

Edgar Filing: Physicians Realty Trust - Form 8-K

Physicians Realty Trust  
Form 8-K  
April 05, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 8-K

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CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 5, 2016

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PHYSICIANS REALTY TRUST  
(Exact name of registrant as specified in its charter)

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|   |                                       |  |
|---|---------------------------------------|--|
| Maryland<br>(State or other jurisdiction of<br>incorporation or organization) | 001-36007<br>(Commission File Number) | 46-2519850<br>(I.R.S. Employer Identification No.) |
|---|---------------------------------------|--|

|  |                     |
|--|---------------------|
| 309 N. Water Street, Suite 500<br>Milwaukee, Wisconsin<br>(Address of principal executive offices) | 53202<br>(Zip Code) |
|--|---------------------|

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

Not Applicable  
(Former Name or Former Address, if Changed Since Last Report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

Physicians Realty L.P. (the “Operating Partnership”), a subsidiary of Physicians Realty Trust (the “Company”), entered into two separate purchase and sale agreements (the “Purchase Agreements”), each dated as of April 5, 2016, a non-binding letter of intent (the “LOI”) and is negotiating the purchase of two additional medical office facilities with certain subsidiaries and affiliates of Catholic Health Initiatives (“CHI”) to acquire 52 medical office facilities located in ten states, comprising approximately 3.2 million net leasable square feet (the “CHI Portfolio”) for an aggregate purchase price of approximately \$724.9 million, subject to closing prorations and other adjustments (collectively, the “CHI Acquisition”). This amount includes \$692.0 million payable to CHI as the purchase price for the medical office facilities plus \$32.9 million of capital commitments for improvements to the facilities expected to be paid by the Company over a five-year period following the closing of the acquisitions. The CHI Portfolio is 94.4% leased and the weighted average lease term remaining is 8.6 years. Approximately \$40.6 million, or 93%, of the first year in place net operating income of \$43.5 million will be represented by new 10-year leases with associated CHI health systems as described in more detail below. Forty-seven of the properties in the CHI Portfolio, representing approximately \$611.1 million of purchase price, are subject to the Purchase Agreements and three properties in the CHI Portfolio, representing approximately \$60.8 million of purchase price, are subject to a non-binding LOI. In addition, two of the properties in the CHI Portfolio, representing approximately \$20.0 million of purchase price, are subject to ongoing negotiations for the purchase by the Operating Partnership of such properties. Upon closing of the CHI Acquisition, the first year unlevered cash yield is expected to be 6.3%.

At closing, 34 properties in the CHI Portfolio will be subject to ground leases. The Company expects to enter into new ground leases with affiliates of CHI with respect to 33 of those properties in connection with the CHI Acquisition. Each of the 33 new ground leases with CHI affiliates will have an initial 49 year term with three 10-year extension options. The Company also expects to take assignment of one existing ground lease with approximately 87 years remaining on the lease term. The CHI health systems currently occupy a substantial portion of the CHI Portfolio space as shown in the tables below and, upon closing of the CHI Acquisition, the Company expects to enter into new 10-year lease agreements for this space with the CHI health systems, which leases will be subject to 2.5% annual rent increases. In aggregate, the CHI health systems will occupy approximately 2,467,135 square feet, or approximately 78% of the total square footage in the CHI Portfolio.

The CHI Portfolio consists of the following properties, organized by the health system for which the property is affiliated:

CHI Health - 14 Properties:

| Property  |             | Location         | Square Footage | Health System Occupancy |
|---|-------------|------------------|----------------|-------------------------|
| Memorial Health Center                                | (1) (3)     | Grand Island, NE | 178,347        | 100%                    |
| Creighton University Medical Center University Campus | (1) (2) (3) | Omaha, NE        | 85,000         | 100%                    |
| Good Samaritan Medical Office Building                | (1)         | Kearney, NE      | 111,953        | 97%                     |
| Nebraska Heart Institute Medical Building             | (1) (3) (4) | Lincoln, NE      | 70,256         | 100%                    |
| CHI Health McAuley Fogelstrom Center                  | (1) (3)     | Omaha, NE        | 96,231         | 100%                    |
| Meridan Office Building                               | (1) (3)     | Englewood, CO    | 82,000         | 100%                    |
| Lakeside Two Professional Center                      | (1)         | Omaha, NE        | 67,652         | 35%                     |
| Lakeside Wellness Center                              | (1) (3)     | Omaha, NE        | 44,806         | 100%                    |
| Exton Revenue Cycle Office                            | (1) (3)     | Exton, PA        | 32,000         | 100%                    |
| Midlands One Professional Center                      | (1)         | Papillion, NE    | 63,093         | 54%                     |
| Grand Island Specialty Clinic                         | (3)         | Grand Island, NE | 15,713         | 100%                    |

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|                                     |             |               |         |      |
|-------------------------------------|-------------|---------------|---------|------|
| Lakeside Three Professional Center  |             | Omaha, NE     | 20,939  | 27%  |
| Midlands Two Professional Center    | (1)         | Papillion, NE | 28,230  | 23%  |
| Good Samaritan North Annex Building | (1) (3) (4) | Kearney, NE   | 11,700  | 100% |
| Total                               |             |               | 907,920 |      |

(1) The acquisition of these properties is subject to approval by CHF (as defined herein).

