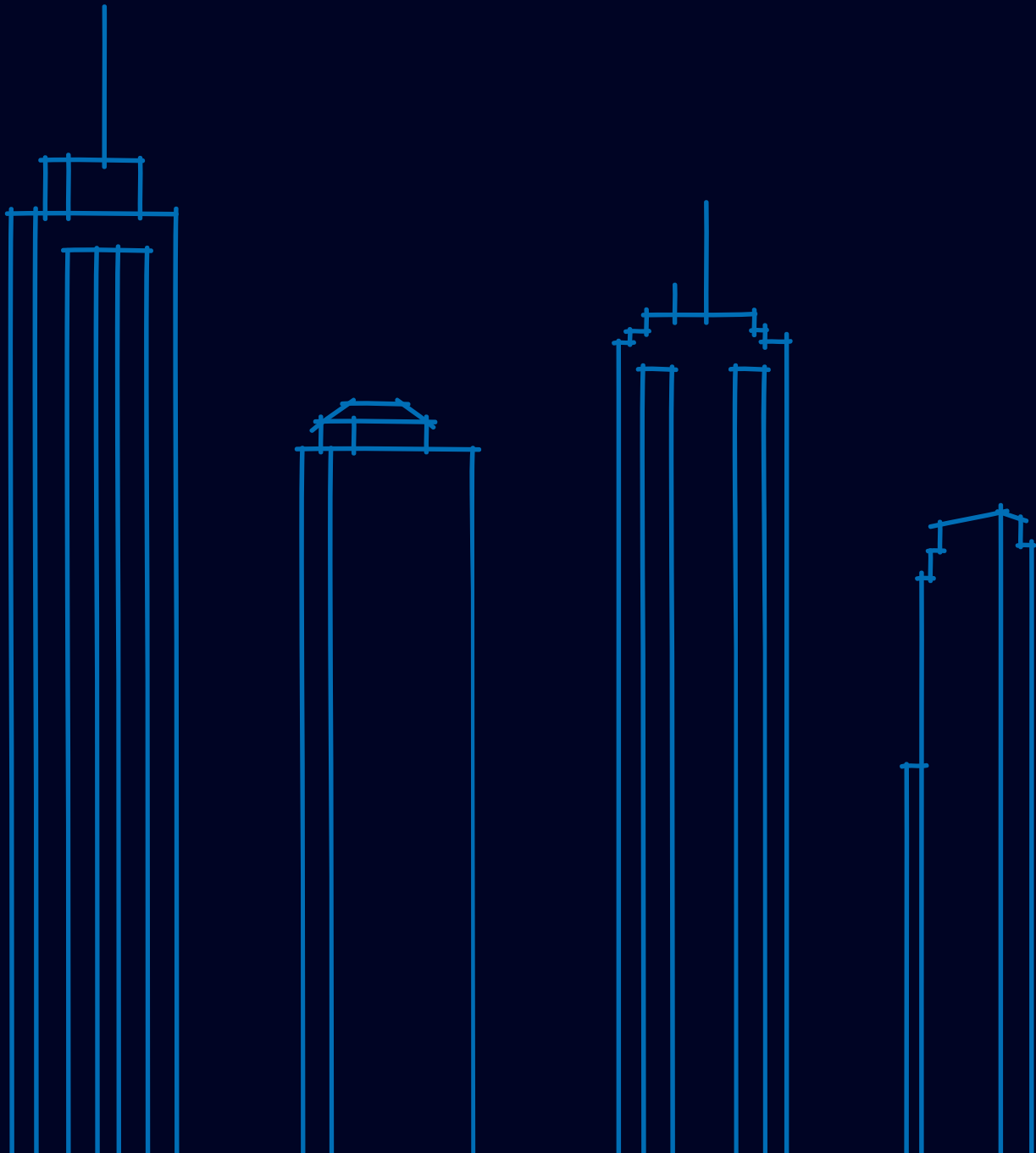




Equity  
Commonwealth

# 2019 Annual Report



## Dear Fellow Shareholders:

**As we write this letter**, we are in the midst of the global COVID-19 pandemic outbreak. Our priority right now is the health and safety of our employees, tenants and building staff. These are unprecedented times, and we are doing our best to manage these new challenges. While we cannot predict how long this situation will last, we are confident that our experienced team, strong balance sheet, liquidity and financial flexibility have positioned us well for this new environment.

## Year in Review

In 2019, we achieved important goals in leasing, asset management and dispositions. We completed 608,000 square feet of new and renewal leases in the 7-property portfolio. This activity increased leased occupancy by 150 basis points to 94.7%. We also increased GAAP rental rates on new and renewal leases by 11.6% and cash rental rates by 2.3%.

In addition, we successfully executed three dispositions for a total gross sales price of \$812 million:

- We sold 1735 Market Street in Philadelphia, Pennsylvania, for \$451.6 million. We stabilized the property at 92.8% leased after signing nearly 600,000 square feet of new leases before marketing for sale.
- We sold Bellevue Corporate Plaza in Bellevue, Washington, for \$195 million. The sale included a 255,000 square foot multi-tenant office property and additional development rights that were secured by our asset management and investment teams in 2017.
- We sold Research Park in Austin, Texas, for \$165.5 million. We renewed the property's largest tenant for 10 years before taking this 1.1 million square foot flex property to market.

We utilized proceeds from these sales to repay in full our \$250 million 5.875% senior unsecured notes and pay our shareholders \$429 million of common distributions.

So far this year, we completed two dispositions for a total gross sales price of \$672 million:

- We sold 109 Brookline in Boston, Massachusetts, for \$270 million. We took the 286,000 square foot property to market after we quickly back-filled a large move-out with a new 71,000 square foot software tenant and completed a 77,000 square foot renewal.
- We sold Tower 333 in Bellevue, Washington, for \$401.5 million, after signing Amazon to a new 429,000 square foot 16-year lease.

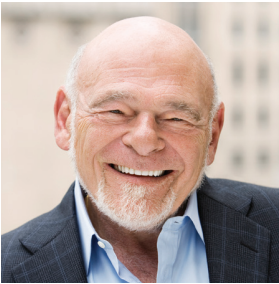
We have demonstrated an ability to consistently execute on our strategic plan. Since taking responsibility for Equity Commonwealth in 2014, through the first quarter of 2020, we have sold \$7.6 billion of assets, repaid \$3.2 billion of debt and preferred equity, paid \$736 million of common distributions and repurchased \$266 million of common stock. As a result of our focused execution, we are, today, in a unique position. Our balance sheet is strong, with a net cash balance of approximately \$3.2 billion or \$26 per share, as of March 31, 2020.

