplemental disclosure of paneach activity issuance of OD Units and Series A Preferred Units in connection with	\$ 1,672	\$ (10,180)	\$	(10,112)
Supplemental disclosure of noncash activity - issuance of OP Units and Series A Preferred Units in connection with	\$ 263,008	\$ 3,067	\$	25,200
acquisitions				
Supplemental disclosure of noncash activity—Conversion of loan receivable in connection to the acquisition of				

# Physicians Realty Trust Notes to Consolidated Financial Statements

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

# **Note 1. Organization and Business**

The Trust was organized in the state of Maryland on April 9, 2013. As of December 31, 2021, the Trust was authorized to issue up to 500,000,000 common shares of beneficial interest, par value \$0.01 per share. 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 the Operating Partnership. The Trust and the Operating Partnership are managed and operated as one entity, and the Trust has no significant assets other than its investment in the Operating Partnership. The Trust's operations are conducted through the Operating Partnership and wholly-owned and majority-owned subsidiaries of the Operating Partnership. The Trust, as the general partner of the Operating Partnership, controls the Operating Partnership and consolidates the assets, liabilities, and results of operations of the Operating Partnership. Therefore, the assets and liabilities of the Trust and the Operating Partnership are the same.

The Trust is a self-managed REIT formed primarily to acquire, selectively develop, own, and manage health care properties that are leased to physicians, hospitals, and health care delivery systems.

# **ATM Programs**

In November 2019, the Trust and the Operating Partnership entered into separate At Market Issuance Sales Agreements (the "2019 Sales Agreements") with each of KeyBanc Capital Markets Inc., Credit Agricole Securities (USA) Inc., BMO Capital Markets Corp., Raymond James & Associates, Inc., and Stifel, Nicolaus & Company, Incorporated, in their capacity as agents and as forward sellers (the "2019 Agents"), pursuant to which the Trust may issue and sell, from time to time, its common shares having an aggregate offering price of up to \$500 million, through the 2019 Agents (the "2019 ATM Program"). The 2019 Sales Agreements contemplate that, in addition to the issuance and sale of the Trust's common shares through the 2019 Agents, the Trust may also enter into one or more forward sales agreements from time to time in the future with each of KeyBanc Capital Markets, Inc., Credit Agricole Securities (USA) Inc., BMO Capital Markets Corp., Raymond James & Associates, Inc., and Stifel, Nicolaus & Company, Incorporated, or one of their respective affiliates.

In May 2021, the Trust and the Operating Partnership entered into an At Market Issuance Sales Agreement (the "2021 Sales Agreement") with KeyBanc Capital Markets Inc., Credit Agricole Securities (USA) Inc., BMO Capital Markets Corp., and Raymond James & Associates, Inc. in their capacity as agents for the Company and/or forward sellers and Stifel, Nicolaus & Company, Incorporated in its capacity as sales agent for the Company (collectively, the "2021 Agents") and Bank of Montreal, Credit Agricole Corporate and Investments Bank, KeyBanc Capital Markets Inc., and Raymond James & Associates, Inc. as forward purchasers for the Company (the "Forward Purchasers"), pursuant to which the Trust may issue and sell, from time to time, its common shares having an aggregate offering price of up to \$500 million through the 2021 Agents (the "2021 ATM Program" and, together with the 2019 ATM Program the "ATM Programs"). The 2021 Sales Agreement contemplates that, in addition to the issuance and sale of the Trust's common shares through the 2021 Agents, the Trust may also enter into one or more forward sales agreements from time to time in the future with each of the Forward Purchasers. Upon entry into the 2021 Sales Agreement, we terminated the 2019 ATM Program.

During 2021 and 2020, the Trust's issuance and sale of common shares pursuant to the ATM Programs was as follows (in thousands, except common shares and price):

		2021			2020																			
	Common shares sold	Weighted average price		0		0		0		0		Net proceeds		9		Common shares sold	<b>g</b>		9					Net proceeds
Quarterly period ended March 31	2,887,296	\$	18.32	\$	52,358	12,352,700	\$	19.57	\$	239,337														
Quarterly period ended June 30	4,532,343		18.39		82,519	5,543,066		18.07		99,138														
Quarterly period ended September 30	_		_		_	78,194		18.52		1,433														
Quarterly period ended December 31	7,236,439		18.54		132,824	1,306,531		18.44		23,848														
Year ended December 31	14,656,078	\$	18.45	\$	267,701	19,280,491	\$	19.06	\$	363,756														

As of February 15, 2022, the Trust had \$326.3 million remaining available under the 2021 ATM Program.

# Note 2. Summary of Significant Accounting Policies

# Principles of Consolidation

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

For property holding entities not determined to be VIEs, the Company consolidates such entities in which the Operating Partnership owns 100% of the equity or has a controlling financial interest evidenced by ownership of a majority voting interest. All intercompany balances and transactions are eliminated in consolidation.

# Noncontrolling Interests

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

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

During the year ended December 31, 2021, the Operating Partnership issued 6,561,521 OP Units valued at approximately \$116.5 million on the date of issuance to partially fund the acquisition of a portfolio. The portfolio had a total aggregate purchase price of approximately \$750.0 million.

During the year ended December 31, 2020, the Operating Partnership issued 167,779 OP Units valued at approximately \$3.1 million on the date of issuance to partially fund one property acquisition. The acquisition had a total aggregate purchase price of approximately \$32.4 million.

As of December 31, 2021 and 2020, the Trust held a 95.0% and 97.3% interest in the Operating Partnership, respectively. As the sole general partner and the majority interest holder, the Trust consolidates the financial position and results of operations of the Operating Partnership.

Holders of OP Units may not transfer their 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 to the respective holders, OP Unit holders may tender their units for redemption by the Operating Partnership in exchange for cash equal to the market price of the Trust's common shares at the time of redemption or for unregistered common shares on a one-for-one basis. Such selection to pay cash or issue common shares to satisfy an OP Unit holder's redemption request is solely within the control of the Trust. Accordingly, the Trust presents the OP Units of the Operating Partnership held by investors other than the Trust as noncontrolling interests within equity in the consolidated balance sheets.

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

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

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

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

On January 9, 2018, the Hazelwood Medical Commons Transaction was partially funded with the issuance of 104,172 Series A Preferred Units, with a value of \$22.7 million. In connection with the Hazelwood Medical Commons Transaction, the Operating Partnership agreed to pay additional purchase consideration under an earn-out agreement with the seller if certain lease-up requirements were achieved before January 8, 2023. On June 19, 2019, the Operating Partnership funded, with the issuance of 8,529 Series A Preferred Units, an earn-out payment valued at \$1.9 million on the date of issuance. On August 1, 2019, the Operating Partnership funded, with the issuance of 3,409 Series A Preferred Units, a second earn-out payment valued at \$0.7 million on the date of issuance. Both of these earn-out payments were capitalized to the cost basis of the property. As of December 31, 2020, there were 116,110 Series A Preferred Units outstanding. On January 4, 2021, all of these Series A Preferred Units were redeemed for a total value of \$25.3 million.

On December 20, 2021, the Company completed the acquisition of a 14 medical office building portfolio for an aggregate purchase price of approximately \$750.0 million (the "Landmark Portfolio"). The Landmark Portfolio was partially funded through an aggregate 672,978 Series A Preferred Units valued at approximately \$146.5 million on the date of issuance. On December 28, 2021, all of the Series A Preferred Units were redeemed for a total value of \$146.5 million and as a result of this redemption, there are no Series A Preferred Units outstanding as of December 31, 2021.

In connection with the Company's acquisitions of the medical office building, ambulatory surgery center, and hospital located on the Great Falls Hospital campus in Great Falls, Montana, physicians affiliated with the sellers retained non-controlling interests which may, at the holders' option, be redeemed at any time after May 1, 2023. Due to the redemption provision, which is outside of the control of the Trust, the Trust classifies the investment in the mezzanine section of its consolidated balance sheets. The Trust records the carrying amount of the redeemable noncontrolling interests at the greater of the carrying value or redemption value. The value of the Company's redeemable noncontrolling interests as of December 31, 2021 and December 31, 2020 is \$7.1 million and \$7.7 million, respectively.

Dividends and distributions for the years ended December 31, 2021, 2020, and 2019 are as follows:

<b>Declaration Date</b>	Record Date	Payment Date	n Dividend Share/Unit
December 22, 2021	January 4, 2022	January 18, 2022	\$ 0.23
September 22, 2021	October 4, 2021	October 15, 2021	\$ 0.23
June 18, 2021	July 2, 2021	July 16, 2021	\$ 0.23
March 19, 2021	April 2, 2021	April 16, 2021	\$ 0.23
December 18, 2020	January 5, 2021	January 20, 2021	\$ 0.23
September 21, 2020	October 2, 2020	October 16, 2020	\$ 0.23
June 18, 2020	July 2, 2020	July 17, 2020	\$ 0.23
March 19, 2020	April 2, 2020	April 16, 2020	\$ 0.23
December 20, 2019	January 3, 2020	January 17, 2020	\$ 0.23
September 20, 2019	October 3, 2019	October 18, 2019	\$ 0.23
June 21, 2019	July 3, 2019	July 18, 2019	\$ 0.23
March 22, 2019	April 3, 2019	April 18, 2019	\$ 0.23

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

# Tax Status of Dividends and Distributions

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

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

The following table sets forth the federal income tax status of distributions per common share and OP Unit for the periods presented:

	Year Ended December 31,								
		2021		2020		2019			
Per common share and OP Unit:									
Ordinary dividends	\$		\$		\$				
Section 199A Qualified REIT Dividend		0.4856		0.4798		0.4035			
Qualified dividends				_		_			
Capital gain distributions		_		_		0.0003			
Non-dividend distributions		0.4344		0.4402		0.5162			
Total	\$	0.9200	\$	0.9200	\$	0.9200			

# Purchases of Investment Properties

With the adoption of ASU 2017-01 in January 2018, the Company's acquisitions of investment properties and the majority of its future investments will be accounted for as asset acquisitions and will result in the capitalization of acquisition costs. The purchase price, inclusive of acquisition costs, will be allocated to tangible and intangible assets and liabilities based on their relative fair values. Tangible assets primarily consist of land and buildings and improvements. Intangible assets primarily consist of above-market or below-market leases, in-place leases, above-market or below-market debt assumed, right-of-use assets, and lease liabilities. Any future contingent consideration will be recorded when the contingency is resolved. The determination of the fair value requires the Company to make certain estimates and assumptions.

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

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

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

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

Based on these estimates, the Company recognizes the acquired assets and assumed liabilities based on their estimated fair values, which are generally determined using Level 3 inputs, such as market rental rates, capitalization rates, discount rates, or other available market data.

The Company periodically evaluates its long-lived assets, primarily consisting of investments in real estate, for impairment indicators or whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate properties in relation to the undiscounted expected future cash flows of the underlying operations. In performing this evaluation, management considers market conditions and current intentions with respect to holding or disposing of the real estate property. The evaluation of anticipated cash flows is subjective and is based on assumptions regarding future occupancy, lease rates, and cap rates that could differ materially from actual results. The Company adjusts the net book value of real estate properties to fair value if the sum of the expected future undiscounted cash flows, including sales proceeds, is less than book value. The Company recognizes an impairment loss at the time it makes any such determination. If the Company determines that an asset is impaired, the impairment to be recognized is measured as the amount by which the recorded amount of the asset exceeds its fair value. Fair value is typically determined using a discounted future cash flow analysis or other acceptable valuation techniques which are based, in turn, upon Level 3 inputs, such as revenue and expense growth rates, capitalization rates, discount rates, or other available market data. With the adoption of ASU 2016-02, *Leases*, on January 1, 2019, the Company periodically evaluates the right-of-use assets for impairment as detailed above.

The Company recorded an impairment charge of \$0.3 million on one medical office building in Traverse City, Michigan during the year ended December 31, 2021. The Company recorded an impairment charge of \$4.9 million on one medical office building in Grand Rapids, Michigan during the year ended December 31, 2020. The Company did not record an impairment charge in the year ended December 31, 2019.

# Assets Held for Sale and Discontinued Operations

The Company may sell properties from time to time for various reasons, including favorable market conditions. The Company classifies certain long-lived assets as held for sale once the criteria, as defined by GAAP, has been met. The Company classifies a real estate property, or portfolio, as held for sale when: (i) management has approved the disposal, (ii) the property is available for sale in its present condition, (iii) an active program to locate a buyer has been initiated, (iv) it is probable that the property will be disposed of within one year, (v) the property is being marketed at a reasonable price relative to its fair value, and (vi) it is unlikely that the disposal plan will significantly change or be withdrawn. Following the classification of a property as "held for sale," no further depreciation or amortization is recorded on the assets and the assets are written down to the lower of carrying value or fair market value, less cost to sell. One property was classified as held for sale as of December 31, 2021 and no properties were classified as held for sale as of December 31, 2020, and dispositions during the years ended December 31, 2021, 2020, and 2019 did not qualify as discontinued operations.

# Investment in Unconsolidated Entities

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

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of its equity method investments may not be recoverable or realized. If indicators of potential impairment are identified, the Company evaluates its equity method investments for impairment based on a comparison of the fair value of the investment to its carrying value. The fair value is estimated based on discounted cash flows that include all estimated cash inflows and outflows over a specified holding period and any estimated debt premiums or discounts. If, based on this analysis, the Company does not believe that it will be able to recover the carrying value of its equity method investment, the Company would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of its equity method investment.

On October 31, 2019 the Company contributed an equity investment of \$8.9 million for an aggregate investment of \$26.5 million, which includes our pro-rata share of debt, to acquire a 49% membership interest in MedCore Realty Eden Hill, LLC ("Eden Hill Joint Venture"), which owns a 140,205 square foot medical office facility located in Dover, Delaware. On October 15, 2021, the Company completed the acquisition of the remaining 51% membership interest for approximately \$33.2 million.

On November 22, 2019 the Company contributed two properties valued at \$39.0 million and paid additional consideration of \$17.0 million for a 12.3% equity interest in the PMAK MOB JV REOC, LLC ("PMAK Joint Venture"). As of December 31, 2021 this joint venture owns 60 medical office facilities located in 19 states.

On December 11, 2020 and August 18, 2021 the Company contributed \$18.3 million and \$7.3 million, respectively, to acquire a membership interest in Davis Medical Investors, LLC ("Davis Joint Venture"). As of December 31, 2021, the Company holds a 49% membership interest in the Davis Joint Venture, which owns nine medical office facilities located in five states.

#### Real Estate Loans Receivable

Real estate loans receivable consists of 12 mezzanine loans, one construction loan, and two term loans as of December 31, 2021. Generally, each mezzanine loan is collateralized by an ownership interest in the respective borrower, each term loan is secured by a mortgage of a related medical office building, and the construction loan is secured by a mortgage on the land and improvements as constructed. Interest income on loans is recognized as earned based on the terms of the loans subject to evaluation of collectability risks and is included in the Company's consolidated statements of income. On a quarterly basis, the Company evaluates the collectability of its loan portfolio, including related interest income receivable, and establishes a reserve for loan losses, if necessary. For the year ended December 31, 2021, the Company's loan loss reserves are \$0.1 million. For the year ended December 31, 2020 the Company's loan loss reserves are \$0.2 million.