(2) The purchase of this property is subject to a signed non-binding LOI and the Company expects to negotiate and enter into a definitive purchase and sale agreement for this property.

(3) These properties are occupied by a single CHI tenant.

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- (4) The purchase of these properties are subject to negotiations and the Company expects to negotiate for and enter into definitive purchase and sale agreements for these properties.

Kentucky One - 9 Properties:

| Property                               |     | Location           | Square Footage | Health System Occupancy |
|--|-----|--------------------|----------------|-------------------------|
| Medical Center Jewish East             | (2) | Louisville, KY     | 211,236        | 100%                    |
| St. Joseph Office Park Condominiums    |     | Lexington, KY      | 240,789        | 59%                     |
| Jewish Hospital Outpatient Care Center | (2) | Louisville, KY     | 137,932        | 100%                    |
| Jewish - Medical Center South          | (2) | Shepherdsville, KY | 47,980         | 100%                    |
| Jewish - Medical Plaza I               |     | Louisville, KY     | 59,586         | 86%                     |
| St. Mary Caritas Medical I             | (1) | Louisville, KY     | 70,299         | 54%                     |
| KentuckyOne Health Medical Plaza II    |     | Louisville, KY     | 96,335         | 54%                     |
| St. Mary Caritas Medical II            | (1) | Louisville, KY     | 33,052         | 79%                     |
| St. Mary Caritas Medical III           | (1) | Louisville, KY     | 33,010         | 4%                      |
| Total                                  |     |                    | 930,219        |                         |

(1) The acquisition of these properties is subject to approval by CHF.

(2) These properties are occupied by a single CHI tenant.

CHI Franciscan Health - 9 Properties:

| Property                                  |         | Location        | Square Footage | Health System Occupancy |
|---|---------|-----------------|----------------|-------------------------|
| FESC                                      | (1) (3) | Tacoma, WA      | 97,197         | 100%                    |
| St. Joseph Medical Clinic                 | (1)     | Tacoma, WA      | 56,536         | 89%                     |
| St. Francis MOB                           | (2)     | Federal Way, WA | 40,667         | 69%                     |
| St. Joseph Medical Pavilion               | (2)     | Tacoma, WA      | 48,088         | 74%                     |
| St. Clare Medical Pavilion                | (1)     | Lakewood, WA    | 38,151         | 73%                     |
| Franciscan Education & Support Center     | (1) (3) | Tacoma, WA      | 49,443         | 100%                    |
| Physician Medical Center                  |         | Tacoma, WA      | 35,526         | 11%                     |
| Franciscan Medical Pavilion in Gig Harbor | (1)     | Gig Harbor, WA  | 30,379         | 99%                     |
| Franciscan Health Port Clinic             | (3)     | Tacoma, WA      | 6,061          | 100%                    |
| Total                                     |         |                 | 402,048        |                         |

(1) The acquisition of these properties is subject to approval by CHF.

(2) The purchases of these properties are subject to a signed non-binding LOI and the Company expects to negotiate and enter into definitive purchase and sale agreements for these properties.

(3) These properties are occupied by a single CHI tenant.

CHI St. Alexius Health - 6 Properties:

| Property  |         | Location     | Square Footage | Health System Occupancy |
|---|---------|--------------|----------------|-------------------------|
| St. Alexius Minot Medical Plaza                       | (1) (2) | Minot, ND    | 67,575         | 100%                    |
| St. Alexius Technology & Education Building           | (1) (2) | Bismarck, ND | 100,000        | 100%                    |
| St. Alexius Orthopaedic Center of Excellence Building | (1)     | Bismarck, ND | 66,187         | 62%                     |
| St. Alexius Medical Arts Pavilion                     | (1) (2) | Bismarck, ND | 56,005         | 100%                    |
| St. Alexius Health Medical Plaza - Mandan             | (1) (2) | Mandan, ND   | 22,000         | 100%                    |
|   | (1) (2) | Bismarck, ND | 34,000         | 100%                    |

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St. Alexius Great Plains Rehabilitation Services

Building

Total

345,767

(1) The acquisition of these properties is subject to approval by CHF.

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(2) These properties are occupied by a single CHI tenant.