## Looking Ahead

As we evaluate capital allocation opportunities, we will remain patient and disciplined. We are still in the early stages of the pandemic and understanding the effects COVID-19 will have on the economy is premature. We are committed to finding a unique opportunity and have the right ingredients with the balance sheet, team and relationships we have built to create meaningful value for our shareholders.

We are an unconventional REIT and recognize the opportunity we have to reposition our business. We have built a solid foundation with a talented and enthusiastic team, strong corporate governance and a culture of entrepreneurialism, discipline, transparency and collaboration. We have generated substantial liquidity and created capacity for future growth. Our interests are aligned with yours, and we will remain disciplined as we look for the right opportunity for long-term growth.

We are grateful to our team for the passion, commitment and energy they bring each day. To our Board of Trustees and our fellow shareholders, thank you for your continued support and confidence.



A blue ink signature of Sam Zell, written in a cursive style.

**Sam Zell**  
*Chairman*



A blue ink signature of David Helfand, written in a cursive style.

**David Helfand**  
*President and Chief Executive Officer*

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2019

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Commission File Number 1-9317

**EQUITY COMMONWEALTH**

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

04-658834

(IRS Employer Identification No.)

Two North Riverside Plaza, Suite 2100, Chicago, IL

(Address of Principal Executive Offices)

60606

(Zip Code)

(312) 646-2800

(Registrant's Telephone Number, Including Area Code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title Of Each Class	Trading Symbol	Name of Each Exchange On Which Registered
Common Shares of Beneficial Interest	EQC	New York Stock Exchange
6.50% Series D Cumulative Convertible Preferred Shares of Beneficial Interest	EQCpD	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting common shares of beneficial ownership, \$0.01 par value, or common shares, of the registrant held by non-affiliates was approximately \$3.9 billion based on the \$32.52 closing price per common share on the New York Stock Exchange on June 28, 2019. For purposes of calculating the aggregate market value of shares held by non-affiliates, we have assumed that all outstanding shares are held by non-affiliates, except for shares held by each of our trustees, executive officers, and any 10% or greater stockholders. These assumptions should not be deemed to constitute an admission that all trustees, executive officers, and 10% or greater stockholders are, in fact, affiliates of our company, or that there are not other persons who may be deemed to be affiliates of our company. Further information concerning shareholdings of our trustees, officers, and principal stockholders is included or incorporated by reference in Part III, Item 12 of this Annual Report on Form 10-K.

Number of registrant's common shares outstanding as of February 6, 2020: 122,009,257.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain Information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to the definitive Proxy Statement for the 2020 Annual Meeting of Shareholders, or the definitive Proxy Statement, which Equity Commonwealth intends to file no later than 120 days after the end of its fiscal year ended December 31, 2019.

## FORWARD LOOKING STATEMENTS

Some of the statements contained in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the federal securities laws including, but not limited to, statements pertaining to our capital resources, portfolio performance, results of operations or anticipated market conditions. Any forward-looking statements contained in this Annual Report on Form 10-K are intended to be made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” 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 or intentions.

Any forward-looking statements contained in this Annual Report on Form 10-K reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, see the section entitled “Risk Factors” in this Annual Report on Form 10-K.

**EQUITY COMMONWEALTH**  
**2019 FORM 10-K ANNUAL REPORT**

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## EXPLANATORY NOTE

References in this Annual Report on Form 10-K to "the Company", "EQC", "we", "us" or "our", refer to Equity Commonwealth and its consolidated subsidiaries as of December 31, 2019, unless the context indicates otherwise.

### PART I

#### Item 1. Business.

*The Company.* We are an internally managed and self-advised real estate investment trust, or REIT, primarily engaged in the ownership and operation of office buildings in the United States. We were formed in 1986 under Maryland law and we have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code. The Company operates as what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT, conducting substantially all of its activities through EQC Operating Trust, a Maryland real estate investment trust, or the Operating Trust.

The Company beneficially owned 99.96% of the outstanding shares of beneficial interest, designated as units, in the Operating Trust, or OP Units, as of December 31, 2019, and the Company is the sole trustee of the Operating Trust. As the sole trustee, the Company generally has the power under the declaration of trust of the Operating Trust to manage and conduct the business of the Operating Trust, subject to certain limited approval and voting rights of other holders of OP Units.

At December 31, 2019, our portfolio consisted of seven properties, with a total of 2.5 million square feet. Over the past six years, we disposed of 161 properties and three land parcels totaling 43.3 million square feet for an aggregate gross sales price of \$6.2 billion, as well as \$704.8 million of common shares of Select Income REIT. The remaining seven properties were 94.7% leased and had 89.0% commenced occupancy as of December 31, 2019. In 2019, the Company completed three property dispositions totaling \$812.1 million. In addition, in February 2020, the Company sold 109 Brookline Avenue for a gross sale price of \$270.0 million, and in February 2020, the Company entered into an agreement to sell 333 108th Avenue NE for a gross sale price of \$401.5 million. We currently have one other property totaling 0.2 million square feet for sale.

We remain focused on creating value through proactive asset management and improving operating results, while evaluating opportunities to invest capital in high-quality assets or businesses in favorable markets that offer a compelling risk-reward profile. We have generated significant proceeds from dispositions. Since 2014, we have used these proceeds to retire \$3.2 billion of debt and preferred shares, paid \$733.6 million in distributions to our shareholders and have \$2.8 billion of cash and cash equivalents as of December 31, 2019. To create a foundation for long-term growth, the set of opportunities that we pursue in the future may include acquisitions and/or investments in office or non-office property types. Alternatively, we may decide to sell, liquidate or otherwise exit our business through one or more transactions if we believe doing so will maximize shareholder value.

As of December 31, 2019, we had 28 full-time employees. Our principal executive offices are located at Two North Riverside Plaza, Suite 2100, Chicago, Illinois 60606, our telephone number is (312) 646-2800 and our website is [www.eqcre.com](http://www.eqcre.com). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this Annual Report on Form 10-K unless expressly noted.

#### Policies with Respect to Certain Activities

The discussion below sets forth certain additional information regarding our investment, repositioning, disposition and financing policies. These policies are established by our Board of Trustees and may be changed by our Board of Trustees at any time without shareholder approval.

*Investment Policies.* In evaluating potential investments and asset sales, we consider various factors, including but not limited to the following:

- the type of property;
- the historical and projected rents received and likely to be received from the property;
- the historical and expected operating expenses, including real estate taxes, incurred and expected to be incurred at the property;
- the growth, tax and regulatory environments of the market in which the property is located;
- the quality and credit worthiness of the property's tenants;
- occupancy and demand for similar properties in the same or nearby markets;

- the construction quality, physical condition and design of the property, and expected capital expenditures that may be needed to be made to the property;
- the location of the property; and
- the pricing of comparable properties as evidenced by recent market sales.