#### Cash and Cash Equivalents

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

#### Rental and Related Revenues

Rental revenue is recognized on a straight-line basis over the terms of the related leases when collectability is probable. Recognizing rental revenue on a straight-line basis for leases may result in recognizing revenue for amounts more or less than amounts currently due from tenants. Amounts recognized in excess of amounts currently due from tenants, excluding assets classified as held for sale, are included in other assets and were approximately \$95.4 million and \$86.6 million as of December 31, 2021 and December 31, 2020, respectively. If the Company determines that collectability of straight-line rents is not probable, income recognition is limited to the lesser of cash collected, or lease income reflected on a straight-line basis, plus variable rent when it becomes accruable.

In accordance with ASU 2016-02, *Leases*, Topic 842, if the collectability of a lease changes after the commencement date, any difference between lease income that would have been recognized and the lease payments shall be recognized as an adjustment to lease income. Bad debt recognized as an adjustment to rental revenues was \$0.4 million, \$0.5 million, and \$9.8 million for the years ended December 31, 2021, December 31, 2020, and December 31, 2019, respectively.

Rental revenue is adjusted by the amortization of lease inducements and above-market or below-market rents on certain leases. Lease inducements and above-market or below-market rents are amortized on a straight-line basis over the remaining lease term. Rental and related revenues also include expense recoveries, which relate to tenant reimbursement of real estate taxes, insurance, and other operating expenses that are recognized in the period the applicable expenses are incurred. The reimbursements are recorded gross, as these costs are incurred by the Company and reimbursed by the tenants. We have certain tenants with absolute net leases. Under these lease agreements, the tenant is responsible for operating and building expenses and we do not recognize expense recoveries.

#### Tenant Receivables, Net

Tenant receivables primarily represent amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to the Company's revenue recognition policy. The Company reviews receivables monthly and writes-off the remaining balance when, in the opinion of management, collection of substantially all remaining payments is not probable. When the Company determines substantially all remaining lease payments are not probable of collection, it recognizes a reduction of rental revenues and expense recoveries for all outstanding balances, including accrued straight-line rent receivables. Any subsequent receipts are recognized as rental revenues and expense recoveries in the period received. The adoption of ASC 842 resulted in an adjustment to the Company's opening accumulated deficit balance of \$0.2 million, associated with tenant receivables where collection of substantially all operating lease payments was not probable as of January 1, 2019.

#### Derivative Instruments

When the Company has derivative instruments embedded in other contracts, it records them either as an asset or a liability measured at their fair value unless they qualify for a normal purchase or normal sale exception. When specific hedge accounting criteria are not met or if the Company does not elect to apply for hedge accounting, changes in the Company's derivative instruments' fair value are recognized currently in earnings. As a result of the Company's adoption of ASU 2017-12 as of January 1, 2019, if hedge accounting is applied to a derivative instrument, the entire change in the fair value of its derivatives designated and qualified as cash flow hedges are recorded in accumulated other comprehensive income ("AOCI") on the consolidated balance sheets and are subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings.

To manage interest rate risk for certain of its variable-rate debt, the Company uses interest rate swaps as part of its risk management strategy. These derivatives are designed to mitigate the risk of future interest rate increases by providing a fixed interest rate for a limited, pre-determined period of time. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of December 31, 2021, the Company had one outstanding interest rate swap, designated as a cash flow hedge of interest rate risk. Further detail is provided in Note 7 (Derivatives).

#### Income Taxes

The Trust elected to be taxed as a REIT for federal tax purposes commencing with the filing of its tax return for the short taxable year ending December 31, 2013. The Trust had no taxable income prior to electing REIT status. To qualify as a REIT, the Trust must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its shareholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Trust generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its shareholders. If the Trust fails to qualify as a REIT in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the Internal Revenue Service grants the Trust relief under certain statutory provisions. Such an event could materially adversely affect the Trust's net income and net cash available for distribution to shareholders. However, the Trust intends to continue to operate in such a manner as to continue qualifying for treatment as a REIT. Although the Trust continues to qualify for taxation as a REIT, in various instances, the Trust is subject to state and local taxes on its income and property, and federal income and excise taxes on its undistributed income.

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

# Management Estimates

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

#### Commitments

Certain of the Company's acquisitions provide for additional consideration to the seller in the form of an earn-out associated with lease-up contingencies. The Company recognizes the earn-out related to asset acquisitions only if certain parameters or other substantive contingencies are met, at which time the consideration becomes payable.

Certain of the Company's leases also provide for consideration available to tenants as a tenant improvement allowance. Based on existing leases as of December 31, 2021, committed but unspent tenant related obligations were \$77.7 million.

#### Related Parties

The Company recognized rental revenues totaling \$7.9 million in 2021, \$7.5 million in 2020, and \$8.0 million in 2019 from Baylor Scott and White Health. The Company recognized rental revenues totaling \$0.6 million in 2021, 2020, and 2019 from Advocate Aurora Health. Both are health care systems affiliated with certain members of the Trust's Board of Trustees.

# Segment Reporting

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

# New Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which changes the impairment model for most financial instruments by requiring companies to recognize an allowance for expected losses, rather than incur losses as required currently by the other-than-temporary impairment model. ASU 2016-13 will apply to most financial assets measured at amortized cost and certain other instruments, including certain receivables, loans, held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures (e.g., loan commitments). ASU 2016-13 requires that financial statement assets measured at an amortized cost be presented at the net amount expected to be collected through an allowance for credit losses that is deducted from the amortized cost basis. ASU 2018-19, *Codification Improvements to Topic 320*, *Financial Instruments - Credit Losses*, clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of these receivables should be accounted for in accordance with Topic 842, Leases. ASU 2016-13 and ASU 2018-19 are effective for reporting periods beginning after December 15, 2019 and are applied as a cumulative adjustment to retained earnings as of January 1, 2020. The Company adopted ASU 2016-13 on January 1, 2020, with no material effect on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement; Changes to the Disclosure Requirements for Fair Value Measurements, which modifies the disclosure requirements on fair value measurements in Topic 820 as follows: (a) disclosure removals: (i) the amount of and reasons for transfers between Level 1 and Level 2; (ii) the policy for timing of transfers between levels; and (iii) the valuation process for Level 3 fair value measurements; (b) disclosure modifications: (i) no requirement to disclose the timing of liquidation unless the investee has communicated the timing to the reporting entity or announced the timing publicly; and (ii) for Level 3 fair value measurements, a narrative description of measurement uncertainty at the reporting date, not the sensitivity to future changes; and (c) disclosure additions: (i) for recurring Level 3 measurements, disclose the changes in unrealized gains and losses for the period included in OCI and the statement of comprehensive income; and (ii) for Level 3 fair value measurements in the table of significant input, disclose the range and weighted average of the significant unobservable inputs and the way it is calculated. The Company adopted ASU 2018-13 on January 1, 2020, with no material effect on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, that provides optional relief to applying reference rate reform to changing reference rates, contracts, hedging relationships, and other transactions that reference LIBOR, which has been discontinued at the end of 2021. The amendments in this update are effective immediately and may be applied through December 31, 2022. The Company will continue to use published LIBOR rates through June of 2023 at which time the Company does not expect the replacement benchmark to have a material impact on the Company's consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20)* and *Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The ASU is part of the FASB's simplification initiative, which aims to reduce unnecessary complexity in U.S. GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021, with early adoption permitted. The Company adopted ASU 2020-06 on January 1, 2022, with no material effect on its consolidated financial statements.

# Note 3. Investment and Disposition Activity

During 2021, the Company completed the acquisition of 24 operating health care properties, which includes the remaining 51% membership interest in the Eden Hill Joint Venture, and three medical condominium units located in 14 states, for an aggregate purchase price of approximately \$973.2 million, excluding the conversion of a previously outstanding construction loan of \$15.5 million. The Company also paid \$0.3 million of additional purchase consideration on one property

under an earn-out agreement. Additionally, the Company funded three mezzanine loans for \$8.9 million, and closed on a \$10.5 million construction loan, funding \$7.3 million as of December 31, 2021. The Company also acquired membership interests in one joint venture for approximately \$7.3 million, resulting in total investment activity of approximately \$997.0 million. As part of these investments, the Company incurred approximately \$5.9 million of capitalized transaction costs.

Investment activity for the year ending December 31, 2021 is summarized below:

Investment		Location	Acquisition Date	Investment Amount (in thousands)
Earnout - TOPA Fort Worth MOB		Fort Worth, TX	January 11, 2021	\$ 298
AdventHealth Wesley Chapel MOB II		Wesley Chapel, FL	April 21, 2021	35,251
TOPA Denton	(1)	Denton, TX	June 11, 2021	_
InterMed MOB - Davis Joint Venture	(2)	Portland, ME	August 18, 2021	7,291
Atkins Portfolio (5 MOBs)		Various	August 30, 2021	54,090
HonorHealth - Sonoran MOB		Phoenix, AZ	September 23, 2021	31,750
Eden Hill Medical Center	(3)	Dover, DE	October 15, 2021	33,180
HonorHealth - Neuroscience Institute		Scottsdale, AZ	October 27, 2021	67,250
Landmark Portfolio (14 MOBs)	(4)	Various	December 20, 2021	750,000
Atlanta Medical Condominium Investment		Atlanta, GA	Various	1,653
Loan Investments		Various	Various	16,214
				\$ 996,977

- (1) The Company funded this investment through the conversion and satisfaction of a previously outstanding construction loan of \$15.5 million.
- (2) The Company purchased a 49% membership interest in this property through the Davis Joint Venture.
- (3) The Company purchased the remaining 51% membership interest in the MedCore Realty Eden Hill, LLC joint venture, and as of December 31, 2021 owns 100% of this property.
- (4) This portfolio was funded through an aggregate 6,561,521 OP Units and 672,978 Series A Preferred Units issued by the Operating Partnership valued at approximately \$116.5 million and \$146.5 million, respectively, on the date of issuance. The Company also financed an aggregate \$100.0 million through three new mortgages and paid \$386.3 million of cash. On December 28, 2021, all of the Series A Preferred Units were redeemed for a total value of \$146.5 million and as a result of this redemption, there are no Series A Preferred Units outstanding.

During 2021, the Company recorded revenues and net loss of \$8.7 million and \$1.3 million, respectively, from its 2021 acquisitions.

During 2020, the Company completed acquisitions of seven operating health care properties located in six states, for an aggregate purchase price of approximately \$74.5 million, excluding the conversion of a previously outstanding term loan of \$47.0 million and the satisfaction of one construction loan of \$29.1 million. The Company also paid \$1.1 million of additional purchase consideration on two properties under earn-out agreements and acquired one land parcel through the conversion and satisfaction of a previously outstanding term loan for \$0.2 million. Additionally, the Company funded twelve mezzanine loans for \$79.6 million, one term loan for \$10.0 million, \$25.4 million of previous construction loan commitments, which includes the final funding on the Denton and Sacred Heart ASC construction loans, and an additional \$0.3 million to an existing term loan. The Company also acquired a membership interest in one joint venture for approximately \$18.3 million, resulting in total investment activity of approximately \$209.3 million. As part of these investments, we incurred approximately \$1.3 million of capitalized costs.

Investment activity for the year ending December 31, 2020 is summarized below:

Investment		Location	Acquisition Date	chase Price thousands)
El Paso, Texas Land	(1)	El Paso, TX	January 17, 2020	\$ 215
Westerville MOB		Westerville, OH	February 28, 2020	10,683
TOPA Fort Worth	(2)	Fort Worth, TX	March 16, 2020	1,500
Ascension St. Vincent Cancer Center		Newburgh, IN	September 11, 2020	21,085
Health Center at Easton		Easton, PA	November 23, 2020	15,775
Hartford HealthCare Cancer Center		Manchester, CT	December 8, 2020	16,855
Davis Joint Venture	(3)	Various	December 11, 2020	18,252
Sacred Heart Summit Medical Office and ASC	(4)	Pensacola, FL	December 18, 2020	3,264
Westerville II MOB		Westerville, OH	December 23, 2020	5,350
Landmark Mezzanine Loan Portfolio		Various	Various	54,250
Loan Investments		Various	Various	60,971
Earn-out Investments	(5)	Various	Various	1,136
				\$ 209,336

- (1) This investment was funded through the conversion and satisfaction of a previously outstanding term loan of \$1.3 million and additional cash consideration of \$0.2 million.
- (2) This investment was funded through the conversion and satisfaction of a previously outstanding term loan of \$47.0 million and additional cash consideration of \$1.5 million.
- (3) The Company purchased a 49% membership interest in this joint venture.
- (4) This investment was funded through the conversion and satisfaction of a previously outstanding construction loan of \$29.1 million and additional consideration of \$3.3 million consisting of an aggregate 167,779 OP Units issued by the Operating Partnership valued at approximately \$3.1 million on the date of issuance and \$0.2 million of cash.
- (5) The Company completed the settlement of acquisitions related earn-out payments upon execution of leases at two properties. All earn-out payments are considered to be additional purchase price upon each respective property.

For 2020, the Company recorded revenues and net income of \$5.3 million and \$0.7 million, respectively, from its 2020 acquisitions.

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

	December 31, 2021			ecember 31, 2020
Land	\$	15,497	\$	8,841
Building and improvements		840,591		128,594
In-place lease intangibles		90,336		18,165
Above market in-place lease intangibles		13,804		118
Below market in-place lease intangibles		(16,326)		(1,962)
Right-of-use asset		100,589		444
Receivables		_		140
Prepaid expenses		129		(771)
Lease liability		(39,400)		
Net assets acquired (1)	\$	1,005,220	\$	153,569
Issuance of Series A Preferred Units		(146,541)		_
Issuance of OP Units		(116,467)		(3,067)
Satisfaction of real estate loans receivable and conversion of JV interest		(24,033)		(77,462)
Cash used in acquisition of investment property	\$	718,179	\$	73,040

<sup>(1)</sup> Net assets acquired does not include acquisition credits of \$6.8 million for the year ended December 31, 2021 and \$1.0 million for the year ended December 31, 2020, which consist primarily of future tenant improvements and capital expenditure commitments received as credits at the time of acquisition.

# Dispositions

For the year ended December 31, 2021, the Company sold seven properties and five adjacent parcels of vacant land located in five states for approximately \$94.4 million and recognized a net gain of approximately \$24.2 million.

For the year ended December 31, 2020, the Company sold two medical office buildings for approximately \$20.5 million and recognized a net gain on the sales of approximately \$5.8 million.