CHI St. Vincent - 4 Properties:

| Property                                    |         | Location                | Square Footage | Health System Occupancy |
|---|---------|-------------------------|----------------|-------------------------|
| St. Vincent West Medical Office Building    | (1) (2) | Little Rock, AR         | 45,000         | 100%                    |
| Parkview Medical Office Condominium         |         | Little Rock, AR         | 29,622         | 91%                     |
| Hot Springs Village Medical Office Building |         | Hot Springs Village, AR | 29,850         | 51%                     |
| Blandford Medical Condominiums              | (2)     | Little Rock, AR         | 13,640         | 100%                    |
| Total                                       |         |                         | 118,112        |                         |

(1) The acquisition of this property is subject to approval by CHF.

(2) These properties are occupied by a single CHI tenant.

CHI St. Luke's Health - Memorial - 3 Properties:

| Property                                |         | Location   | Square Footage | Health System Occupancy |
|---|---------|------------|----------------|-------------------------|
| Cardwell Professional Building          |         | Lufkin, TX | 43,089         | 76%                     |
| St. Luke's Health Medical Arts Pavilion |         | Lufkin, TX | 52,685         | 51%                     |
| Memorial Outpatient Therapy Center      | (1) (2) | Lufkin, TX | 21,432         | 100%                    |
| Total                                   |         |            | 117,206        |                         |

(1) The acquisition of this property is subject to approval by CHF.

(2) This property is occupied by a single CHI tenant.

CHI St. Luke's Health - 2 Properties:

| Property                            |     | Location          | Square Footage | Health System Occupancy |
|-------------------------------------|-----|-------------------|----------------|-------------------------|
| Springwoods Medical Office Building | (1) | Springwoods, TX   | 101,254        | 70%                     |
| Woodlands Medical Arts Center I     | (1) | The Woodlands, TX | 96,199         | 13%                     |
| Total                               |     |                   | 197,453        |                         |

(1) The acquisition of these properties is subject to approval by CHF.

CHI Memorial - 1 Property:

| Property                       |     | Location        | Square Footage | Health System Occupancy |
|--------------------------------|-----|-----------------|----------------|-------------------------|
| Missionary Ridge Medical Tower | (1) | Chattanooga, TN | 85,351         | 59%                     |
| Total                          |     |                 | 85,351         |                         |

(1) The acquisition of this property is subject to approval by CHF.

Centura - 3 Properties:

| Property                     |         | Location     | Square Footage | Health System Occupancy |
|------------------------------|---------|--------------|----------------|-------------------------|
| Peak One ASC                 | (1) (2) | Frisco, CO   | 11,120         | 100%                    |
| Thornton Neighborhood Health | (1) (2) | Thornton, CO | 10,700         | 100%                    |

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|                            |         |            |        |      |
|----------------------------|---------|------------|--------|------|
| Dacono Neighborhood Health | (1) (2) | Dacono, CO | 10,800 | 100% |
| Total                      |         |            | 32,620 |      |

(1) The acquisition of these properties is subject to approval by CHF.

(2) These properties are occupied by a single CHI tenant.

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Trinity - 1 Property:

| Property               |     | Location      | Square Footage | Health System Occupancy |
|------------------------|-----|---------------|----------------|-------------------------|
| Fruitland Health Plaza | (1) | Fruitland, ID | 22,799         | 47%                     |
| Total                  |     |               | 22,799         |                         |

(1) The acquisition of this property is subject to approval by CHF.

Aggregate CHI Portfolio - 52 Properties

| System                           | Number of Properties | Square Footage |
|----------------------------------|----------------------|----------------|
| CHI Health                       | 14                   | 907,920        |
| Kentucky One                     | 9                    | 930,219        |
| CHI Franciscan Health            | 9                    | 402,048        |
| CHI St. Alexius Health           | 6                    | 345,767        |
| CHI St. Vincent                  | 4                    | 118,112        |
| CHI St. Luke's Health - Memorial | 3                    | 117,206        |
| CHI St. Luke's Health            | 2                    | 197,453        |
| CHI Memorial                     | 1                    | 85,351         |
| Centura                          | 3                    | 32,620         |
| Trinity                          | 1                    | 22,799         |
| Total                            | 52                   | 3,159,495      |

The Purchase Agreements, and the purchase agreements the Company expects to enter into pursuant to the signed LOI and in connection with the Company's ongoing negotiations with respect to two properties in the CHI Portfolio, contain or will contain customary representations, warranties and covenants of the parties. The acquisition of the CHI Portfolio is also subject to the satisfaction of certain conditions to closing, including receipt of approval of the Catholic Healthcare Federation ("CHF") with respect to the sale of 35 of the 52 properties included in the CHI Portfolio and other customary conditions to closing. Properties subject to CHF approval represent approximately \$438.6 million of the aggregate purchase price of the portfolio. The Company has the option to proceed with the purchase of some or all of the 17 properties, representing approximately \$253.3 million of the aggregate purchase price of the CHI Portfolio, that do not require CHF approval. If CHF does not approve of the sale of the properties that require approval, a break-up fee of \$8.0 million is payable by CHI to the Operating Partnership. Assuming the satisfaction or waiver of all other outstanding contingencies, the acquisitions are anticipated to occur in a series of two or more closings, with the first closing of some or all of the 17 properties that do not require CHF approval anticipated to occur in the second quarter of 2016 and the second closing to occur promptly following the date on which approval of CHF is obtained, or at such other times as the parties may agree. While the Company expects that it will be successful in obtaining CHF approval, no assurances can be provided as to the certainty or timing of such approval.