We have no policies that specifically limit the percentage of our assets that may be invested in any individual property, in any one type of property, in properties in one geographic area, in properties leased to any one tenant, in properties leased to an affiliated group of tenants, in real estate joint ventures or in participating, convertible or other types of mortgages. We have in the past provided seller financing for properties we have sold and may do so again in the future.

In the past, we have considered the possibility of entering into mergers or strategic combinations with other companies. We may undertake such considerations in the future.

*Office Repositioning Strategy.* Our office repositioning strategy is to own and acquire, at a discount to replacement cost, high-quality multi-tenant assets in markets and sub-markets with favorable long-term supply and demand fundamentals. Our efforts in the office sector will primarily be focused on larger buildings in central business districts and major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply.

*Financing Policies.* Our Board of Trustees may determine to seek additional capital through equity offerings, debt financings, retention of cash flows in excess of distributions to shareholders or a combination of these methods. One of our properties is encumbered by a mortgage. To the extent that our Board of Trustees decides to obtain additional debt financing, we may do so on an unsecured basis or a secured basis, subject to limitations in existing financing or other contractual arrangements; we may seek to obtain lines of credit or to issue securities senior to our common and/or preferred shares, including preferred shares or debt securities which may be convertible into common shares or be accompanied by warrants to purchase common shares; or we may engage in transactions which involve a sale or other conveyance of properties to affiliated or unaffiliated entities. We may finance acquisitions and/or investments by using retained cash flow from operations and dispositions, by the issuance of additional equity securities or debt, by assuming outstanding mortgage debt on the acquired properties or by an exchange of properties. The proceeds from any of our financings may be used to pay distributions, to provide working capital, to refinance existing indebtedness or to finance acquisitions and/or investments and expansions of existing or new properties or businesses. We may from time to time re-evaluate and modify our financing policies in light of then current market conditions, relative availability and costs of debt and equity capital, the changing values of properties, growth and acquisition and/or investment opportunities and other factors, and we may increase or decrease our ratio of debt to total capitalization.

*Competition.* Investing in and operating real estate is a highly competitive business. We compete against other REITs, numerous financial institutions, individuals and public and private companies who are actively engaged in the real estate business. Also, we compete for tenants and investments based on a number of factors including pricing, underwriting criteria and reputation. Our ability to successfully compete is also impacted by economic and population trends, availability of acceptable acquisition and/or investment opportunities, our ability to negotiate beneficial leasing and investment terms, availability and cost of capital and new and existing laws and regulations. Some of our competitors are dominant in selected geographic markets, including in markets in which we operate. Some of our competitors have greater financial and other resources than we have.

For additional information on competition and the risks associated with our business, please see "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K.

*Environmental and Climate Change Matters.* Under various federal, state and local laws related to environmental, health and safety matters, owners, former owners, operators and tenants of real estate may be subject to liabilities resulting from the presence of hazardous substances, waste or petroleum products at, on, under, or emanating from such real estate, including costs for investigating and remediating or removing hazardous substances present at or migrating from such properties, liabilities for property damage or personal injuries, natural resource damages, and costs and losses arising from property use restrictions or diminution in value. We, or our tenants, also may incur liability for failing to comply with environmental, health and safety laws. We do not believe that there are environmental conditions or issues at any of our properties that have had or will have a material adverse effect on us. However, no assurances can be given that conditions or issues are not present at our properties or that costs we may be required to incur in the future to remediate contamination or comply with environmental, health and safety laws will not have a material adverse effect on our business or financial condition.

We estimate the cost to remove hazardous substances or address environmental issues at some of our properties based in part on environmental surveys and analyses conducted on our properties.



Some of our properties have been or may be impacted by releases of hazardous substances or petroleum products. Such contamination may arise from a variety of sources, including historic uses of our properties for commercial or industrial purposes, spills of such materials at adjacent properties, or releases from tanks used on our properties to store petroleum or hazardous substances. In addition, certain of our properties are on sites upon which or are adjacent to or near other properties upon which others, including former owners or tenants, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances. Though we have reviewed these properties for potential environmental liabilities, we cannot assure that we have identified all potential environmental liabilities.

Certain of our buildings contain asbestos. We believe any asbestos in our buildings is contained in accordance with current regulations. If we remove the asbestos or renovate or demolish these properties, certain environmental regulations govern the manner in which the asbestos must be handled and removed, which could result in increased costs.

For more information regarding environmental matters and their possible adverse impact on us, see "Risk Factors—Risks Related to Our Business—We could incur significant costs and liabilities with respect to environmental matters" in Part I, Item 1A of this Annual Report on Form 10-K.

The current political debate about climate change has resulted in various treaties, laws and regulations which are intended to impact carbon emissions. We believe these laws may cause energy costs at our properties to increase, but we do not expect the direct impact of these increases to be material to our results of operations because the increased costs either would be the responsibility of our tenants directly or in large part may be passed through by us to our tenants as additional lease payments. Laws enacted to mitigate climate change may cause us to make material investments in our properties which could materially and adversely affect our financial condition. We evaluate ways to improve the energy efficiency at all of our properties. For more information regarding climate change matters and their possible adverse impact on us, see "Risk Factors—Risks Related to Our Business—We may be adversely affected by laws, regulations or other issues related to climate change" in Part I, Item 1A of this Annual Report on Form 10-K.

#### **Regulation FD Disclosures and Internet Website**

We use any of the following to comply with our disclosure obligations under Regulation FD: press releases, SEC filings, public conference calls, or our website. We routinely post important information on our website at [www.eqcre.com](http://www.eqcre.com), including information that may be deemed to be material. We encourage investors and others interested in the Company to monitor these distribution channels for material disclosures.

Copies of our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance committees are posted on our website and may be obtained free of charge by writing to our Secretary, Equity Commonwealth, Two North Riverside Plaza, Suite 2100, Chicago, Illinois 60606. We make available, free of charge, on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after these forms are filed with, or furnished to, the SEC. Any shareholder or other interested party who desires to communicate with our Board of Trustees, or our non-management Trustees, individually or as a group, may do so by contacting our investor relations department through our website. Our website address is included in this Annual Report on Form 10-K as a textual reference only and the information on the website is not incorporated by reference into this Annual Report on Form 10-K.

### **RISK FACTORS**

#### **Item 1A. Risk Factors.**

Our business faces many risks. The risks described below may not be the only risks we face but are the risks we know of that we believe may be material at this time. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer and the trading price of our securities could decline. Investors and prospective investors should consider the following risks and the information contained under the heading "Forward Looking Statements" before deciding whether to invest in our securities.