# Note 4. Intangibles

The following is a summary of the carrying amount of intangible assets and liabilities, excluding the asset classified as held for sale, as of December 31, 2021 and 2020 (in thousands):

	<b>December 31, 2021</b>					December 31, 2020				
	Cost	Accumulated Amortization		Net		Cost		cumulated nortization		Net
Assets										
In-place leases	\$ 441,072	\$ (201,885)	\$	239,187	\$	362,837	\$	(173,862)	\$	188,975
Above-market leases	57,149	(24,437)		32,712		43,386		(20,670)		22,716
Liabilities										
Below-market lease	\$ 32,155	\$ (10,585)	\$	21,570	\$	15,882	\$	(9,241)	\$	6,641

The following is a summary of the Company's acquired lease intangible amortization for the years ended December 31, 2021, 2020, and 2019 (in thousands):

	December 31,					
	2021 2020				2019	
Amortization expense related to in-place leases	\$ 34,570	\$	34,691	\$	35,984	
Decrease of rental income related to above-market leases	3,808		3,846		4,354	
Increase of rental income related to below-market leases	1,398		1,417		1,886	

For the year ended December 31, 2021, the Company wrote off in-place lease assets of approximately \$1.3 million with accumulated amortization of \$0.9 million, for a net loss of approximately \$0.4 million.

Future aggregate net amortization of the Company's acquired lease intangibles, excluding one asset classified as held for sale, as of December 31, 2021, is as follows (in thousands):

	ecrease in evenue	Ne	t Increase in Expenses
2022	\$ 2,846	\$	43,256
2023	2,426		39,434
2024	2,231		34,011
2025	1,701		28,248
2026	565		21,342
Thereafter	 1,373		72,896
Total	\$ 11,142	\$	239,187

For the year ended December 31, 2021, the weighted average amortization periods for asset lease intangibles and liability lease intangibles are 8 years and 9 years, respectively. Further detail is provided in Note 2 (Summary of Significant Accounting Policies).

# **Note 5. Other Assets**

Other assets consisted of the following, excluding the asset classified as held for sale if applicable, as of December 31, 2021 and 2020 (in thousands):

	December 31,						
	2021 2020						
Straight-line rent receivable, net	\$ 95,443	\$	86,551				
Leasing commissions, net	11,627		9,282				
Prepaid expenses	8,910		9,401				
Lease inducements, net	8,293		9,396				
Escrows	1,780		1,507				
Notes receivable, net	1,097		23,760				
Other	4,434		4,103				
Total	\$ 131,584	\$	144,000				

Note 6. Debt

The following is a summary of debt as of December 31, 2021 and 2020 (in thousands):

	Decem	ber 3	1,
	2021		2020
Fixed interest mortgage notes (1)	\$ 75,395	\$	51,896
Variable interest mortgage note (2)	105,629		6,105
Total mortgage debt	181,024		58,001
\$1.0 billion unsecured revolving credit facility bearing variable interest, due September 2025 (3)	274,000		166,000
\$400 million senior unsecured notes bearing fixed interest of 4.30%, due March 2027	400,000		400,000
\$350 million senior unsecured notes bearing fixed interest of 3.95%, due January 2028	350,000		350,000
\$500 million senior unsecured notes bearing fixed interest of 2.625%, due November 2031	500,000		_
\$250 million unsecured term borrowing bearing fixed interest, due June 2023 (4)			250,000
150 million senior unsecured notes bearing fixed interest of 4.03% to 4.74%, due January 2023 to 2031	150,000		150,000
\$75 million senior unsecured notes bearing fixed interest of 4.09% to 4.24%, due August 2025 to 2027	75,000		75,000
Total principal	1,930,024		1,449,001
Unamortized deferred financing costs	(9,694)		(5,369)
Unamortized discounts	(8,423)		(4,855)
Unamortized fair value adjustments	11		73
Total debt	\$ 1,911,918	\$	1,438,850

- (1) As of December 31, 2021, fixed interest mortgage notes bear interest from 3.33% to 4.83%, due in 2022 and 2024, with a weighted average interest rate of 4.05%. As of December 31, 2020, fixed interest mortgage notes bear interest from 4.63% and 5.50%, due in 2021, 2022, and 2024, with a weighted average interest rate of 4.78%. The notes are collateralized by three properties with a net book value of \$151.9 million as of December 31, 2021 and four properties with a net book value of \$110.3 million as of December 31, 2020. As of December 31, 2021, one mortgage bears interest at LIBOR + 1.90% and the Trust entered into a pay-fixed receive-variable interest rate swap, fixing the LIBOR component of this rate at 1.43%.
- (2) Variable interest mortgage notes bear variable interest of LIBOR plus 2.75% and SOFR plus 1.85% for a weighted average interest rate of 1.95% as of December 31, 2021. Variable interest mortgage note bears variable interest of LIBOR plus 2.75%, for an interest rate of 2.90% as of December 31, 2020. The notes are collateralized by four properties with a net book value of \$307.2 million as of December 31, 2021 and one property with a net book value of \$8.3 million as of December 31, 2020.
- (3) As of December 31, 2021, the unsecured revolving credit facility bears variable interest of LIBOR plus 0.85%. As of December 31, 2020, the unsecured revolving credit facility had a variable interest rate of LIBOR plus 0.90%.
- (4) As of December 31, 2020, the term loan feature of the Credit Agreement bears interest at a rate equal to LIBOR + 1.00%. The Trust had entered into a pay-fixed receive-variable interest rate swap, fixing the LIBOR component of this rate at 1.07%.

On September 24, 2021, the Operating Partnership, as borrower, and the Trust, as guarantor, executed a Third Amended and Restated Credit Agreement (the "Credit Agreement") which extended the maturity date of the revolving credit facility under the Credit Agreement to September 24, 2025 and reduced the interest rate margin applicable to borrowings. The Credit Agreement includes an unsecured revolving credit facility of \$1.0 billion and contains a term loan feature of \$250.0 million, bringing total borrowing capacity to \$1.3 billion. The Credit Agreement also includes a swingline loan commitment for up to 10% of the maximum principal amount and provides an accordion feature allowing the Operating Partnership to increase borrowing capacity by up to an additional \$500.0 million, subject to customary terms and conditions, resulting in a maximum borrowing capacity of \$1.75 billion. The revolving credit facility under the Credit Agreement also includes two, six-month extension options.

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, 2021, the Trust had investment grade ratings of Baa2 from Moody's, BBB from S&P, and BBB from Fitch. As such, borrowings under the

revolving credit facility of the Credit Agreement accrue interest on the outstanding principal at a rate of LIBOR + 0.85%. The Credit Agreement includes a facility fee equal to 0.20% per annum as of December 31, 2021, which is also determined by the Trust's investment grade rating.

On July 7, 2016, the Operating Partnership borrowed \$250.0 million under the 7-year term loan feature of the Credit Agreement. Pursuant to the credit agreement, borrowings under the term loan feature of the Credit Agreement bear interest on the outstanding principal amount at a rate which is determined by the Trust's credit rating, currently equal to LIBOR + 1.00%. The Trust simultaneously entered into a pay-fixed receive-variable rate swap for the full borrowing amount, fixing the LIBOR component of the borrowing rate to 1.07%, for a current all-in fixed rate of 2.07%. Both the borrowing and pay-fixed receive-variable swap had a maturity date of June 10, 2023.

On October 13, 2021, the Company used the proceeds from the senior notes to pay off the \$250.0 million term loan feature of the Credit Agreement. As defined by the Credit Agreement, the term loan feature is no longer available to the Company. The Operating Partnership simultaneously terminated the existing pay-fixed receive-variable rate swaps associated with the full term loan borrowing of \$250.0 million. As part of the termination, the Company made total cash payments of \$3.3 million to the counterparties of the swap agreements.

Base Rate Loans, Adjusted LIBOR Rate Loans, and Letters of Credit (each, as defined in the Credit Agreement) will be subject to interest rates, based upon the Trust's investment grade rating as follows:

Credit Rating	Applicable Margin for Revolving Loans: LIBOR Rate Loans and Letter of Credit Fee	Applicable Margin for Revolving Loans: Base Rate Loans	Applicable Margin for Term Loans: LIBOR Rate Loans and Letter of Credit Fee	Applicable Margin for Term Loans: Base Rate Loans
At Least A- or A3	LIBOR + 0.725%	<u> </u>	LIBOR + 0.85%	<u> </u>
At Least BBB+ or Baa1	LIBOR $+ 0.775\%$	%	LIBOR + 0.90%	— %
At Least BBB or Baa2	LIBOR + 0.85%	<u> </u>	LIBOR + 1.00%	— %
At Least BBB- or Baa3	LIBOR + 1.05%	0.05 %	LIBOR + 1.25%	0.25 %
Below BBB- or Baa3	LIBOR + 1.40%	0.40 %	LIBOR + 1.65%	0.65 %

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, grant liens, or make distributions. The Company may, at any time, voluntarily prepay any revolving or term loan under the Credit Agreement in whole or in part without premium or penalty. As of December 31, 2021, the Company was in compliance with all financial covenants related to the Credit Agreement.

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

As of December 31, 2021, the Company had \$274.0 million of borrowings outstanding under its unsecured revolving credit facility. As defined by the Credit Agreement, the unencumbered borrowing base as of December 31, 2021 allows the Company to borrow an additional \$726.0 million is available to borrow without adding additional properties to the unencumbered borrowing base of assets or exercising our accordion feature.

#### Notes Pavable

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

On August 11, 2016, the Operating Partnership issued and sold \$75.0 million aggregate principal amount of senior notes, comprised of (i) \$25.0 million aggregate principal amount of 4.09% Senior Notes, Series A, due August 11, 2025, (ii)

\$25.0 million aggregate principal amount of 4.18% Senior Notes, Series B, due August 11, 2026, and (iii) \$25.0 million aggregate principal amount of 4.24% Senior Notes, Series C, due August 11, 2027. Interest on each respective series of the August 2016 Senior Notes is payable semi-annually.

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

On December 1, 2017, the Operating Partnership issued and sold \$350.0 million aggregate principal amount of 3.95% Senior Notes which will mature on January 15, 2028. The Senior Notes were sold at an issue price of 99.78% of their face value, before the underwriters' discount. The Company's net proceeds from the offering, after deducting underwriting discounts and expenses, were approximately \$347.0 million.

On October 13, 2021, the Operating Partnership issued and sold \$500.0 million aggregate principal amount of 2.625% Senior Notes which will mature on November 1, 2031. The Senior Notes were sold at an issue price of 99.79% of their face value, before the underwriters' discount. The Company's net proceeds from the offering, after deducting underwriting discounts and expenses, were approximately \$495.1 million.

Certain properties have mortgage debt that contains financial covenants. As of December 31, 2021, the Trust was in compliance with all senior notes and mortgage debt financial covenants.

Scheduled principal payments due on debt as of December 31, 2021, are as follows (in thousands):

2022	\$ 16,094
2023	16,008
2024	59,719
2025	299,476
2026	170,476
Thereafter	 1,368,251
<b>Total Payments</b>	\$ 1,930,024

As of December 31, 2021 and 2020, the Company had total consolidated indebtedness of approximately \$1.9 billion and \$1.4 billion, respectively. The weighted average interest rate on consolidated indebtedness was 3.20% as of December 31, 2021 (based on the 30-day LIBOR rate of 0.10% and a SOFR rate of 0.05% as of December 31, 2021). The weighted average interest rate on consolidated indebtedness was 3.49% as of December 31, 2020 (based on the 30-day LIBOR rate as of December 31, 2020 of 0.15%).

#### Note 7. Derivatives

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

When specific hedge accounting criteria are not met, ASC 815 requires that changes in a derivative's fair value be recognized currently in earnings. Changes in the fair market values of the Company's derivative instruments are recorded in the consolidated statements of income if such derivatives do not qualify for, or the Company does not elect to apply for, hedge accounting. As a result of the Company's adoption of ASU 2017-12 as of January 1, 2019, the entire change in the fair value of its derivatives designated and qualified as cash flow hedges are recorded in accumulated other comprehensive income on the consolidated balance sheets and are subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings. Additionally, as a result of the adoption ASU 2017-12, the Company no longer discloses the ineffective portion of the change in fair value of its derivatives financial instruments designated as hedges.

To manage interest rate risk for certain of its variable-rate debt, the Company uses interest rate swaps as part of its risk management strategy. These derivatives are designed to mitigate the risk of future interest rate increases by providing a fixed interest rate for a limited, pre-determined period of time. Interest rate swaps designated as cash flow hedges involve the receipt

of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of December 31, 2021, the Company had one outstanding interest rate swap contract designated as a cash flow hedge of interest rate risk. See Note 2 (Summary of Significant Accounting Policies) for a further discussion of the Company's derivatives.

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

Total notional amount	\$	36,050
Effective fixed interest rate	(1)	3.33 %
Effective date		10/31/2019
Maturity date		10/31/2024
Liability balance at December 31, 2021 (included in Accrued expenses and other liabilities)	\$	452
Liability balance at December 31, 2020 (included in Accrued expenses and other liabilities)	\$	_

<sup>(1) 1.43%</sup> effective swap rate plus 1.90% spread per the loan agreement.

As of December 31, 2020, the Company had five outstanding interest rate swap contracts that were designated as cash flow hedges of interest rate risk. For presentational purposes, they were shown as one derivative due to the identical nature of their economic terms. The five outstanding interest rate swaps had an aggregate fair value of \$5.3 million and were shown in Accrued expenses and other liabilities on our consolidated balance sheets as of December 31, 2020. On October 13, 2021, the Company terminated the interest rate swap contracts, de-designated them as hedging instruments, and reclassified the balance to earnings.

#### Note 8. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following as of December 31, 2021 and 2020 (in thousands):

	December 31,				
		2021		2020	
Real estate taxes payable	\$	23,487	\$	23,436	
Prepaid rent		22,714		22,248	
Accrued interest		18,799		16,009	
Accrued expenses		5,960		5,721	
Security deposits		4,234		3,714	
Tenant improvement allowances		1,857		1,917	
Accrued incentive compensation		1,784		1,945	
Interest rate swap		452		5,317	
Embedded derivative		_		4,944	
Other		6,967		6,678	
Total	\$	86,254	\$	91,929	

#### Note 9. Stock-based Compensation

The Company follows ASC 718, *Compensation - Stock Compensation* ("ASC 718"), in accounting for its share-based payments. This guidance requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. This cost is recognized as compensation expense ratably over the employee's requisite service period. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred. Share-based payments classified as liability awards are marked to fair value at each reporting period. Any common shares issued pursuant to the Company's incentive equity compensation and employee stock purchase plans will result in the Operating Partnership issuing OP Units to the Trust on a one-for-one basis, with the Operating Partnership receiving the net cash proceeds of such issuances.

Certain of the Company'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 Company's determination of the amount of stock compensation expense requires judgment in estimating the

probability of achievement of these performance targets. 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 shares available for awards for participants. On April 30, 2019, at the Annual Meeting of Shareholders of Physicians Realty Trust, the Trust's shareholders approved the Amended and Restated Physicians Realty Trust 2013 Equity Incentive Plan ("2013 Plan"). The amendment increased the number of common shares authorized for issuance under the 2013 Plan to a total of 7,000,000 common shares authorized for issuance. The 2013 Plan term was also extended to 2029.

#### Restricted Common Shares:

Restricted common shares granted under the 2013 Plan are eligible for dividends as well as the right to vote. During 2019, the Trust granted a total of 194,413 restricted common shares with a total value of \$3.5 million to the Company's officers and certain of its employees, which have a one-year vesting period for senior management award-recipients and a three-year vesting period for employee award-recipients. During 2020, the Trust granted a total of 190,418 restricted common shares with a total value of \$3.6 million to the Company's officers and certain of its employees, which have a one-year vesting period for senior management award-recipients and a three-year vesting period for employee award-recipients. During 2021, the Trust granted a total of 224,163 restricted common shares with a total value of \$3.9 million to the Company's officers and certain of its employees, which have a one-year vesting period for senior management award-recipients and a three-year vesting period for employee award-recipients.