There can be no assurance that any or all of the conditions to closing, including CHF approval, will be satisfied or, if satisfied, that the Company will complete the acquisition of one or more of the properties comprising the CHI Portfolio, or the timing of any such closings. Moreover, the non-binding LOI described above, and the Company's negotiations with respect to the purchase of two properties in the CHI Portfolio, remain subject to negotiation and execution of definitive agreements and customary closing conditions and there can be no assurance the Company will complete any of these transactions or acquire any of these properties.

Item 8.01. Other Events.



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During the quarter ended March 31, 2016, the Company completed investments totaling \$202.3 million, which includes acquisitions of 16 properties and 2 condominiums located in 13 states containing an aggregate of approximately 751,562 net leasable square feet with an average lease term of approximately 8.2 years, for an aggregate of approximately \$201.8 million and a loan investment of \$0.5 million. These investments were made using proceeds from the Company's follow-on public offering of common shares in January 2016 and borrowings under the Company's unsecured revolving credit facility and mortgage financings. Investment activity for the period is summarized below:

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| Property (1)                       | Location         | Acquisition Date  | Square Footage | Purchase Price (in thousands) |
|------------------------------------|------------------|-------------------|----------------|-------------------------------|
| Randall Road MOB - Suite 380       | Elgin, IL        | January 14, 2016  | 2,645          | \$704                         |
| Great Falls Hospital               | Great Falls, MT  | January 25, 2016  | 64,449         | 29,043                        |
| Monterey Medical Center ASC        | Stuart, FL       | February 1, 2016  | 9,500          | 6,900                         |
| Physicians Medical Plaza MOB       | Indianapolis, IN | February 1, 2016  | 40,936         | 8,500                         |
| Mezzanine Loan - Davis             | Minnetonka, MN   | February 4, 2016  | —              | 500                           |
| Park Nicollet Clinic               | Chanhassen, MN   | February 8, 2016  | 56,600         | 18,600                        |
| HEB Cancer Center                  | Bedford, TX      | February 12, 2016 | 38,182         | 13,980                        |
| Riverview Medical Center           | Lancaster, OH    | February 26, 2016 | 73,465         | 12,800                        |
| St. Luke's Cornwall MOB            | Cornwall, NY     | February 26, 2016 | 41,744         | 14,550                        |
| HonorHealth Glendale               | Glendale, AZ     | March 15, 2016    | 28,057         | 9,820                         |
| Columbia MOB                       | Hudson, NY       | March 21, 2016    | 65,965         | 18,450                        |
| St Vincent POB 1                   | Birmingham, AL   | March 23, 2016    | 76,112         | 10,951                        |
| St Vincent POB 2                   | Birmingham, AL   | March 23, 2016    | 66,169         | 7,945                         |
| St Vincent POB 3                   | Birmingham, AL   | March 23, 2016    | 82,595         | 10,455                        |
| Emerson Medical Building           | Creve Coeur, MO  | March 24, 2016    | 39,184         | 14,250                        |
| Randall Road MOB - Suite 160       | Elgin, IL        | March 24, 2016    | 3,439          | 865                           |
| Patient Partners Surgery Center    | Gallatin, TN     | March 30, 2016    | 9,890          | 4,750                         |
| Eye Associates of NM - Albuquerque | Albuquerque, NM  | March 31, 2016    | 28,930         | 10,536                        |
| Eye Associates of NM - Santa Fe    | Santa Fe, NM     | March 31, 2016    | 23,700         | 8,739                         |
| Total                              |                  |                   | 751,562        | \$202,338                     |

(1) "MOB" refers to medical office building.

A copy of the Company's press release announcing the transactions discussed in this 8-K is furnished as Exhibit 99.1 to this report.

Item 9.01. Financial Statement and Exhibits

(d) 99.1 Press Release, dated April 5, 2016, issued by Physicians Realty Trust.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: April 5, 2016

PHYSICIANS REALTY TRUST

By: /s/ John T. Thomas  
John T. Thomas  
President and Chief Executive Officer

EXHIBIT INDEX

| Exhibit No. | Description   |
|-------------|---|
| 99.1        | Press Release, dated April 5, 2016, issued by Physicians Realty Trust |