## ***Risks Related to Our Business***

### **We may be unsuccessful in repositioning our portfolio, which could materially and adversely affect us, including our growth prospects and our stockholders' return on investment.**

We have generated significant proceeds from dispositions in connection with our repositioning strategy and continue to evaluate opportunities for acquisitions and/or investments both in and outside the office sector. We are seeking to reinvest the significant cash balances we have accumulated from such dispositions, but we cannot provide any assurances that we will be successful. The ability of our management team to reposition our portfolio depends substantially on identifying acquisitions and/or investments that we believe are strategically compelling and completing such transactions on favorable terms. If we are unable to complete acquisitions or investments, then we will be unable to complete our repositioning efforts, which could materially and adversely affect us, including our growth prospects and our stockholders' return on investment.

### **We may make acquisitions and/or investments that are viewed unfavorably by our investors, which could negatively affect our stock price.**

We may make acquisitions and/or investments that are viewed unfavorably by our investors. We evaluate a range of investments in various office and non-office property types, including portfolios of properties, individual properties and businesses, that vary in significance from relatively minor initial investments to transformative transactions. Our investors may view an acquisition and/or investment that we make unfavorably for a number of reasons, including because they believe we overvalued the acquired assets or business, they disfavor the property type, quality or location of the acquired assets or business, they view the initial investment as small and therefore requiring substantially more time to complete the portfolio repositioning, or they disfavor the management or other personnel involved in the acquired business. If we make a significant acquisition and/or investment that is viewed unfavorably by our investors, then our stock price could be negatively affected.

### **We may incur significant costs pursuing acquisition and/or investment opportunities that we may not consummate, which could adversely affect our results of operations.**

We may incur significant costs pursuing acquisitions and/or investments that we never consummate. For example, when we investigate acquisition and/or investment opportunities, we typically incur expenses exploring such opportunities. Such costs include those related to due diligence and legal, advisory and consulting fees. The incurrence of failed pursuit costs could adversely affect our results of operations.

### **If we are unable to successfully complete any acquisitions and/or investments, we may decide to sell, liquidate or otherwise exit our business in one or more transactions, which could negatively impact our stockholders' return on investment.**

We may not be successful in making acquisitions and/or investments using the significant cash we have accumulated from prior dispositions. Our ability to identify and consummate acquisitions and/or investments in properties or businesses is subject to significant risks, including the following:

- we may be unable to identify attractive acquisition and/or investment opportunities;
- we may be unable to make acquisitions and/or investments at favorable prices;
- we may be unable to make an acquisition and/or investment because of competition from other real estate investors, such as private real estate companies, publicly traded REITs and institutional investment funds; and
- we may be unable to finance acquisitions and/or investments on favorable terms or at all.

If we are unable to successfully complete any acquisitions and/or investments, we may sell or liquidate the Company or otherwise exit our business through one or more transactions. The Board of Trustees and management regularly evaluate the best course of action for the Company and have not set a timetable for making any decision regarding a sale, liquidation or exit of the Company, and the timing of any such sale, liquidation or exit may be viewed unfavorably. If a sale, liquidation or exit of the Company occurs, or does not occur in a time frame viewed favorably, our common shareholders' return on investment could be negatively impacted.

### **We may encounter unanticipated difficulties relating to acquired properties or businesses, which may inhibit our growth and have a material adverse effect on us.**

Even if we are able to make acquisitions and/or investments on favorable terms, we might encounter unanticipated difficulties and expenditures relating to acquired properties or businesses. For example, notwithstanding pre-investment due diligence, we could acquire a property or business that contains undisclosed defects in design or construction. Similarly,

properties or businesses we acquire may be subject to unknown liabilities without any recourse or with only limited recourse, such as liabilities for clean-up of environmental contamination, claims by customers, vendors or other persons dealing with the former owners of the properties or business and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties or businesses. In addition, after our acquisition of a property and/or business, the market in which the acquired property or business is located may experience unexpected changes that adversely affect the property or business' value. The occupancy of properties that we acquire may decline during our ownership, and rents that are in effect at the time a property is acquired may decline thereafter. Also, our property operating and capital costs for acquisitions and/or investments may be higher than we anticipate and acquisitions in properties and/or businesses may not yield the returns we expect and may result in shareholder dilution. We may not integrate properties or businesses we acquire successfully or anticipated synergies, revenues, cost-savings or operating metrics may not be achieved or may be less than we estimated. If we acquire any non-office properties or businesses, we may encounter different risks specific to owning or operating such non-office properties or businesses, which may delay or impede our operating results and growth prospects. For these reasons, among others, our business plan to acquire additional properties or businesses may not be successful.

**We may make dispositions on unfavorable terms or that result in reputational harm.**

Our strategy in the office sector focuses on owning larger office buildings in central business districts and major urban areas in markets and sub-markets with favorable long-term supply and demand fundamentals. In order to execute this plan, we may seek to dispose of additional assets, but we may not be able to find attractive sale opportunities for such assets or we may not be able to complete sales in a timely manner, if at all. Our ability to continue to sell certain of our properties, and the prices we receive in any such sales, may be negatively affected by many factors. In particular, these factors could arise from weakness in or the lack of an established market for a property, the illiquid nature of real estate assets, changes in the financial condition or prospects of tenants and prospective purchasers, a limited number of prospective purchasers in certain markets, increase in the cost of or lack of availability of debt, the number of competing properties on the market, a deterioration in current local, national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. In addition, provisions of the Code relating to REITs may limit our ability to sell properties. See risk factor below *“Risks Related to Our Taxation as a REIT—The tax on “prohibited transactions” may limit our ability to engage in transactions which would be treated as sales for U.S. federal income tax purposes.”* For these reasons, we may be unable to sell certain of our properties for an extended period of time or at all, our business plan to sell certain of our properties may not succeed, and we may incur reputational harm.

**We may co-invest in joint ventures with third parties, and any such joint venture could be adversely affected by the capital markets, lack of sole decision-making authority, reliance on joint venture partners' financial condition and any disputes that may arise between us and our joint venture partners.**

We may co-invest with third parties through partnerships, joint ventures or other structures in which we acquire noncontrolling interests in, or share responsibility for, managing the affairs of a business, property, partnership, co-tenancy or other entity. If we enter into any such joint venture or similar ownership structure, we may not be in a position to exercise sole decision-making authority regarding the properties owned through such joint ventures or similar ownership structure. In addition, investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including potential deadlocks in making major decisions, restrictions on our ability to exit the joint venture, reliance on joint venture partners and the possibility that a joint venture partner might become bankrupt or fail to fund its share of required capital contributions, thus exposing us to liabilities in excess of our share of the joint venture or jeopardizing our REIT status. Joint venture partners may have business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. We may, in specific circumstances, be liable for the actions of our joint venture partners. In addition, any disputes that may arise between us and joint venture partners may result in litigation or arbitration that would increase its expenses. Any of the foregoing may have a material adverse effect on our business, financial condition and results of operations.