The following is summary of the status of the Trust's non-vested restricted common shares during 2021, 2020, and 2019:

	Common Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2018	225,139	\$ 15.29
Granted	194,413	17.80
Vested	(200,104)	15.13
Forfeited	(2,571)	16.96
Non-vested at December 31, 2019	216,877	17.67
Granted	190,418	19.00
Vested	(189,642)	17.81
Forfeited	(1,831)	16.80
Non-vested at December 31, 2020	215,822	18.73
Granted	224,163	17.42
Vested	(185,968)	18.94
Forfeited	(6,570)	18.05
Non-vested at December 31, 2021	247,447	\$ 17.41

For all service awards, the Company records compensation expense for the entire award on a straight-line basis over the requisite service period. For the years ended December 31, 2021, 2020, and 2019 the Company recognized non-cash share compensation of \$3.7 million, \$3.5 million, and \$3.3 million, respectively. Unrecognized compensation expense at December 31, 2021, 2020, and 2019 was \$1.4 million, \$1.3 million, and \$1.1 million, respectively.

#### Restricted Share Units:

In January 2021, under the 2013 Plan, the Company granted 13,343 restricted share units to certain of its trustees in lieu of all or a portion of such trustee's 2021 cash retainer. These units are subject to certain timing conditions and a one-year service period. Each restricted share unit contains one dividend equivalent. Each 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. With respect to the performance and timing conditions of the January 2021 grants, the grant date fair value of \$17.80 per unit was based on the share price at the date of grant.

In March 2021, March 2020, and March 2019 under the Trust's 2013 Plan, the Trust granted (i) restricted share units at a target level of 265,275, 223,579, and 229,884 respectively, to the Trust's management, which are subject to certain performance and market conditions and a three-year service periods and (ii) 43,582, 38,858, and 41,925 restricted share units, respectively, to the members of the Board of Trustees, which are subject to certain timing conditions and a two-year vesting period. In March 2020, 259,067 units were also granted to an officer subject to certain timing conditions and a five-year service period. 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.

Approximately 40%, 40%, and 50% of the restricted share units issued to the Trust's management in 2021, 2020, and 2019, respectively, vest based on certain market conditions. The market conditions were valued with the assistance of independent valuation specialists. The Company utilized a Monte Carlo simulation to calculate the weighted average grant date fair values of \$29.18 in 2021, \$31.95 in 2020, and \$32.65 in 2019 per unit, respectively, using the following assumptions:

	2021	2020	 2019
Volatility	33.3 %	20.1 %	21.8 %
Dividend assumption	reinvested	reinvested	reinvested
Expected term in years	2.8 years	2.8 years	2.8 years
Risk-free rate	0.25 %	0.84 %	2.53 %
Stock price (per share)	\$ 17.21	\$ 19.30	\$ 17.89

The remaining 60% of the restricted share units issued to the Trust's management in 2021, 60% issued to the Trust's management and 100% of the restricted share units issued to an officer in 2020, and 50% issued to the Trust's management in 2019, vest based upon certain performance or timing conditions. With respect to the performance conditions of the March 2021 grant, the grant date fair value of \$17.21 per unit was based on the share price at the date of grant. The combined weighted average grant date fair value of the March 2021 restricted share units issued to management is \$22.00 per unit. With respect to the performance and timing conditions of the March 2020 grant issued to the Trust's management, the grant date fair value of \$19.30 per unit was based on the share price at the date of grant. The combined weighted average grant date fair value of the March 2020 restricted share units issued to management is \$24.36 per unit. With respect to the performance conditions of the March 2019 grant, the grant date fair value of \$17.89 per unit was based on the share price at the date of grant. The combined weighted average grant date fair value of the March 2019 restricted share units issued to officers is \$25.27 per unit.

The following is a summary of the activity in the Trust's restricted share units during 2021, 2020, and 2019:

	Executive A	wards	Trustee Awards			
	Restricted Share Units	Weighted Average Grant Date Fair Value	Restricted Share Units	Weighted Average Grant Date Fair Value		
Non-vested at December 31, 2018	533,155	\$ 22.66	67,158	\$ 16.01		
Granted	229,884	25.27	41,925	17.89		
Vested	(104,553) (1)	26.33	(41,786)	16.75		
Forfeited	(3,734)	23.08				
Non-vested at December 31, 2019	654,752	22.99	67,297	16.72		
Granted	482,646	21.64	38,858	19.30		
Vested	(173,259) (2)	29.34	(46,335)	16.19		
Non-vested at December 31, 2020	964,139	21.17	59,820	18.81		
Granted	265,275	22.00	56,925	17.35		
Vested	(252,844) (3)	16.58	(53,737)	18.38		
Non-vested at December 31, 2021	976,570	\$ 22.59	63,008	\$ 17.85		

- (1) Restricted units vested by Company management in 2019 resulted in the issuance of 87,805 common shares, less 35,265 common shares withheld to cover minimum withholding tax obligations, for multiple employees.
- (2) Restricted units vested by Company management in 2020 resulted in the issuance of 147,765 common shares, less 65,513 common shares withheld to cover minimum withholding tax obligations, for multiple employees.
- (3) Restricted units vested by Company management in 2021 resulted in the issuance of 399,165 common shares, less 162,173 common shares withheld to cover minimum withholding tax obligations, for multiple employees.

The Company recognized \$11.2 million, \$8.9 million, and \$6.7 million of non-cash share unit compensation expense for the years ended December 31, 2021, 2020, and 2019, respectively. Unrecognized compensation expense at December 31, 2021, 2020, and 2019 was \$12.0 million, \$11.5 million, and \$5.8 million, respectively.

#### **Note 10. Fair Value Measurements**

ASC Topic 820, *Fair Value Measurement* ("ASC 820"), requires certain assets and liabilities be reported and/or disclosed at fair value in the financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Company 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. As part of the Company's acquisition process, Level 3 inputs are used to measure the fair value of the assets acquired and liabilities assumed.

The Company's derivative instruments as of December 31, 2021 consist of one interest rate swap, as detailed in the Derivative Instruments section of Note 2 (Summary of Significant Accounting Policies) and Note 7 (Derivatives).

The interest rate swap is not traded on an exchange. The Company's derivative assets and liabilities 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 Company measures its derivatives at fair value on a recurring basis. The fair values are based on Level 2 inputs described above. The Company considers its own credit risk, as well as the credit risk of its counterparties, when evaluating the fair value of its derivatives.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. This generally includes assets subject to impairment. There was one asset measured at fair value as of December 31, 2021 that had a previous carrying value of \$2.3 million. During the year ended December 31, 2021, the Company recorded an impairment charge of \$0.3 million related to a medical office building in Traverse City, Michigan. There was one asset measured at fair value as of December 31, 2020 that had a previous carrying value of \$5.4 million. During the year ended December 31, 2020, the Company recorded an impairment charge of \$4.9 million related to a medical office building in Grand Rapids, Michigan, one of the Company's original properties at the time of the IPO.

The carrying amounts of cash and cash equivalents, tenant receivables, payables, and accrued interest are reasonable estimates of fair value because of the short term maturities of these instruments. Fair values for real estate loans receivable and mortgage debt are estimated based on rates currently prevailing for similar instruments of similar maturities and are based primarily on Level 2 inputs.

As of December 31, 2021, the Company classified one property as held for sale. Upon classification as held for sale, the Company records the value of the asset at the lower of its carrying value or fair value, less costs to sell. Fair value is generally based on discounted cash flow analyses, which involves management's best estimate of market participants' holding period, market comparables, future occupancy levels, rental rates, capitalization rates, lease-up periods, and capital requirements. During 2021, the Company determined that the property's carrying value exceeded its fair value and therefore recorded an impairment for \$0.3 million. As such, the one property classified as held for sale is carried at fair value as of December 31, 2021.

The following table presents the fair value of the Company's financial instruments (in thousands):

	December 31,								
		20	21		2020				
		Carrying Fair Amount Value			Carrying Amount			Fair Value	
Assets:									
Real estate loans receivable, net	\$	117,844	\$	115,385	\$	198,800	\$	198,814	
Notes receivable, net	\$	1,097	\$	1,097	\$	23,760	\$	23,760	
Liabilities:									
Credit facility	\$	(274,000)	\$	(274,000)	\$	(416,000)	\$	(416,000)	
Notes payable	\$	(1,475,000)	\$	(1,554,802)	\$	(975,000)	\$	(1,063,367)	
Mortgage debt	\$	(181,035)	\$	(182,189)	\$	(58,074)	\$	(59,651)	
Derivative liabilities	\$	(452)	\$	(452)	\$	(10,261)	\$	(10,261)	

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#### **Note 11. Tenant Operating Leases**

The Company is a lessor of medical office buildings and other health care facilities. Leases have expirations from 2022 through 2043. As of December 31, 2021, the future minimum rental payments on non-cancelable leases, exclusive of expense recoveries and minimum rental payments and for the asset classified as held for sale, were as follows (in thousands):

2022	\$ 352,428
2023	345,261
2024	330,713
2025	310,611
2026	252,900
Thereafter	 904,910
Total	\$ 2,496,823

The following presents rental and related revenues for the years ended 2021, 2020, and 2019, of which expense recoveries represent our variable lease payments:

	2021		2020		2019
Rental revenues	\$ 324,839	\$	314,846	\$	303,264
Expense recoveries	 112,054		103,344		101,115
Rental and related revenues	\$ 436,893	\$	418,190	\$	404,379

#### Note 12. Rent Expense

The Company leases the rights to parking structures at two of its properties, the air in which one property occupies, and the land upon which 97 of its properties are located from third party landowners pursuant to separate leases. In addition, the Company has 10 corporate leases, primarily for office space.

The Company's leases include both fixed and variable rental payments and may also include escalation clauses and renewal options. These leases have terms of up to 93 years remaining, excluding extension options, with a weighted average remaining term of 45 years.

Effective January 1, 2019, the Company adopted ASC 842, *Leases* which requires the operating leases mentioned above to be included in right-of-use lease assets, net on the Company's December 31, 2021 and 2020 consolidated balance sheets, which represents the Company's right to use the underlying asset for the lease term. The Company's obligation to make the lease payments are included in lease liabilities on the Company's December 31, 2021 and 2020 consolidated balance sheets. As of December 31, 2021, total right-of-use assets and operating lease liabilities, net of accumulated amortization, were approximately \$235.5 million and \$105.0 million, respectively. The Company has entered into various short-term operating leases, primarily for office spaces, with an initial term of twelve months or less. These leases are not recorded on the Company's consolidated balance sheets.

At the inception of a new lease, the Company establishes an operating lease asset and operating lease liability calculated as the present value of future minimum lease payments. As the Company's leases do not provide an implicit rate, the Company calculates a discount rate that approximates the Company's incremental borrowing rate available at lease commencement to determine the present value of future minimum lease payments. The approximated weighted average discount rate was 4.4% as of December 31, 2021. There are no operating leases that have not yet commenced that would have a significant impact on the Company's consolidated balance sheets.

As of December 31, 2021, the future minimum lease obligations under non-cancelable parking, air, ground, and corporate leases, exclusive of the one asset classified as held for sale, were as follows (in thousands):

2022	\$ 4,713
2023	4,694
2024	4,688
2025	4,685
2026	4,733
Thereafter	 242,464
Total undiscounted lease payments	\$ 265,977
Less: Interest	(161,020)
Present value of lease liabilities	\$ 104,957

Lease costs consisted of the following for the year ended December 31, 2021 and December 31, 2020 (in thousands):

	 December 31,					
	2021		2020			
Operating lease cost	\$ 2,467	\$	2,190			
Variable lease cost	 1,009		995			
Total lease cost	\$ 3,476	\$	3,185			

#### **Note 13. Credit Concentration**

The Company uses annualized base rent ("ABR") as its credit concentration metric. ABR is calculated by multiplying contractual base rent for the month ended December 31, 2021 by 12, excluding the impact of concessions and straight-line rent. The following table summarizes certain information about the Company's top five tenant credit concentrations as of December 31, 2021, excluding one asset classified as held for sale (in thousands):

Tenant	Total ABR	Percent of ABR
CommonSpirit - CHI - Nebraska	\$ 17,658	5.0 %
Northside Hospital	15,646	4.4 %
UofL Health - Louisville, Inc.	12,744	3.6 %
US Oncology	11,180	3.2 %
HonorHealth	10,896	3.1 %
Remaining portfolio	285,956	80.7 %
Total	\$ 354,080	100.0 %

ABR collected from the Company's top five tenant relationships comprises 19.3% of its total ABR for the period ending December 31, 2021. Total ABR from CommonSpirit Health affiliated tenants totals 14.7%, including the affiliates disclosed above.

The following table summarizes certain information about the Company's top five geographic concentrations as of December 31, 2021, excluding one asset classified as held for sale (in thousands):

State	1	Total ABR	Percent of ABR
Texas	\$	47,815	13.5 %
Georgia		25,322	7.2 %
Florida		24,490	6.9 %
Indiana		22,825	6.5 %
Arizona		21,003	5.9 %
Other		212,625	60.0 %
Total	\$	354,080	100.0 %

#### Note 14. Earnings Per Share

The following table shows the amounts used in computing the Trust's basic and diluted earnings per share (in thousands, except share and per share data):

		Year Ended December 31,					
		2021 2020				2019	
Numerator for earnings per share - basic:							
Net income	\$	86,783	\$	68,488	\$	77,186	
Net income attributable to noncontrolling interests:							
Operating Partnership		(2,211)		(1,797)		(2,155)	
Partially owned properties		(607)		(574)		(548)	
Preferred distributions		(13)		(1,241)		(1,209)	
Numerator for earnings per share - basic:	\$	83,952	\$	64,876	\$	73,274	
Numerator for earnings per share - diluted:							
Numerator for earnings per share - basic:		83,952		64,876		73,274	
Operating Partnership net income		2,211		1,797		2,155	
Numerator for earnings per share - diluted	\$	86,163	\$	66,673	\$	75,429	
Denominator for earnings per share - basic and diluted:							
Weighted average number of shares outstanding - basic	21	6,135,385	20	4,243,768	18	5,770,251	
Effect of dilutive securities:							
Noncontrolling interest - Operating Partnership units		5,693,333		5,659,325		5,466,010	
Restricted common shares		113,438		88,131		103,293	
Restricted share units		1,118,400		1,154,693		286,766	
Denominator for earnings per share - diluted	22	23,060,556	21	1,145,917	19	1,626,320	
Earnings per share - basic	\$	0.39	\$	0.32	\$	0.39	
Earnings per share - diluted	\$	0.39	\$	0.32	\$	0.39	

#### **Note 15. Subsequent Events**

On January 12, 2022, the Company acquired 49% membership interest in three properties through the Davis Joint Venture for an aggregate purchase price of approximately \$21.5 million. This transaction was funded with \$14.0 million of mortgage debt, \$4.5 million of cash, and the conversion of \$3.0 million of mezzanine loans.