**We may not decrease our general and administrative expenses proportionally with any further reduction in the size of our portfolio, which could have a negative effect on our results of operations.**

Because our current strategy is to grow through acquisitions and/or investments, we maintain a level of staffing that we believe will enable us to effectively identify acquisition and/or investment opportunities and integrate any acquisitions and/or investments that we complete. As a result of this strategy, our general and administrative expenses may be higher than if we were not seeking growth through acquisitions and/or investments. If we are unable to grow through acquisitions and/or investments, and do not decrease our general and administrative expenses proportionally as we sell assets, our profitability and our results of operations could be adversely affected.

**The failure of one or more of our tenants to pay rent could materially and adversely affect us, including our results of operations.**

Our performance depends on the financial condition of our tenants and their ability to fulfill their lease obligations by paying their rental payments in a timely manner. As a result of our disposition activity, as of December 31, 2019, our portfolio was comprised of seven properties, and the failure of one or more of our tenants to pay all or a substantial portion of their rent obligations could materially and adversely affect us. We would be harmed if one or more of our major tenants, or a number of our smaller tenants, were to experience financial difficulties, including bankruptcy, insolvency, or a general downturn of business. As of December 31, 2019, the 9 largest tenants in our operating portfolio represented approximately 47.7% of our annualized rental revenue, and 22.9% of our annualized rental revenue was derived from our largest tenant. The inability of a major tenant to pay rent, or the bankruptcy or insolvency of a major tenant, would adversely affect income. If any of our major tenants, or a significant number of our smaller tenants, were to experience a downturn in their business, or a weakening of their financial condition, such an event could have an adverse effect on our investment and our financial condition.

**We derive substantially all of our revenues from seven properties, and losses at any such properties could materially and adversely affect us.**

As of December 31, 2019, we owned seven office properties and approximately 84.5% of our annualized rental revenue was derived from our five largest properties. Events that negatively impact one or more of our properties, such as a natural disaster, could have a large adverse effect on our results of operations. Such losses could have a material adverse effect on our business.

**We may be unable to renew leases, re-lease properties as leases expire or lease vacant spaces on favorable terms, which could materially and adversely affect us.**

As of December 31, 2019, leases representing 6.5% of our portfolio square footage and 7.5% of our annualized rental revenue will expire by the end of 2020 and leases representing 16.5% of our portfolio square footage and 15.3% of our annualized rental revenue will expire by the end of 2021. For more information on how we calculate lease expirations, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Property Operations.” We expect that many of our current tenants will decline to renew their leases when they expire in 2020, and other tenants may also decline for any reason to renew their leases. We also cannot assure you that any leases that are renewed will have terms as economically favorable as the expiring lease terms. If tenants do not renew their leases as they expire, we cannot provide any assurance that we will be able to find new tenants or that our properties will be re-leased at rental rates equal to or above the current rates in place. To attract new tenants, we may be required to offer substantial rent abatements, tenant improvement allowances, early termination rights or below-market renewal options. We may experience significant costs in connection with re-leasing our properties, which could materially and adversely affect us. Our inability to renew leases, re-lease properties as leases expire or lease vacant space on favorable terms could materially and adversely affect us.

**Significant competition for tenants may reduce rents which could materially and adversely affect us.**

All of our properties face competition for tenants. Some competing properties may be newer, better located or more attractive to tenants. Competing owners may offer available space at lower rents than we offer at our properties. This competition may affect our ability to attract and retain tenants and may reduce the rents we are able to charge.

**Disruptions to the real estate market may reduce the overall demand for office space, which could materially and adversely affect our results of operations.**

As of December 31, 2019, our portfolio was comprised of seven office properties. Shared office spaces, telecommuting, flexible work schedules and teleconferencing have impacted the office real estate market, including a trend for companies to utilize shared office spaces and co-working spaces, particularly in central business districts. To the extent this trend continues, it may reduce the overall demand for our office space, which could materially and adversely affect our results of operations.

**Our reliance upon CBRE, Inc., or CBRE, for third party property management may have a negative effect on our financial condition and results of operations.**

We have engaged CBRE to provide property management services for our properties pursuant to a master property management agreement. The successful operation and management of our properties requires significant coordination between us and CBRE. Additionally, CBRE can terminate the property management agreement, as a whole or as to any one or more of our properties, without cause upon providing three months’ notice, and we are permitted to terminate the property management

agreement, as a whole or as to any one or more of our properties, without cause upon 60 days' notice. If we are unable to successfully coordinate with CBRE with respect to property management or the property management agreement with CBRE is terminated, in whole or in part, our operations could be disrupted, which may have a negative effect on our financial condition and results of operations.

**If market and economic conditions decline, it could materially and adversely affect our business, financial condition and results of operations.**

We are unable to predict with any certainty whether economic conditions will decline, remain stable or improve. If current economic conditions deteriorate, business layoffs, downsizing, industry slowdowns and other similar factors that affect our tenants could negatively impact commercial real estate fundamentals and result in lower occupancy, lower rental rates and declining values in our real estate portfolio. Additionally, the cost and availability of credit and the commercial real estate market generally may be adversely affected by an unstable political environment globally and in the U.S., high levels of unemployment, insufficient consumer demand or confidence, the impacts of changes in the U.S. federal budgetary process, changes in regulatory environments and other macro-economic factors. Deteriorating economic conditions could also have an impact on our lenders or tenants, causing them to fail to meet their obligations to us. No assurances can be given that the current economic conditions will remain stable or improve, and if market and economic conditions weaken, our ability to lease our properties and increase or maintain rental rates may be affected, which would have a material adverse effect on our business, financial condition and results of operations.

**Political instability and regulatory uncertainty could adversely affect our occupancy rates, rental rates, rent collections and the overall value of our assets, which could have an adverse effect on our results of operations.**

As a result of political instability and regulatory uncertainty associated with the United States government and other state and local governments, or our tenants responses to such instability or uncertainty, there may be significant economic disruption in the jurisdictions in which we operate and own properties. Political instability may have consequences such as disruptions in government operations, higher interest rates, inflation, increased market volatility or recession. If these or similar consequences were to materialize, we may have difficulty in collecting rents, attracting new tenants and renewing leases, any of which could materially impact our results of operations. Also, elements of our business are dependent on various local, state and federal government agencies for oversight and approval, and disruptions in government operations or regulatory uncertainty could inhibit our operations and materially affect our results of operations.

**The loss of key personnel, including one or more of our senior management team, could materially and adversely affect us.**

Our success, including our ability to execute our repositioning strategy and manage our operations, depends to a significant degree upon the efforts of our senior management team. Our senior management team has extensive experience and a strong reputation in the real estate industry, which aid us in identifying opportunities, having opportunities brought to us, and negotiating with tenants. If we lost one or more members of our senior management team, it could materially and adversely affect us.

**Changes in capital markets may adversely affect the value of an investment in our shares.**

Although interest rates remain below historical long term averages, interest rates have become more volatile. Increases in interest rates may adversely affect us and the value of an investment in our shares, including in the following ways:

- An increase in interest rates could decrease the amount buyers may be willing to pay for our properties, thereby reducing the market value of our properties and limiting our ability to sell properties or to obtain mortgage financing secured by our properties. Increased interest rates may increase the cost of financing property acquisitions and/or investments to the extent we utilize leverage for those acquisitions and/or investments and may result in a reduction in our acquisitions and/or investments to the extent we reduce the amount we offer to pay for such acquisition and/or investment, due to the effect of increased interest rates, to a price that sellers may not accept.
- We currently do not have any outstanding variable rate debt. However, to the extent we incur any such debt in the future, our interest costs will increase when interest rates rise, which could adversely affect our cash flow, ability to pay principal and interest on debt, cost of refinancing debt when it becomes due and ability to make or sustain distributions to our shareholders. Additionally, if we choose to hedge any interest rate risk, we cannot assure that any such hedge will be effective or that our hedging counterparty will meet its obligations to us.

**Future impairment charges could have a material adverse effect on our results of operations in the period for which the charge occurs.**

We periodically evaluate the recoverability of the carrying values of each of the real estate assets that comprise our portfolio. In undertaking our portfolio reviews, we comprehensively review our portfolio to evaluate whether there is any indication that the carrying value of the real estate properties (including any related amortizable intangible assets or liabilities) may not be recoverable, including by projecting property operating performance for the anticipated hold period and general market conditions. During the year ended December 31, 2019, we did not record any loss on asset impairment. We recorded impairment charges of \$12.1 million and \$19.7 million during the years ended December 31, 2018 and 2017, respectively, in accordance with our impairment analysis procedures. There can be no assurance that we will not take additional charges in the future related to the impairment of our assets.

As part of the evaluation of our portfolio, we compare the current carrying value of the asset to the estimated undiscounted cash flows that are directly associated with the use and ultimate disposition of the asset. Our estimated cash flows are based on several key assumptions, including anticipated hold periods, assumptions regarding the residual value upon disposition, including the exit capitalization rate, rental rates, costs of tenant improvements, and leasing commissions. These key assumptions are subjective in nature and could differ materially from actual results. Additionally, changes in our repositioning strategy or changes in the marketplace may alter the hold period of an asset or asset group, which may result in an impairment loss and such loss could be material to the Company's financial condition or operating performance. To the extent that the carrying value of the asset exceeds the estimated undiscounted cash flows, an impairment loss is recognized equal to the excess of carrying value over fair value. Any future impairment could have a material adverse effect on our results of operations in the period in which the charge is taken.

**A lack of any limitation on our debt could result in our becoming more highly leveraged.**

Our governing documents do not limit the amount of indebtedness we may incur. Accordingly, we may incur additional debt in connection with future acquisitions and/or investments in properties or businesses, or otherwise. We might become more highly leveraged as a result, and our financial condition, results of operations and cash available for distribution to shareholders might be negatively affected, and the risk of default on our indebtedness could increase.

**If we fail to maintain an effective system of integrated internal controls, we may not be able to accurately report our financial results.**

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal controls, we may discover material weaknesses or significant deficiencies in our internal controls. As a result of weaknesses that may be identified in our internal controls, we may also identify certain deficiencies in some of our disclosure controls and procedures that we believe require remediation. If we discover weaknesses, we will make efforts to improve our internal and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations, which could affect our ability to remain listed with the New York Stock Exchange, or NYSE. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the per share trading price of our securities.

**We may become subject to litigation, which could materially and adversely affect us.**

We may become subject to litigation, including, but not limited to, claims relating to our operations, corporate transactions, dispositions and acquisitions and/or investments and otherwise in the ordinary course of our business. Some of these claims could result in significant defense costs and potentially significant judgments against us, which may not be covered by insurance. Protracted litigation also may divert management's and our Trustees' attention away from our business. We cannot provide any assurance regarding the outcome of any claims that may arise in the future. We also have agreed to indemnify our present and former trustees, officers and property managers in connection with litigation in which they are named or threatened to be named in their capacity as a party, which can be expensive. Any fines, judgments or settlements that exceed our insurance coverage and any indemnification costs that we are required to pay could materially and adversely affect us.

**We could incur significant costs and liabilities in connection with our dispositions of properties.**

In connection with our dispositions of properties, we typically provide indemnification to the purchasers. To the extent that any claims are asserted by purchasers and we are required to indemnify them, our results of operations could be significantly affected.

**We could incur significant costs and liabilities with respect to environmental matters.**

Under various federal, state and local laws and regulations, as the current or former owners or operators of real estate, we may be liable for costs and damages resulting from the presence or release of hazardous substances, including waste or petroleum products, at, on, in, under or from such property, including costs for investigation, removal or remediation of such contamination and for natural resource damages arising from such contamination. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal or property damage, adversely affect our ability to lease, sell or rent such property, or adversely affect our ability to borrow using such property as collateral. Environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which those properties may be used or businesses may be operated, and these restrictions may require significant expenditures. Additionally, we may remain responsible for costs and liabilities arising from environmental issues related to representations and warranties we make in sales agreements for properties of which we have disposed. We also may be liable for the costs of removal or remediation of hazardous substances or waste at disposal or treatment facilities if we arranged for disposal or treatment of hazardous substances at such facilities, whether or not we own or operate such facility.

Some of our current or sold properties have been or may be impacted by releases of hazardous substances or petroleum products. Such contamination may arise from a variety of sources, including historic uses of our properties for commercial or industrial purposes, spills of such materials at adjacent properties, or releases from tanks used on our properties to store petroleum or hazardous substances. In addition, certain of our current or sold properties are or were on sites upon which, or are or were adjacent to or near, other properties upon which others, including former owners or tenants, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances.

We, our tenants, and our properties are subject to various federal, state and local regulatory requirements related to environmental, health and safety matters, such as environmental laws, state and local fire and safety requirements, building codes and land use regulations. Failure to comply with these requirements could subject us or our tenants to governmental fines or private litigant damage awards. In addition, compliance with these requirements, including new requirements or stricter interpretation of existing requirements, may require us or our tenants to incur significant expenditures. We do not know whether existing requirements will change or whether future requirements, including any requirements that may emerge from pending or future climate change laws or regulations, will develop. Environmental noncompliance liability also could impact a tenant's ability to make rental payments to us, and our reputation could be negatively affected if we or our tenant's violate environmental laws or regulations.