On January 19, 2022, the Company sold one medical office building located in Michigan for approximately \$2.0 million and recognized a net loss on the sale of approximately \$0.2 million. This asset was classified as held for sale as of December 31, 2021. As previously disclosed, the Company recorded an impairment on this asset for \$0.3 million during 2021.

			Initial Co	ost to Company		Gross	Gross Amount at Which Carried as of Close of Period						
				Buildings and	Cost Capitalized Subsequent to		Buildings and		Accumulated	Year	Date	Life on Which Building Depreciation in Income Statement	
Description	Location	Encumbrances	Land	Improvements	Acquisitions	Land	Improvements	Total (1)	Depreciation	Built	Acquired	is Computed	
Del Sol Medical Center MOB  MeadowView Professional	El Paso, TX Kingsport, TN	\$ —	\$ 860 2,270	\$ 2,866 11,344	\$ 699 1,017	\$ 860 2,270	\$ 3,565 12,361	\$ 4,425 14,631	\$ (2,446) (5,717)	1987 2005	8/24/2006 5/10/2007	21 30	
Firehouse Square	Milwaukee, WI		1,120	2,768	10	1,120	2,778	3,898	(1,332)	2002	8/15/2007	30	
Valley West Hospital MOB	Chicago, IL	_	-,,,20	6,275	785	-,,,20	7,060	7,060	(3,290)	2007	11/1/2007	30	
New Albany MOB	Columbus, OH	_	237	2,767	738	237	3,505	3,742	(1,344)	2000	1/4/2008	42	
Mid Coast Hospital MOB	Portland, ME	5,629	_	11,247	499	_	11,746	11,746	(5,233)	2008	5/1/2008	42	
Arrowhead Commons	Phoenix, AZ	_	740	2,551	764	740	3,315	4,055	(1,086)	2004	5/31/2008	46	
Remington Medical Commons	Chicago, IL	_	895	6,499	1,369	895	7,868	8,763	(3,369)	2008	6/1/2008	30	
Aurora MOB - Shawano	Green Bay, WI	_	500	1,566	_	500	1,566	2,066	(368)	2010	4/15/2010	50	
East El Paso Physicians Medical Center	El Paso, TX	_	710	4,500	351	710	4,851	5,561	(1,088)	2004	8/30/2013	35	
Crescent City Surgical Centre	New Orleans, LA	_	_	34,208	_	_	34,208	34,208	(5,880)	2010	9/30/2013	48	
Foundation Surgical Affiliates MOB	Oklahoma City, OK	_	1,300	12,724	239	1,300	12,963	14,263	(2,465)	2004	9/30/2013	43	
Eastwind Surgical Center	Columbus, OH	_	981	7,620	145	981	7,765	8,746	(1,401)	2007	11/27/2013	44	
Great Falls ASC	Great Falls, MT	_	203	3,224	1,317	203	4,541	4,744	(825)	1999	12/11/2013	33	
Foundation Surgical Hospital of San Antonio	San Antonio, TX	_	2,230	23,346	43	2,230	23,389	25,619	(5,967)	2007	2/19/2014	35	
21st Century Radiation Oncology - Sarasota	Sarasota, FL	_	633	6,557	67	633	6,624	7,257	(1,986)	1975	2/26/2014	27	
21st Century Radiation Oncology - Venice	Venice, FL	_	814	2,952	_	814	2,952	3,766	(745)	1987	2/26/2014	35	
21st Century Radiation Oncology - Englewood	Englewood, FL	_	350	1,878	_	350	1,878	2,228	(427)	1992	2/26/2014	38	
Foundation Healthplex of San Antonio	San Antonio, TX	_	911	4,189	_	911	4,189	5,100	(981)	2007	2/28/2014	35	
Peachtree Dunwoody Medical Center	Atlanta, GA	_	_	52,481	2,133	_	54,614	54,614	(14,897)	1987	2/28/2014	25	
Pinnacle Health MOB - Wormleysburg Pinnacle Health MOB - Carlisle	Harrisburg, PA	_	795	4,601	31	795	4,632	5,427	(1,533)	1990	4/22/2014	25	
South Bend Orthopaedics MOB	Carlisle, PA Mishawaka, IN	_	424 2,418	2,232 11,355		424 2,418	2,232 11,355	2,656 13,773	(533)	2002 2007	4/22/2014 4/30/2014	35 40	
Grenada Medical Complex	Grenada, MS	_	185	5,820	449	185	6,269	6,454	(1,883)	1975	4/30/2014	30	
Mississippi Sports Medicine & Orthopedics	Jackson, MS	_	1,272	14,177	626	1,272	14,803	16,075	(3,525)	1987	5/23/2014	35	
Carmel Medical Pavilion	Carmel, IN	_	_	3,917	450	_	4,367	4,367	(1,323)	1993	5/28/2014	25	
Renaissance ASC	Oshkosh, WI	_	228	7,658	17	228	7,675	7,903	(1,500)	2007	6/30/2014	40	
Summit Urology	Bloomington, IN	_	125	4,792	_	125	4,792	4,917	(1,228)	1996	6/30/2014	30	
IU Health - 500 Landmark	Bloomington, IN	_	627	3,549	_	627	3,549	4,176	(792)	2000	7/1/2014	35	
IU Health - 550 Landmark	Bloomington, IN	_	2,717	15,224	_	2,717	15,224	17,941	(3,398)	2000	7/1/2014	35	
IU Health - 574 Landmark	Bloomington, IN	_	418	1,493	_	418	1,493	1,911	(341)	2004	7/1/2014	35	
Carlisle II MOB	Carlisle, PA	_	412	3,962	_	412	3,962	4,374	(687)	1996	7/25/2014	45	
Surgical Institute of Monroe	Monroe, MI	_	410	5,743	_	410	5,743	6,153	(1,431)	2010	7/28/2014	35	
Oaks Medical Building	Lady Lake, FL	_	1,065	8,642	8	1,065	8,650	9,715	(1,542)	2011	7/31/2014	42	
Mansfield ASC  Eye Center of Southern Indiana	Mansfield, TX	_	1,491 910	6,471 11,477	_	1,491 910	6,471 11,477	7,962 12,387	(1,137)	2010 1995	9/2/2014 9/5/2014	46 35	
Zangmeister Cancer Center	Bloomington, IN Columbus, OH		1,610	31,120	249	1,610	31,369	32,979	(5,909)	2007	9/30/2014	40	
Orthopedic One - Columbus	Columbus, OH	_	- 1,010	16,234	59	- 1,010	16,293	16,293	(2,925)	2009	9/30/2014	45	
Orthopedic One - Westerville	Columbus, OH	_	362	3,944	_	362	3,944	4,306	(732)	2007	9/30/2014	43	
South Point Medical Center	Columbus, OH	_	_	5,950	195	_	6,145	6,145	(1,267)	2007	9/30/2014	38	
3100 Lee Trevino Drive	El Paso, TX	_	2,294	11,316	1,535	2,294	12,851	15,145	(3,193)	1983	9/30/2014	30	
1755 Curie	El Paso, TX	_	2,283	24,543	3,432	2,283	27,975	30,258	(6,763)	1970	9/30/2014	30	
9999 Kenworthy	El Paso, TX	_	728	2,178	673	728	2,851	3,579	(666)	1983	9/30/2014	35	
32 Northeast MOB	Harrisburg, PA	_	408	3,232	223	408	3,455	3,863	(823)	1994	10/29/2014	33	
4518 Union Deposit MOB	Harrisburg, PA	_	617	7,305	41	617	7,346	7,963	(1,823)	2000	10/29/2014	31	
4520 Union Deposit MOB	Harrisburg, PA	_	169	2,055	429	169	2,484	2,653	(574)	1997	10/29/2014	28	
240 Grandview MOB	Harrisburg, PA	_	321	4,242	218	321	4,460	4,781	(952)	1980	10/29/2014	35	
Market Place Way MOB  Middletown Medical - Maltese	Harrisburg, PA	_	808	2,383	57	808	2,440	3,248	(641)	2004	10/29/2014	35	
Middletown Medical - Maltese  Middletown Medical - Edgewater	Middletown, NY Middletown, NY	_	670 200	9,921 2,966	37 11	670 200	9,958 2,977	10,628 3,177	(2,089)	1988 1992	11/28/2014 11/28/2014	35 35	
Napoleon MOB	New Orleans, LA	_	1,202	7,412	4,505	1,202	11,917	13,119	(2,741)	1974	12/19/2014	25	
West Tennessee ASC	Jackson, TN	_	1,661	2,960	7,116	1,661	10,076	11,737	(1,786)	1991	12/30/2014	44	
Southdale Place	Edina MN	_	504	10,006	2,200	504	12,206	12,710	(3,680)	1979	1/22/2015	24	
Crystal MOB	Crystal, MN	_	945	11,862	51	945	11,913	12,858	(2,013)	2012	1/22/2015	47	
Savage MOB	Savage, MN	_	1,281	10,021	78	1,281	10,099	11,380	(1,827)	2011	1/22/2015	48	
Dell MOB	Chanhassen, MN	_	800	4,520	188	800	4,708	5,508	(917)	2008	1/22/2015	43	
Methodist Sports	Greenwood, IN	_	1,050	8,556	_	1,050	8,556	9,606	(1,884)	2008	1/28/2015	33	
Vadnais Heights MOB	Vadnais Heights, MN	_	2,751	12,233	27	2,751	12,260	15,011	(2,374)	2013	1/29/2015	43	
Minnetonka MOB	Minnetonka, MN	_	1,770	19,797	139	1,770	19,936	21,706	(3,459)	2014	2/5/2015	49	
Jamestown	Jamestown, ND	_	656	9,440	387	656	9,827	10,483	(2,070)	2013	2/5/2015	43	

			Initial C	ost to Company		Gross	Gross Amount at Which Carried as of Close of Period					
				Buildings and	Cost Capitalized Subsequent to		Buildings and		Accumulated	Year	Date	Life on Which Building Depreciation in Income Statement
Description	Location	Encumbrances	Land	Improvements	Acquisitions	Land	Improvements	Total (1)	Depreciation	Built	Acquired	is Computed
Indiana American 3 Indiana American 2	Greenwood, IN Greenwood, IN	_	862 741	6,901 1,846	1,330 875	862 741	8,231 2,721	9,093 3,462	(1,961)	2008 2001	2/13/2015 2/13/2015	38
Indiana American 2	Greenwood, IN		771	1,928	307	771	2,721	3,006	(649)	2001	2/13/2015	31
8920 Southpointe	Indianapolis, IN	_	563	1,741	806	563	2,547	3,110	(944)	1993	2/13/2015	27
Minnesota Eye MOB	Minnetonka, MN	_	1,143	7,470	_	1,143	7,470	8,613	(1,423)	2014	2/17/2015	44
Baylor Cancer Center- Carrollton	Dallas, TX	_	855	6,007	91	855	6,098	6,953	(1,043)	2001	2/27/2015	43
Bridgeport Medical Center	Lakewood, WA	_	1,397	10,435	965	1,397	11,400	12,797	(2,330)	2004	2/27/2015	35
Renaissance Office Building	Milwaukee, WI	_	1,379	4,182	7,149	1,379	11,331	12,710	(3,947)	1896	3/27/2015	15
Calkins 125	Rochester, NY	_	534	10,164	858	534	11,022	11,556	(2,591)	1997	3/31/2015	32
Calkins 200	Rochester, NY	_	210	3,317	58	210	3,375	3,585	(807)	2000	3/31/2015	38
Calkins 300	Rochester, NY	_	372	6,645	288	372	6,933	7,305	(1,362)	2002	3/31/2015	39
Calkins 400	Rochester, NY	_	353	8,226	440	353	8,666	9,019	(1,765)	2007	3/31/2015	39
Calkins 500	Rochester, NY	_	282	7,074	145	282	7,219	7,501	(1,456)	2008	3/31/2015	41
Premier Surgery Center of Louisville	Louisville, KY	_	1,106	5,437	_	1,106	5,437	6,543	(917)	2013	4/10/2015	43
Baton Rouge Surgery Center	Baton Rouge, LA	_	711	7,720	51	711	7,771	8,482	(1,566)	2003	4/15/2015	35
Healthpark Surgery Center	Grand Blanc, MI	_	_	17,624	172	_	17,796	17,796	(3,608)	2006	4/30/2015	36
University of Michigan Center for Specialty Care  Coon Rapids Medical Center	Livonia, MI Coon Rapids, MN	_	2,200	8,627 5,857	205 583	2,200	8,832 6,440	7,047	(2,097)	1988 2007	5/29/2015 6/1/2015	30
Premier RPM	Bloomington, IN	_	872	10,537	363	942	10,537	11,479	(1,860)	2007	6/5/2015	39
Palm Beach ASC	Palm Beach, FL	_	2,576	7,675	_	2,576	7,675	10,251	(1,318)	2008	6/26/2015	40
Hillside Medical Center	Hanover, PA	_	812	13,217	388	812	13,605	14,417	(2,708)	2003	6/30/2015	35
Randall Road MOB	Elgin, IL	_	1,124	15,404	1,660	1,124	17,064	18,188	(2,897)	2006	6/30/2015	38
JFK Medical Center MOB	Atlantis, FL	_		7,560	6		7,566	7,566	(1,437)	2002	7/24/2015	37
Grove City Health Center	Grove City, OH	_	1,363	8,516	20	1,363	8,536	9,899	(1,691)	2001	7/31/2015	37
Trios Health MOB	Kennewick, WA	_	1,492	55,178	3,795	1,492	58,973	60,465	(8,558)	2015	7/31/2015	45
Abrazo Scottsdale MOB	Phoenix, AZ	_	_	25,893	1,019	_	26,912	26,912	(4,446)	2004	8/14/2015	43
Avondale MOB	Avondale, AZ	_	1,818	18,108	435	1,818	18,543	20,361	(2,790)	2006	8/19/2015	45
Palm Valley MOB	Goodyear, AZ	_	2,666	28,655	913	2,666	29,568	32,234	(4,687)	2006	8/19/2015	43
North Mountain MOB	Phoenix, AZ	_	_	42,877	3,267	_	46,144	46,144	(6,797)	2008	8/31/2015	47
Katy Medical Complex	Katy, TX	_	822	6,797	97	822	6,894	7,716	(1,202)	2005	9/1/2015	39
Katy Medical Complex Surgery Center	Katy, TX	_	1,560	25,601	281	1,560	25,882	27,442	(4,327)	2006	9/1/2015	40
New Albany Medical Center	New Albany, OH	_	1,600	8,505	1,524	1,600	10,029	11,629	(2,078)	2005	9/9/2015	37
Fountain Hills Medical Campus	Fountain Hills, AZ	_	2,593	7,635	1,010	2,593	8,645	11,238	(1,524)	1995	9/30/2015	39
Fairhope MOB	Fairhope, AL	_	640	5,227	1,575	640	6,802	7,442	(1,282)	2005	10/13/2015	38
Foley MOB	Foley, AL	_	365	732	_	365	732	1,097	(133)	1997	10/13/2015	40
Foley Venture	Foley, AL	_	420	1,118	339	420	1,457	1,877	(287)	2002	10/13/2015	38
North Okaloosa MOB	Crestview, FL	_	190	1,010	_	190	1,010	1,200	(169)	2005	10/13/2015	41
Commons on North Davis Sorrento Road MOB	Pensacola, FL Pensacola, FL	_	380 170	1,237 894		380 170	1,237 899	1,617 1,069	(209)	2009 2010	10/13/2015 10/13/2015	41 41
Panama City Beach MOB	Panama City, FL	_	170	739	26	170	765	765	(120)	2010	10/13/2015	42
Perdido Medical Park	Pensacola, FL	_	100	1,147	_	100	1,147	1,247	(191)	2012	10/13/2015	41
Ft. Walton Beach MOB	Ft. Walton Beach, FL	_	230	914	_	230	914	1,144	(175)	1979	10/13/2015	35
Panama City MOB	Panama City, FL	_	_	661	39	_	700	700	(130)	2003	10/13/2015	38
Pensacola MOB	Pensacola, FL	_	220	1,685	78	220	1,763	1,983	(297)	2001	10/13/2015	39
Arete Surgical Center	Johnstown, CO	_	399	6,667	_	399	6,667	7,066	(959)	2013	10/19/2015	45
Cambridge Professional Center	Waldorf, MD	_	590	8,520	804	590	9,324	9,914	(1,798)	1999	10/30/2015	35
HonorHealth - 44th Street MOB	Phoenix, AZ	_	515	3,884	1,354	515	5,238	5,753	(1,362)	1988	11/13/2015	28
Mercy Medical Center	Fenton, MO	_	1,201	6,778	_	1,201	6,778	7,979	(1,135)	1999	12/1/2015	40
8 C1TY Blvd	Nashville, TN	_	1,555	39,713	348	1,555	40,061	41,616	(5,414)	2015	12/17/2015	45
Great Falls Clinic	Great Falls, MT	_	1,687	27,402	441	1,687	27,843	29,530	(4,527)	2004	12/29/2015	40
Great Falls Hospital	Great Falls, MT	_	1,026	25,262	1,118	1,026	26,380	27,406	(3,965)	2015	1/25/2016	40
Treasure Coast Center for Surgery	Stuart, FL	_	380	5,064	1	380	5,065	5,445	(740)	2013	2/1/2016	42
Park Nicollet Clinic	Chanhassen, MN	_	1,941	14,555	133	1,941	14,688	16,629	(2,341)	2005	2/8/2016	40
HEB Cancer Center	Bedford, TX	_	_	11,839	11	_	11,850	11,850	(1,692)	2014	2/12/2016	44
Riverview Medical Center	Lancaster, OH	_	1,313	10,243	1,148	1,313	11,391	12,704	(2,141)	1997	2/26/2016	33
St. Luke's Cornwall MOB	Cornwall, NY	_	1 770	13,017	105	1 770	13,122	13,122	(2,360)	2006	2/26/2016	35
HonorHealth - Glendale	Glendale, AZ	_	1,770	8,089	- 42	1,770	8,089	9,859	(1,121)	2015	3/15/2016	45
Columbia MOB St Vincent POB 1	Hudson, NY	_	_	16,550	47	_	16,597	16,597	(2,767)	2006	3/21/2016	35
St Vincent POB 1  Emerson Medical Building	Birmingham, AL Creve Coeur, MO	_	1,590	10,172 9,853	799 323	1 500	10,971	10,971	(4,283)	1975	3/23/2016 3/24/2016	15 35
Eye Associates of NM - Santa Fe	Santa Fe, NM	_	900	9,853 6,604	323	1,590 900	10,176 6,604	11,766 7,504	(1,806)	1989 2002	3/24/2016	35
Eye Associates of NM - Albuquerque	Albuquerque, NM	_	1,020	7,832	13	1,020	7,845	7,304 8,865	(1,164)	2002	3/31/2016	40
Gardendale Surgery Center	Gardendale, AL		200	5,732	-	200	5,732	5,932	(822)	2007	4/11/2016	42
Cardendale Gargery Center	ouracidate, AL		200	3,132		200	5,152	3,732	(022)	2011	., 11/2010	42