Buildings and other structures on properties that we currently own or operate or formerly owned or operated or those we acquire or operate in the future contain, may contain, or may have contained, asbestos-containing material (or ACM). Environmental, health and safety laws require that ACM be properly managed and maintained, and include requirements to undertake special precautions, such as removal or abatement, if ACM would be disturbed during maintenance, renovation, or demolition of a building, potentially resulting in substantial costs. Moreover, laws regarding ACM may impose fines and penalties on owners, employers and operators, and we may be subject to liability for releases of ACM into the air in our current or sold buildings and third parties may seek recovery from owners or operators of real property for personal injury associated with ACM.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues also can stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. The presence of mold or other airborne contaminants in our current or sold buildings could expose us to costs and liabilities to address these issues, including from third parties if property damage or personal injury occurs.

**We may be adversely affected by laws, regulations or other issues related to climate change.**

If we become subject to laws or regulations related to climate change, our business, results of operations and financial condition could be impacted adversely. The federal government has enacted, and some of the states and localities in which we operate may enact certain climate change laws and regulations or have begun regulating carbon footprints and greenhouse gas emissions. Although these laws and regulations have not had any known material adverse effects on our business to date, they could result in substantial costs, including compliance costs, increased energy costs, retrofit costs and construction costs, including monitoring and reporting costs, and capital expenditures for environmental control facilities and other new equipment. Furthermore, our reputation could be negatively affected if we violate climate change laws or regulations. We cannot predict how future laws and regulations, or future interpretations of current laws and regulations, related to climate change will affect our business, results of operations and financial condition. Lastly, the potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. These impacts may adversely affect our business, financial condition and results of operations.

**We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.**

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which may include personal identifying information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced to third party service providers. In addition, information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyber attacks. Although we have taken steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers, including ransom attacks, and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect us.

***Risks Related to the Real Estate Industry***

**Real estate ownership creates risks and liabilities that could have a material adverse effect on us, including our results of operations and financial condition.**

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to risks inherently associated with real estate ownership, including:

- changes in supply of or demand for properties in areas in which we own buildings;
- the illiquid nature of real estate markets, which limits our ability to sell our assets rapidly or to respond to changing market conditions;
- the subjectivity of real estate valuations and changes in such valuations over time;
- property and casualty losses;
- the ongoing need for property maintenance and repair, and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act;
- the inability of tenants to pay rent;
- competition from the development of new properties in the markets in which we own property and the quality of such competition, such as the attractiveness of our properties as compared to our competitors' properties based on considerations such as convenience of location, rental rates, amenities and safety record;
- civil unrest, acts of war, acts of God, including earthquakes, hurricanes and other natural disasters (which may result in uninsured losses), and other factors beyond our control;
- legislative, tax and regulatory developments that may occur at the federal, state and local levels that have direct or indirect impact on the ownership, leasing and operation of our properties; and
- litigation incidental to our business.



If any of the foregoing events occur, our properties may not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, and our cash flow and ability to pay distributions to our shareholders will be adversely affected.

**Potential losses may not be covered by insurance exposing us to potential risk of loss.**

We do not carry insurance for generally uninsurable losses such as loss from riots, war or acts of God. Some of our policies, such as those covering losses due to terrorism, hurricanes, earthquakes and floods, are insured subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover all losses. If we experience a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

**Insurance coverage on our properties may be expensive or difficult to obtain, exposing us to potential risk of loss.**

In the future, we may be unable to renew or duplicate our current insurance coverage at adequate levels or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts, environmental liabilities, or other catastrophic events including hurricanes and floods, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property after a covered period of time, but still remain obligated for any mortgage debt or other financial obligations related to the property. We cannot guarantee that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Events such as these could adversely affect our results of operations and our ability to meet our obligations.

**Actual or threatened terrorist attacks, crimes, shootings, other acts of violence or other incidents beyond our control may adversely affect our ability to generate revenues and the value of our properties.**

We have significant investments in large metropolitan markets that have been or may be in the future the targets of actual or threatened terrorism attacks, crimes, shootings, other acts of violence or other incidents beyond our control. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future incidents. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks or other acts of violence at our properties could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. If such an incident was to occur, we may lose tenants or be forced to close a property for some time. In addition, we may be exposed to civil liability, which could adversely affect us. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially.

**Changes in accounting pronouncements may materially and adversely affect our financial statements, our tenants' credit quality and our ability to secure long-term leases and renewal options.**

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the Securities and Exchange Commission, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements. These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants' reported financial condition or results of operations or could affect our tenants' preferences regarding leasing real estate.

The Financial Accounting Standards Board issued an accounting standard, effective for us for reporting periods beginning after December 15, 2018, that requires companies to capitalize all leases on their balance sheets by recognizing a lessee's rights and obligations. Many companies that account for certain leases on an "off balance sheet" basis will be required

to account for such leases "on balance sheet." This change will remove many of the differences in the way companies account for owned property and leased property, and could have a material effect on various aspects of our tenants' businesses, including their credit quality and the factors they consider in deciding whether to own or lease properties. The new standard could cause companies that lease properties to prefer shorter lease terms, in an effort to reduce the leasing liability required to be recorded on their balance sheets. The new standard could also make lease renewal options less attractive, as, under certain circumstances, the rule would require a tenant to assume that a renewal right will be exercised and accrue a liability relating to the longer lease term.

### ***Risks Related to Our Securities***

**We may not distribute any of our significant existing cash balances to shareholders, which could be viewed unfavorably by investors and materially and adversely affect our company.**

Any distributions will be made at the discretion of our Board of Trustees and will depend upon various factors that our Board deems relevant. We currently hold a significant amount of cash (\$2.8 billion as of December 31, 2019) which enables us to pursue acquisitions and/or investments and, as a result, we may elect not to distribute any of our existing cash to our shareholders. For 2020, the timing and amount of any potential distributions in connection with gains recognized upon dispositions of properties and/or net income from operations are uncertain. To the extent that our actual distributions in 2020 are less than expected by investors, it could materially and adversely affect our company.

**Our cash may be subject to a risk of loss and we may be exposed to fluctuations in the market values of our investments.**

Our assets include a significant amount of cash held in investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. We currently invest the majority of our cash in bank deposits with investment grade financial institutions. We have and may in the future invest in a variety of other investments as part of our cash management strategy. Nearly all of our cash and bank deposits are not insured by the Federal Deposit Insurance Corporation, or the FDIC. Therefore, our cash and any bank deposits or other investments that we now hold or may acquire in the future may be subject to risks, including the risk of loss or of reduced value or liquidity.

**Changes in market conditions could adversely affect the market price of our common shares.**

As with other publicly traded equity securities, the value of our common shares depends on various market conditions that may change from time-to-time. Among the market conditions that may affect the value of our common shares are the following:

- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our underlying asset value;
- national and global economic conditions;
- interest rates;
- changes in tax laws;
- our financial performance; and
- general stock and bond market conditions.