			Initial C	ost to Company		Gross	Gross Amount at Which Carried as of Close of Period					
Posterio	Location	F		Buildings and	Cost Capitalized Subsequent to		Buildings and	T-(-1-0)	Accumulated	Year	Date	Life on Which Building Depreciation in Income Statement
Description  M. Health Fairnian Come Creat	Location	Encumbrances	Land	Improvements	Acquisitions	Land	Improvements	Total (1)	Depreciation (486)	Built	Acquired	is Computed
M Health Fairview - Curve Crest	Stillwater, MN	_	409 572	3,279 4,400	69	409 572	3,279 4,469	3,688 5,041	(486) (705)	2011	4/14/2016 4/14/2016	43
M Health Fairview - Victor Gardens  Cardwell Professional Building	Hugo, MN Lufkin, TX	_	5/2	8,348	321	5/2	8,669	8,669	(1,296)	1999	5/11/2016	41
Dacono Neighborhood Health Clinic	Dacono, CO	_	2,258	2,911	20	2,258	2,931	5,189	(594)	2014	5/11/2016	44
Grand Island Specialty Clinic	Grand Island, NE		102	2,802	167	102	2,969	3,071	(499)	1978	5/11/2016	42
Hot Springs Village Office Building	Hot Springs Village, AR	_	305	3,309	95	305	3,404	3,709	(737)	1988	5/11/2016	30
UofL Health - East	Louisville, KY	_	_	81,248	236	_	81,484	81,484	(10,730)	2003	5/11/2016	45
UofL Health - South	Shepherdsville, KY	_	_	15,861	235	_	16,096	16,096	(2,730)	2005	5/11/2016	39
UofL Health - Plaza I	Louisville, KY	_	_	8,808	707	_	9,515	9,515	(1,704)	1970	5/11/2016	35
UofL Health - Plaza II	Louisville, KY	_	_	5,216	2,282	_	7,498	7,498	(2,284)	1964	5/11/2016	15
UofL Health - OCC	Louisville, KY	_	_	35,703	2,113	_	37,816	37,816	(6,111)	1985	5/11/2016	34
Lexington Surgery Center	Lexington, KY	_	1,229	18,914	508	1,229	19,422	20,651	(3,758)	2000	5/11/2016	30
Medical Arts Pavilion	Lufkin, TX	_	_	6,215	776	_	6,991	6,991	(1,360)	2004	5/11/2016	33
Memorial Outpatient Therapy Center	Lufkin, TX	_	_	4,808	100	_	4,908	4,908	(717)	1990	5/11/2016	45
Midlands Two Professional Center	Papillion, NE	_	_	587	681	_	1,268	1,268	(696)	1976	5/11/2016	5
Parkview MOB	Little Rock, AR	_	705	4,343	76	705	4,419	5,124	(805)	1988	5/11/2016	35
Peak One ASC	Frisco, CO	_	_	5,763	317	_	6,080	6,080	(857)	2006	5/11/2016	44
Physicians Medical Center	Tacoma, WA	_	_	5,862	3,215	_	9,077	9,077	(1,578)	1977	5/11/2016	27
St. Alexius - Minot Medical Plaza	Minot, ND	_	_	26,078	50	_	26,128	26,128	(3,488)	2015	5/11/2016	49
St. Clare Medical Pavilion St. Joseph Medical Pavilion	Lakewood, WA Tacoma, WA	_	_	9,005	356 108	_	9,361	9,361	(1,860)	1989	5/11/2016	33
St. Joseph Office Park	Lexington, KY	_	3,722	11,497 12,675	5,061	3,722	11,605 17,736	11,605 21,458	(2,035)	1989 1992	5/11/2016 5/11/2016	35 14
UofL Health - Mary & Elizabeth MOB	Louisville, KY	_	3,722	5,587	305	3,722	5,892	5,892	(997)	1992	5/11/2016	34
II  UofL Health - Mary & Elizabeth MOB	Louisville, KY		_	383	399	_	782	782	(547)	1974	5/11/2016	2
III												
Thornton Neighborhood Health Clinic	Thornton, CO	_	1,609	2,287	1,661	1,609	3,948	5,557	(567)	2014	5/11/2016	43
St. Francis MOB	Federal Way, WA	_	_	12,817	74	_	12,891	12,891	(2,186)	1987	6/2/2016	38
Children's Wisconsin - Brookfield	Milwaukee, WI	_	476	4,897	_	476	4,897	5,373	(694)	2016	6/3/2016	45
UofL Health - South MOB	Shepherdsville, KY	_	27	3,827	29	27	3,856	3,883	(540)	2006 1984	6/8/2016	40
Good Samaritan North Annex Building NE Heart Institute Medical Building	Kearney, NE Lincoln, NE	_		2,734 19,738	199	_	2,734 19,937	2,734 19,937	(476)	2004	6/28/2016 6/28/2016	37 47
St. Vincent West MOB	Little Rock, AR	_	_	13,453	199	_	13,453	13,453	(1,640)	2004	6/29/2016	49
Meridan	Englewood, CO		1,608	15,774	137	1,608	15,911	17,519	(2,657)	2002	6/29/2016	38
UofL Health - Mary & Elizabeth MOB	Louisville, KY	_		8,774	792		9,566	9,566	(2,101)	1991	6/29/2016	25
I St. Alexius - Medical Arts Pavilion	Bismarck, ND	_	_	12,902	703	_	13,605	13,605	(2,346)	1974	6/29/2016	32
St. Alexius - Mandan Clinic	Mandan, ND	_	708	7,700	263	708	7,963	8,671	(1,142)	2014	6/29/2016	43
St. Alexius - Orthopaedic Center	Bismarck, ND	_	_	13,881	904	_	14,785	14,785	(2,191)	1997	6/29/2016	39
St. Alexius - Rehab Center	Bismarck, ND	_	_	5,920	259	_	6,179	6,179	(1,434)	1997	6/29/2016	25
St. Alexius - Tech & Ed	Bismarck, ND	_	_	16,688	342	_	17,030	17,030	(2,522)	2011	6/29/2016	38
Good Samaritan MOB	Kearney, NE	_	_	24,154	1,802	_	25,956	25,956	(3,236)	1999	6/29/2016	45
Lakeside Two Professional Center	Omaha, NE	_	_	13,358	1,447	_	14,805	14,805	(2,167)	2000	6/29/2016	38
Lakeside Wellness Center	Omaha, NE	_	_	10,177	438	_	10,615	10,615	(1,540)	2000	6/29/2016	39
McAuley Center	Omaha, NE	_	1,427	17,020	978	1,427	17,998	19,425	(3,500)	1988	6/29/2016	30
Memorial Health Center	Grand Island, NE	_	_	33,967	3,062	_	37,029	37,029	(5,825)	1955	6/29/2016	35
Missionary Ridge MOB	Chattanooga, TN	_	_	7,223	3,515	_	10,738	10,738	(4,633)	1976	6/29/2016	10
Pilot Medical Center	Birmingham, AL	_	1,419	14,528	55	1,419	14,583	16,002	(2,444)	2005	6/29/2016	35
St. Joseph Medical Clinic	Tacoma, WA	_	_	16,427	72	_	16,499	16,499	(3,058)	1991	6/30/2016	30
Woodlands Medical Arts Center	The Woodlands, TX	_	_	19,168	2,664	_	21,832	21,832	(3,821)	2001	6/30/2016	35
FESC MOB	Tacoma, WA	_	_	12,702	324	_	13,026	13,026	(3,588)	1980	6/30/2016	22
PrairieCare MOB	Maplewood, MN	_	525	3,099	4.005	525	3,099	3,624	(416)	2016	7/6/2016	45
Springwoods MOB	Spring, TX	_	3,821	14,830	4,995	3,821	19,825	23,646	(4,099)	2015	7/21/2016	44
Unity ASC, Imaging & MOB	West Lafayette, IN	_	960	9,991	_	960	9,991	10,951	(1,642)	2001	8/8/2016	35
Unity Medical Pavilion Unity Faith, Hope & Love	West Lafayette, IN	_	1,070 280	12,454	_	1,070 280	12,454 1,862	13,524	(2,045)	2001	8/8/2016 8/8/2016	35 35
Unity Faith, Hope & Love Unity Immediate Care and OCC	West Lafayette, IN West Lafayette, IN	_	300	1,862 1,833		300	1,862	2,142 2,133	(307)	2001	8/8/2016 8/8/2016	37
Medical Village at Maitland	Orlando, FL	_	2,393	1,833	356	2,393	1,833	2,133	(2,483)	2004	8/23/2016	44
Tri-State Orthopaedics MOB	Evansville, IN	_	1,580	14,162	_	1,580	14,162	15,742	(2,483)	2004	8/30/2016	37
Maury Regional Health Complex	Spring Hill, TN	_	1,380	15,619	335	- 1,560	15,954	15,954	(2,212)	2012	9/30/2016	41
Spring Ridge Medical Center	Wyomissing, PA	_	28	4,943	_	28	4,943	4,971	(745)	2002	9/30/2016	37
Doctors Community Hospital POB	Lanham, MD	_	_	23,034	114	_	23,148	23,148	(2,542)	2009	9/30/2016	48
Gig Harbor Medical Pavilion	Gig Harbor, WA	_	_	4,791	2,245	_	7,036	7,036	(1,451)	1991	9/30/2016	30
Midlands One Professional Center	Papillion, NE	_	_	14,922	72	_	14,994	14,994	(2,130)	2010	9/30/2016	37
Northwest Michigan Surgery Center	Traverse City, MI	_	2,748	30,005	_	2,748	30,005	32,753	(4,026)	2004	10/28/2016	40

			Initial C	ost to Company		Gross	Gross Amount at Which Carried as of Close of Period					
Description	Location	Encumbrances	Land	Buildings and Improvements	Cost Capitalized Subsequent to Acquisitions	Land	Buildings and Improvements	Total (1)	Accumulated Depreciation	Year Built	Date Acquired	Life on Which Building Depreciation in Income Statement is Computed
Northeast Medical Center	Fayetteville, NY	_	4,011	25,564	996	4,011	26,560	30,571	(4,937)	1998	11/23/2016	33
North Medical Center	Liverpool, NY	_	1,337	18,680	1,012	1,337	19,692	21,029	(3,206)	1989	11/23/2016	35
Cincinnati Eye Institute	Cincinnati, OH	_	2,050	32,546		2,050	32,546	34,596	(5,018)	1985	11/23/2016	35
HonorHealth - Scottsdale MOB	Scottsdale, AZ	_	3,340	4,288	5,811	3,340	10,099	13,439	(1,396)	2000	12/2/2016	45
Fox Valley Hematology & Oncology	Appleton, WI	_	1,590	26,666	_	1,590	26,666	28,256	(3,244)	2015	12/8/2016	44
Northern Vision Eye Center	Traverse City, MI	_	490	2,132	(268)	418	1,864	2,282	(318)	2006	12/15/2016	35
Flower Mound MOB	Flower Mound, TX	_	1,945	8,312	67	1,945	8,379	10,324	(1,080)	2011	12/16/2016	43
Carrollton MOB	Flower Mound, TX	_	2,183	10,461	95	2,183	10,556	12,739	(1,451)	2002	12/16/2016	40
HonorHealth - Scottsdale IRF	Scottsdale, AZ	_	_	19,331	_	_	19,331	19,331	(2,407)	2000	12/22/2016	42
Orthopedic Associates	Flower Mound, TX	_	2,915	12,791	150	2,915	12,941	15,856	(1,599)	2011	1/5/2017	43
Medical Arts Center at Hartford	Plainville, CT	_	1,499	24,627	932	1,499	25,559	27,058	(3,115)	2015	1/11/2017	44
CareMount Medical - Lake Katrine MOB	Lake Katrine, NY	24,234	1,941	27,434	_	1,941	27,434	29,375	(3,412)	2013	2/14/2017	42
CareMount Medical - Rhinebeck MOB	Rhinebeck, NY	_	869	12,220	_	869	12,220	13,089	(1,585)	1965	2/14/2017	41
Monterey Medical Center	Stuart, FL	_	2,292	13,376	628	2,292	14,004	16,296	(1,893)	2003	3/7/2017	37
Creighton University Medical Center	Omaha, NE	_	_	32,487	_	_	32,487	32,487	(3,337)	2017	3/28/2017	49
Strictly Pediatrics Specialty Center	Austin, TX	_	4,457	62,527	904	4,457	63,431	67,888	(7,872)	2006	3/31/2017	40
MedStar Stephen's Crossing	Brandywine, MD	_	1,975	14,810	64	1,975	14,874	16,849	(1,714)	2015	6/16/2017	43
Health Clinic Building	Omaha, NE	_	_	50,177	16	_	50,193	50,193	(4,659)	2017	6/29/2017	49
Family Medical Center	Little Falls, MN	_	_	4,944	9,608	_	14,552	14,552	(1,408)	1990	6/29/2017	30
Craven-Hagan Clinic	Williston, ND	_	_	8,739	1,704	_	10,443	10,443	(1,192)	1984	6/29/2017	40
Chattanooga Heart Institute St. Vincent Mercy Heart and Vascular	Chattanooga, TN Hot Springs, AR	_	_	18,639 11,688	1,111	_	19,750 11,694	19,750 11,694	(2,516) (1,308)	1993 1998	6/29/2017 6/29/2017	37 45
Center South Campus MOB	Hot Springs, AR			13,369	564		13,933	13,933	(1,563)	2009	6/29/2017	42
St. Vincent Mercy Cancer Center		_	_	5,090	116	_	5,206	5,206	(668)	2009	6/29/2017	39
St. Joseph Professional Office Building	Hot Springs, AR Bryan, TX			11,169	248	_	11,417	11,417	(1,196)	1996	6/29/2017	46
St. Vincent Carmel Women's Center	Carmel, IN	_	_	31,720	554	_	32,274	32,274	(3,160)	2014	6/29/2017	48
St. Vincent Fishers Medical Center	Fishers, IN	_	_	62,870	698	_	63,568	63,568	(6,791)	2008	6/29/2017	45
Baylor Charles A. Sammons Cancer Center	Dallas, TX	_	_	256,886	2,434	_	259,320	259,320	(27,615)	2011	6/30/2017	43
Orthopedic & Sports Institute of the Fox Valley	Appleton, WI	_	2,003	26,394	100	2,003	26,494	28,497	(3,192)	2005	6/30/2017	40
Clearview Cancer Institute	Huntsville, AL	_	2,736	43,220	99	2,736	43,319	46,055	(5,871)	2006	8/4/2017	34
Northside Cherokee-Town Lake MOB	Atlanta, GA	_	_	30,627	1,667	_	32,294	32,294	(3,785)	2013	8/15/2017	46
HonorHealth - Mesa	Mesa, AZ	_	362	3,059	8	362	3,067	3,429	(344)	2013	8/15/2017	43
Little Falls Orthopedics	Little Falls, MN	_	246	1,977	146	246	2,123	2,369	(537)	1999	8/24/2017	28
Unity Specialty Center	Little Falls, MN	_	_	2,885	998	_	3,883	3,883	(1,155)	1959	8/24/2017	15
Immanuel One Professional Center	Omaha, NE	_	_	16,598	984	_	17,582	17,582	(2,371)	1993	8/24/2017	35
SJRHC Cancer Center	Bryan, TX	_	_	5,065	776	_	5,841	5,841	(734)	1997	8/24/2017	40
St. Vincent Women's Center	Hot Springs, AR	_	_	4,789	225	_	5,014	5,014	(597)	2001	8/31/2017	40
Legends Park MOB & ASC	Midland, TX	_	1,658	24,178	_	1,658	24,178	25,836	(2,525)	2003	9/27/2017	44
Franklin MOB & ASC	Franklin, TN	_	1,001	7,902	_	1,001	7,902	8,903	(829)	2014	10/12/2017	42
Eagle Point MOB	Lake Elmo, MN	_	1,011	9,009	10	1,011	9,019	10,030	(899)	2015	10/31/2017	48
Edina East MOB	Edina, MN	_	2,360	4,135	646	2,360	4,781	7,141	(783)	1962	10/31/2017	30
Northside Center Pointe	Atlanta, GA	_	_	118,430	8,461	_	126,891	126,891	(16,862)	2009	11/10/2017	31
Gwinnett 500 Building	Lawrenceville, GA	_	_	22,753	860	_	23,613	23,613	(2,346)	1995	11/17/2017	45
Hudgens Professional Building	Duluth, GA	_	-	21,779	779	-	22,558	22,558	(2,546)	1994	11/17/2017	40
St. Vincent Building	Indianapolis, IN	-	5,854	42,382	5,718	5,854	48,100	53,954	(6,170)	2007	11/17/2017	45
Gwinnett Physicians Center	Lawrenceville, GA	15,111	1 597	48,304	1,253	1 597	49,557	49,557	(4,517)	2010	12/1/2017	47
Apple Valley Medical Center  Desert Cove MOB	Apple Valley, MN Scottsdale, AZ	_	1,587 1,689	14,929 5,207	2,717	1,587 1,689	17,646 5,207	19,233 6,896	(2,683)	1974 1991	12/18/2017 12/18/2017	33
	Glendale, AZ	_							(594)			38
Westgate MOB  M Health Fairview Clinics and Specialty Center - Maplewood	Maplewood, MN		3,292	13,379 57,390	2,101 3,737	3,292	15,480 61,127	15,480 64,419	(1,907) (5,692)	2016 2017	12/21/2017 1/9/2018	45 45
Lee's Hill Medical Plaza	Fredericksburg, VA	_	1,052	24,790	78	1,052	24,868	25,920	(2,621)	2006	1/23/2018	40
HMG Medical Plaza	Kingsport, TN		.,052	64,204	-	1,032	64,204	64,204	(6,302)	2010	4/3/2018	40
Jacksonville MedPlex (Building B)	Jacksonville, FL	_	3,259	5,988	571	3,259	6,559	9,818	(688)	2010	7/26/2018	37
Jacksonville MedPlex (Building C)	Jacksonville, FL	_	2,168	6,467	21	2,168	6,488	8,656	(613)	2010	7/26/2018	40
Northside Medical Midtown	Atlanta, GA	_		55,483	8,678	2,100	64,161	64,161	(4,624)	2018	9/14/2018	50
Doctors United ASC	Pasadena, TX	_	1,603	11,827		1,603	11,827	13,430	(718)	2018	4/4/2019	54
Atlanta Medical Condominium Investments	Atlanta, GA	_	4,474	2,201	1,269	4,474	3,470	7,944	(500)	1986	6/28/2019	30
Rockwall II MOB	Rockwall, TX	_	_	19,904	1,190	_	21,094	21,094	(1,284)	2017	7/26/2019	44
Shell Ridge Plaza - Bldg 106	Walnut Creek, CA	_	1,296	9,007	16	1,296	9,023	10,319	(749)	1984	9/27/2019	30
Shell Ridge Plaza - Bldg 108	Walnut Creek, CA	_	1,105	2,600	19	1,105	2,619	3,724	(222)	1984	9/27/2019	30
Shell Ridge Plaza - Bldg 110	Walnut Creek, CA	_	1,105	2,786	_	1,105	2,786	3,891	(236)	1984	9/27/2019	30

			Initial C	ost to Company		Gross	Gross Amount at Which Carried as of Close of Period					
				Buildings and	Cost Capitalized Subsequent to		Buildings and		Accumulated	Year	Date	Life on Which Building Depreciation in Income Statement
Description	Location	Encumbrances	Land	Improvements	Acquisitions	Land	Improvements	Total (1)	Depreciation	Built	Acquired	is Computed
Shell Ridge Plaza - Bldg 112	Walnut Creek, CA	_	3,097	9,639	_	3,097	9,639	12,736	(953)	1984	9/27/2019	25
Shell Ridge Plaza - Bldg 114	Walnut Creek, CA	_	1,392	4,624	_	1,392	4,624	6,016	(300)	1984	9/27/2019	40
ProHealth MOB	Manchester, CT	_	1,032	9,418	2	1,032	9,420	10,452	(594)	2012	10/15/2019	38
Murdock Surgery Center	Port Charlotte, FL	_	1,643	9,527	4	1,643	9,531	11,174	(597)	2006	12/2/2019	35
Westerville MOB	Westerville, OH	_	995	7,713	2,430	995	10,143	11,138	(717)	2003	2/28/2020	35
TOPA Fort Worth	Fort Worth, TX	_	_	42,753	1,486	_	44,239	44,239	(2,103)	2017	3/16/2020	39
Ascension St. Vincent Cancer Center	Newburgh, IN	_	1,031	16,319	_	1,031	16,319	17,350	(639)	2008	9/11/2020	36
Health Center at Easton	Easton, PA	_	952	13,375	80	952	13,455	14,407	(450)	2017	11/23/2020	38
Hartford HealthCare Cancer Center	Manchester, CT	_	1,603	14,487	_	1,603	14,487	16,090	(430)	2017	12/8/2020	39
Sacred Heart Summit Medical Office and ASC	Pensacola, FL	_	2,119	27,334	27	2,119	27,361	29,480	(783)	2020	12/18/2020	40
Westerville II MOB	Westerville, OH	_	606	4,133	25	606	4,158	4,764	(173)	2003	12/23/2020	31
AdventHealth Wesley Chapel MOB II	Wesley Chapel, FL	_	_	32,958	209	_	33,167	33,167	(644)	2021	4/21/2021	40
TOPA Denton	Denton, TX	_	2,256	11,211	_	2,256	11,211	13,467	(185)	2019	6/11/2021	38
Allegheny West Mifflin Medical Building	West Mifflin, PA	_	967	5,930	_	967	5,930	6,897	(99)	1992	8/30/2021	27
Forsgate Cancer Center	Monroe Township, NJ	_	1,986	8,170	_	1,986	8,170	10,156	(128)	1992	8/30/2021	28
Mill Run Medical Center I	Hilliard, OH	_	812	4,597	_	812	4,597	5,409	(67)	1998	8/30/2021	31
Mill Run Medical Center II	Hilliard, OH	_	2,802	15,288	_	2,802	15,288	18,090	(223)	1998	8/30/2021	31
New Britain Medical Building	Plainville, CT	_	1,209	6,798	_	1,209	6,798	8,007	(102)	1998	8/30/2021	29
HonorHealth - Sonoran MOB	Phoenix, AZ	_	_	26,347	_	_	26,347	26,347	(230)	2020	9/23/2021	40
Eden Hill Medical Center	Dover, DE	36,050	_	48,686	_	_	48,686	48,686	(559)	2008	10/15/2021	25
HonorHealth - Neuroscience Institute	Scottsdale, AZ	_	_	53,452	_	_	53,452	53,452	(346)	2021	10/27/2021	40
University of Florida Health North MOB	Jacksonville, FL	60,000	_	148,419	_	_	148,419	148,419	(338)	2015	12/20/2021	38
TGH Brandon Healthplex	Tampa, FL	_	_	66,864	_	_	66,864	66,864	(151)	2017	12/20/2021	38
Yulee MOB	Yulee, FL	_	_	17,286	_	_	17,286	17,286	(38)	2020	12/20/2021	39
James Devin Moncus Medical Building	Lafayette, LA	_	-	28,739	_	-	28,739	28,739	(72)	2010	12/20/2021	36
Bay City MOB	Bay City, MI	_	_	31,649	_	_	31,649	31,649	(76)	2016	12/20/2021	36
Beaumont Grosse Pointe MOB	Grosse Pointe, MI	_	_	21,883	_	_	21,883	21,883	(52)	2016	12/20/2021	38
Burns POB	Petoskey, MI	_	_	44,152	_	_	44,152	44,152	(119)	1993	12/20/2021	32
Beaumont Health and Wellness Center	Rochester Hills, MI	_	_	40,849	_	_	40,849	40,849	(101)	2011	12/20/2021	36
Beaumont POB	Sterling Heights, MI	_	_	39,501	_	_	39,501	39,501	(105)	2009	12/20/2021	36
Hospital Hill MOB I	Kansas City, MO	_	_	_	_	_	_	_	_	2015	12/20/2021	0
Jackson Baptist Medical Center - Belhaven	Jackson, MS	20,000	_	56,424	_	_	56,424	56,424	(139)	2013	12/20/2021	37
Old Bridge Medical Office Building	Old Bridge, NJ	20,000	_	65,290	_	_	65,290	65,290	(157)	2014	12/20/2021	36
Saint Vincent MOB	Erie, PA	_	_	39,833	_	_	39,833	39,833	(93)	2007	12/20/2021	36
Riverside MOB	Hampton, VA		4,808	24,502		4,808	24,502	29,310	(79)	2007	12/20/2021	29
		\$ 181,024	\$235,873	\$ 4,508,517	\$ 191,926	\$235,871	\$ 4,700,443	\$4,936,314	\$ (595,032)			
Real estate held for sale			(490)	(2,132)	268	(418)	(1,864)	(2,282)	318			
rear estate nera for Safe		s –	\$ (490)						\$ 318			
		3	\$ (490)	\$ (2,132)	\$ 268	\$ (418)	\$ (1,864)	\$ (2,282)	\$ 318			
Total		\$ 181,024	\$235,383	\$ 4,506,385	\$ 192,194	\$235,453	\$ 4,698,579	\$4,934,032	\$ (594,714)			

<sup>(1)</sup> Excludes acquired lease intangibles.

### Physicians Realty Trust Schedule III – Real Estate and Accumulated Depreciation December 31, 2021

The aggregate cost for federal income tax purposes of the real estate as of December 31, 2021 is \$5.2 billion, with accumulated tax depreciation of \$0.1 billion. The cost, net of accumulated depreciation, is approximately \$5.0 billion (unaudited).

The cost capitalized subsequent to acquisition is net of dispositions.

The changes in total real estate for the years ended December 31, 2021, 2020, and 2019 are as follows (in thousands):

	Year Ended December 31,								
		2021		2020		2019			
Balance as of the beginning of the year	\$	4,129,562	\$	3,979,481	\$	3,871,712			
Acquisitions		856,088		137,434		126,407			
Additions		31,731		33,701		35,531			
Impairment		(340)		(4,860)		_			
Real estate held for sale		(2,282)		_		_			
Dispositions		(80,727)		(16,194)		(54,169)			
Balance as of the end of the year	\$	4,934,032	\$	4,129,562	\$	3,979,481			

The changes in accumulated depreciation for the years ended December 31, 2021, 2020, and 2019 are as follows (in thousands):

	Year Ended December 31,								
		2021		2020		2019			
Balance as of the beginning of the year	\$	492,660	\$	382,833	\$	283,495			
Depreciation		119,901		113,146		109,030			
Real estate held for sale		318		_		_			
Dispositions		(18,165)		(3,319)		(9,692)			
Balance as of the end of the year	\$	594,714	\$	492,660	\$	382,833			

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

None.

#### ITEM 9A. CONTROLS AND PROCEDURES

#### **Physicians Realty Trust**

Evaluation of Disclosure Controls and Procedures.

The Trust's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Trust's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, the Trust's Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2021, the Trust's disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information it is required to disclose in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to the Trust's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting.

There have been no changes in the Trust's system of internal control over financial reporting during the quarter ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting.

The Trust's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of the Trust's internal control over financial reporting based on the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, management has concluded that the Trust's internal control over financial reporting was effective as of December 31, 2021 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

The effectiveness of the Trust's internal control over financial reporting as of December 31, 2021 has been audited by Ernst & Young LLP ("EY"), an independent registered public accounting firm, as stated in their report included in Part II, Item 7 of this Annual Report on Form 10-K.

Limitations on Effectiveness of Controls and Procedures.

In designing and evaluating the disclosure controls and procedures and the Trust's internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and the Trust's internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

#### ITEM 9B. OTHER INFORMATION

None.

#### ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

None.

#### PART III

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

Incorporated herein by reference are "Corporate Governance - Proposal 1: Election of Trustees", "Corporate Governance - Board Composition - Trustee Nominees", "Delinquent Section 16(a) Reports", "Corporate Governance - Board Composition - Trustee Nomination Procedure", "Corporate Governance - Our Board and Committees - Committee Membership and Structure - Audit Committee" and, "Executive Officers" to be included in the Trust's 2022 Proxy Statement, which will be filed with the SEC within 120 days after the end of its fiscal year ended December 31, 2021.

#### Code of Business Conduct and Ethics

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

#### ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference are "Executive Compensation", "Corporate Governance - Non-Employee Trustee Compensation", and "Executive Compensation - Compensation Committee Report" to be included in the Trust's 2022 Proxy Statement, which will be filed with the SEC within 120 days after the end of its fiscal year ended December 31, 2021.

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

Incorporated herein by reference are "Stock Ownership - Beneficial Ownership of the Company's Securities" and "Stock Ownership - Equity Compensation Plan Information" to be included in the Trust's 2022 Proxy Statement, which will be filed with the SEC within 120 days after the end of its fiscal year ended December 31, 2021.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated herein by reference are "Stock Ownership - Certain Relationships and Related Party Transactions" and "Corporate Governance - Board Composition - Trustee Independence" to be included in the Trust's 2022 Proxy Statement, which will be filed with the SEC within 120 days after the end of its fiscal year ended December 31, 2021.

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

Incorporated herein by reference is "Audit Committee Matters - Proposal 2: Ratification of Appointment of Independent Registered Public Accounting Firm", "Audit Committee Matters - Audit Committee Pre-Approval Policies and Procedures", and "Audit Committee Matters - Fees Paid to Independent Registered Public Accounting Firm" to be included in the Trust's 2022 Proxy Statement, which will be filed with the SEC within 120 days after the end of its fiscal year ended December 31, 2021.

#### PART IV

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) The following documents are filed as part of this report:
- (1) Financial Statements:

	Page
Report of Independent Registered Public Accounting Firm	66
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting Trust	68
Consolidated Balance Sheets at December 31, 2021 and 2020	69
Consolidated Statements of Income for the Years Ended December 31, 2021, 2020, and 2019	70
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2021, 2020, and 2019	71
Consolidated Statements of Equity for the Years Ended December 31, 2021, 2020, and 2019	72
Consolidated Statements of Cash Flows for the Years Ended December 31, 2021, 2020, and 2019	73
Notes to Consolidated Financial Statements	74
(2) Financial Statement Schedules:	
Schedule III – Real Estate and Accumulated Depreciation	97

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

(3) *Exhibits*:

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

The report of Physicians Realty Trust's independent registered public accounting firm (PCAOB ID:42) with respect to the above-referenced financial statements and their report on internal control over financial reporting are included in Item 8 and Item 9A of this Form 10-K at the page number referenced above. Their consent appears as Exhibit 23 of this form 10-K.

#### ITEM 16. FORM 10-K SUMMARY

None.

#### **SIGNATURES**

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

#### PHYSICIANS REALTY TRUST

Dated: February 24, 2022 /s/ John T. Thomas

John T. Thomas Chief Executive Officer and President (Principal Executive Officer)

#### Power of Attorney

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

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

Signature	Title	Date
/s/ JOHN T. THOMAS John T. Thomas	Chief Executive Officer and President and Trustee (Principal Executive Officer)	February 24, 2022
/s/ JEFFREY N. THEILER  Jeffrey N. Theiler	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2022
/s/ JOHN W. LUCEY John W. Lucey	Chief Accounting and Administrative Officer (Principal Accounting Officer)	February 24, 2022
/s/ STANTON D. ANDERSON Stanton D. Anderson	Trustee	February 24, 2022
/s/ MARK A. BAUMGARTNER  Mark A. Baumgartner	Trustee	February 24, 2022
/s/ ALBERT C. BLACK, JR. Albert C. Black, Jr.	Trustee	February 24, 2022
/s/ WILLIAM A. EBINGER, M.D. William A. Ebinger, M.D.	Trustee	February 24, 2022
/s/ PAMELA J. KESSLER Pamela J. Kessler	Trustee	February 24, 2022
/s/ TOMMY G. THOMPSON Tommy G. Thompson	Chairman	February 24, 2022
/s/ RICHARD A. WEISS Richard A. Weiss	Trustee	February 24, 2022

EXHIBIT INDEX Exhibit No. 2.1 (21) Master Transaction Agreement, dated October 1, 2021, between Physicians Realty L.P. and Landmark Healthcare Companies LLC. 2.2 (22) First Amendment to Master Purchase Agreement, dated as of December 3, 2021 between Physicians Realty L.P. and Landmark Healthcare Companies LLC 2.3 (22) Second Amendment to Master Purchase Agreement, dated as of December 8, 2021 between Physicians Realty L.P. and Landmark Healthcare Companies LLC. 2.4 (22) Letter Agreement dated December 20, 2021 between Physicians Realty L.P. and Landmark Healthcare Companies LLC. Articles of Amendment and Restatement of Physicians Realty Trust 3.1 (2) Bylaws of Physicians Realty Trust, as amended through February 22, 2017 3.2 (3) Certificate of Limited Partnership of Physicians Realty L.P. 3.3 (1) Form of Certificate of Common Shares of Physicians Realty Trust 4.1 (4) Senior Indenture, dated as of March 7, 2017, among Physicians Realty L.P., Physicians Realty Trust and 4.2 U.S. Bank National Association, as trustee First Supplemental Indenture, dated as of March 7, 2017, among Physicians Realty L.P., Physicians Realty 4.3 Trust and U.S. Bank National Association, as trustee 4.4 Form of 4.300% Senior Notes due 2027 and guarantee thereof (included in Exhibit 4.3) Second Supplemental Indenture, dated as of December 1, 2017, among Physicians Realty L.P., Physicians 4.5 Realty Trust and U.S. Bank National Association, as trustee 4.6 (5) Form of 3.950% Senior Notes due 2028 and guarantee thereof (included in Exhibit 4.5) 4.7 Third Supplemental Indenture, dated as of October 13, 2021, among Physicians Realty L.P., Physicians Realty Trust and U.S. Bank National Association, as trustee 4.8 (6) Form of 2.625% Senior Note due 2031 and the guarantee thereof (included in Exhibit 4.7) 4.9 Description of Securities\* Second Amended and Restated Agreement of Limited Partnership of Physicians Realty L.P., dated 10.1 (7) February 5, 2015 (8) Form of Restricted Shares Award Agreement (Time Vesting)\*\* 10.2 (1) Form of Indemnification Agreement between Physicians Realty Trust and its trustees and officers 10.3 (9) Employment Agreement dated as of November 4, 2021 between the Trust and John T. Thomas\*\* 10.4 (9) Employment Agreement dated as of November 4, 2021 between the Trust and Jeffrey N. Theiler\*\* 10.5 (9) Employment Agreement dated as of November 4, 2021 between the Trust and John W. Lucey\*\* 10.6 10.7 (9) Employment Agreement dated as of November 4, 2021 between the Trust and Mark D. Theine\*\* (9) Employment Agreement dated as of November 4, 2021 between the Trust and Del Mar Deeni Taylor\*\* 10.8 (9) Employment Agreement dated as of November 4, 2021 between the Trust and Bradley D. Page\*\* 10.9 (9) Employment Agreement dated as of November 4, 2021 between the Trust and Daniel M. Klein\*\* 10.10 (9) Employment Agreement dated as of November 4, 2021 between the Trust and Laurie P. Becker\*\* 10.11 10.12 (9) Employment Agreement dated as of November 4, 2021 between the Trust and Amy M. Hall\*\*

- 10.13 (10) Physicians Realty Trust Incentive Bonus Plan\*\*
- 10.14 (10) Form of Restricted Share Award Agreement Executive (Time Vesting)\*\*
- 10.15 (10) Form of Restricted Share Award Agreement Trustees (Time Vesting)\*\*
- 10.16 (11) Physicians Realty Trust 2013 Equity Incentive Plan, as amended and restated effective April 30, 2019\*\*
- 10.17 (12) Form of Restricted Share Award Agreement Executive (Time Vesting)\*\*
- 10.18 (12) Form of Restricted Share Unit Award Agreement Trustees (Time Vesting)\*\*
- 10.19 (19) Form of Restricted Share Unit Award Agreement (Performance Units)\*\*
- 10.20 (20) Form of Restricted Share Unit Award Agreement for Executives (Time Vesting)\*\*
- 10.21 (18) Form of Restricted Share Unit Award Agreement Trustees (Time Vesting)\*\*
- 10.22 (20) Form of Restricted Share Unit Award Agreement (Performance Units)\* \*\*
- 10.23 (14) Note Purchase and Guarantee Agreement, dated as of January 7, 2016, among the Operating Partnership, the Trust and each of the purchasers identified therein
- 10.24 (14) Form of 4.03% Senior Notes, Series A, due January 7, 2023 (included in Exhibit 10.22)

Exhibit No.	Title
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- 10.25 (14) Form of 4.43% Senior Notes, Series B, due January 7, 2026 (included in Exhibit 10.22)
- 10.26 (14) Form of 4.57% Senior Notes, Series C, due January 7, 2028 (included in Exhibit 10.22)
- 10.27 (14) Form of 4.74% Senior Notes, Series D, due January 7, 2031 (included in Exhibit 10.22)
- 10.28 (15) Note Purchase and Guarantee Agreement, dated as of August 11, 2016, among the Operating Partnership, the Trust and each of the purchasers identified therein
- 10.29 (15) Form of 4.09% Senior Notes, Series A, due August 11, 2025 (included in Exhibit 10.27)
- 10.30 (15) Form of 4.18% Senior Notes, Series B, due August 11, 2026 (included in Exhibit 10.27)
- 10.31 (15) Form of 4.24% Senior Notes, Series C, due August 11, 2027 (included in Exhibit 10.27)
- 10.32 (15) First Amendment, dated as of August 11, 2016, to the Note Purchase and Guarantee Agreement, dated as of January 7, 2016, among the Operating Partnership, the Trust and the Noteholders, party thereto
- 10.33 (17) Second Amendment, dated as of November 19, 2018, to the Note Purchase and Guarantee Agreement, dated as of January 7, 2016, among the Operating Partnership, the Trust and the Noteholders party thereto
- 10.34 (17) First Amendment, dated as of November 19, 2018, to the Note Purchase and Guarantee Agreement, dated as of August 11, 2016, among the Operating Partnership, the Trust and the Noteholders party thereto
- 10.35 (16) Third Amended and Restated Credit Agreement, dated September 24, 2021, among Physicians Realty L.P., as Borrower, Physicians Realty Trust, as Guarantor, the Lenders party thereto, KeyBank National Association, as Administrative Agent, KeyBanc Capital Markets, Inc., BMO Capital Markets and Citizens Bank, N.A., as Lead Arrangers and Co-Bookrunners, and BMO Capital Markets and Citizens Bank, N.A., as Co-Syndication Agents.
- 21.1 List of Subsidiaries of the Registrant\*
- <u>22.1</u> <u>List of Subsidiary Issuers and Guaranteed Securities\*</u>
- 23.1 Consent of Ernst & Young LLP for Physicians Realty Trust\*
- 24.1 Power of Attorney (included on signature pages)\*
- 31.1 Certification of John T. Thomas, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Physicians Realty Trust\*
- 31.2 <u>Certification of Jeffrey N. Theiler, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Physicians Realty Trust\*</u>
- 32.1 Certification of John T. Thomas and Jeffrey N. Theiler, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) for Physicians Realty Trust\*
- 101.INS This instance document does not appear in the interactive data file because of XBRL tags are embedded within the inline XBRL document.
- 101.SCH XBRL Extension Schema Document(†)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document(†)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document(†)
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document(†)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document(†)
- 104.0 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).
- \* Filed herewith.
- \*\* Indicates a management contract or compensatory plan or arrangement.
- † Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement for purposes of Section 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.
- (1) Incorporated by reference to Amendment No. 2 to the Registrant's Registration Statement on Form S-11 filed with the SEC on June 14, 2013 (File No. 333-188862).
- (2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on February 24, 2017 (File No. 001-36007).
- (3) Incorporated by reference to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 17, 2015 (File No. 333-205034).
- (4) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on March 7, 2017 (File No. 001-36007).

- (5) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on December 1, 2017 (File No. 001-36007).
- (6) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on October 13, 2021 (File No. 001-36007).
- (7) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2015.
- (8) Incorporated by reference to Amendment No. 3 to the Registrant's Registration Statement on Form S-11 filed with the SEC on June 20, 2013 (File No. 333-188862).
- (9) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 5, 2021 (File No. 001-36007).
- (10) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on May 7, 2014 (File No. 001-36007).
- (11) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on April 30, 2019 (File No. 001-36007).
- (12) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 12, 2015 (File No. 001-36007).
- (13) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on June 13, 2016 (File No. 001-36007).
- Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on January 12, 2016 (File No. 001-36007).
- (15) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on August 11, 2016 (File No. 001-36007).
- (16) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on September 28, 2021 (File No. 001-36007).
- (17) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on February 28, 2019 (File No. 001-36007).
- (18) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 8, 2020 (File No. 001-36007).
- (19) Incorporated by reference to the Registrant's Quarterly Report on Form 8-K filed with the SEC on February 28, 2018 (File No. 001-36007).
- (20) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2020 (File No. 001-36007).
- (21) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on October 6, 2021 (File No. 001-36007).
- (22) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2021 (File No. 001-36007).