The market value of our common shares is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash dividends. Consequently, our common shares may trade at prices that are greater or less than our net asset value per common share. If our future earnings or cash dividends are less than expected, it is likely that the market price of our common shares will diminish.

**Any notes we may issue will be effectively subordinated to the debts of our subsidiaries and our secured debt.**

We conduct substantially all of our business through, and substantially all of our properties are owned by, our subsidiaries. Consequently, our ability to pay debt service on any notes we issue in the future will be dependent upon the cash flow of our subsidiaries and payments by those subsidiaries to us as dividends or otherwise. Our subsidiaries are separate legal entities and have their own liabilities. Payments due on any notes we may issue will be effectively subordinated to liabilities of

our subsidiaries, including guaranty liabilities. As of December 31, 2019, our subsidiaries had \$25.7 million of debt (including net unamortized premiums and net unamortized deferred financing costs). Any notes we may issue will be, effectively subordinated to any secured debt with regard to our assets pledged to secure those debts.

**There may be no public market for notes we may issue and one may not develop.**

Generally, any notes we may issue will be a new issue for which no trading market currently exists. We may not list our notes on any securities exchange or seek approval for price quotations to be made available through any automated quotation system. We cannot assure that an active trading market for any of our notes will exist in the future. Even if a market develops, the liquidity of the trading market for any of our notes and the market price quoted for any such notes may be adversely affected by changes in the overall market for fixed income securities, by changes in our financial performance or prospects, or by changes in the prospects for REITs or for the real estate industry generally.

**The number of our common shares available for future issuance or sale could adversely affect the per share trading price of our common shares and may be dilutive to current shareholders.**

Our declaration of trust authorizes our Board of Trustees to, among other things, issue additional shares of capital stock without stockholder approval. We cannot predict whether future issuances or sales of our common shares or the availability of shares for resale in the open market will decrease the per share trading price of our common shares. The issuance of substantial numbers of our common shares in the public market, including, but not limited to, in connection with any future transaction involving the Company or upon conversion of our Series D preferred shares, or the perception that such issuances might occur, could adversely affect the per share trading price of our common shares. In addition, we may issue our common shares or other long-term equity awards under the Equity Commonwealth 2015 Omnibus Incentive Plan, as amended. Any such future issuances may be dilutive to existing shareholders.

**Conversion of our series D preferred shares may dilute the ownership interests of existing shareholders.**

The conversion of some or all of our series D preferred shares may dilute the ownership interests of existing shareholders.

***Risks Related to Our Organization and Structure***

**Ownership limitations and certain provisions in our declaration of trust and bylaws, as well as certain provisions of Maryland law, may deter, delay or prevent a change in our control or unsolicited acquisition proposals.**

Our declaration of trust and bylaws prohibit any shareholder other than certain persons who have been exempted by our Board of Trustees from owning (directly and by attribution) more than 9.8% of the number or value of shares of any class or series of our outstanding shares of beneficial interest, including our common shares. These provisions are intended to assist with our REIT compliance under the Code and otherwise promote our orderly governance. However, these provisions also inhibit acquisitions of a significant stake in us and may deter, delay or prevent a change in our control or unsolicited acquisition proposals that a shareholder may consider favorable.

Additionally, provisions contained in our declaration of trust and bylaws or under Maryland law may have a similar impact, including, for example, provisions relating to: the authority of our Board of Trustees to fill most vacancies on our Board of Trustees; the fact that only the Chairman of the Board of Trustees, our Chief Executive Officer, our President, a majority of our Trustees or the holders of 10% of our common shares may call a special meeting of shareholders; and advance notice requirements for shareholder proposals.

Furthermore, our Board of Trustees has the authority to create and issue new classes or series of shares (including shares with voting rights and other rights and privileges that may deter a change in control) and issue additional common shares. The authorization and issuance of a new class of capital stock or additional common shares could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders' best interests.

**Certain provisions of Maryland law could inhibit changes in control.**

Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- “business combination moratorium/fair price” 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 thereof) for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes stringent fair price and super-majority shareholder voting requirements on these combinations; and

- “control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with 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 “control shares” from a party other than the issuer) have no voting rights 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, and are subject to redemption in certain circumstances.

We have opted out of these provisions of Maryland law. However, our Board of Trustees may opt to make these provisions applicable to us at any time without obtaining shareholder approval.

**Certain provisions in the organizational documents of the Operating Trust may delay, defer or prevent unsolicited acquisitions of us or changes in our control.**

Provisions in the organizational documents of the Operating Trust may delay, defer or prevent a transaction or a change of control that might involve a premium price for the Company’s common shares. These provisions include, among others:

- redemption rights of qualifying parties;
- a provision that we may not be removed as the trustee of the Operating Trust with or without cause;
- transfer restrictions on the OP Units held directly or indirectly by us;
- our ability as trustee in some cases to amend the organizational documents of the Operating Partnership without the consent of the other holders of OP Units;
- the right of the holders of OP Units to consent to mergers involving us under specified circumstances; and
- the right of the holders of OP Units to consent to our withdrawal as the sole trustee of the Operating Trust.

These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some shareholders might consider such proposals, if made, desirable.

**As an UPREIT, we are a holding company with no direct operations and will rely on distributions received from the Operating Trust to make distributions to our shareholders.**

We are a holding company and conduct all of our operations through the Operating Trust. We do not have, apart from our ownership of the OP Units, any independent operations. As a result, we will rely on distributions from the Operating Trust to make any distributions to our shareholders we might declare on our common shares and to meet any of our obligations, including tax liability on taxable income allocated to us from the Operating Trust (which might not make distributions to our company equal to the tax on such allocated taxable income). The ability of subsidiaries of the Operating Trust to make distributions to the Operating Trust, and the ability of the Operating Trust to make distributions to us in turn, will depend on their operating results and on the terms of any financing arrangements into which they have entered. Such financing arrangements may contain lockbox arrangements, reserve requirements, covenants and other provisions that prohibit or otherwise restrict the distribution of funds, including upon default thereunder. In addition, because we are a holding company, the claims of our shareholders as common shareholders of our company will be structurally subordinated to all existing and future liabilities and other obligations (whether or not for borrowed money) and any preferred equity of the Operating Trust and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of the Operating Trust and its subsidiaries will be able to satisfy the claims of our common shareholders only after all of our and the Operating Trust’s and its subsidiaries’ liabilities and other obligations and any preferred equity have been paid in full.

**We may acquire properties or portfolios of properties or businesses through tax-deferred contribution transactions, which could result in shareholder dilution and limit our ability to sell such assets.**

In the future, we may acquire properties or portfolios of properties or businesses through tax-deferred contribution transactions in exchange for OP Units in the Operating Trust, which may result in shareholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax lives of the acquired properties, and may require that we agree to protect the contributors’ abilities to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell or finance an asset at a time, or on terms, that would be favorable absent such restrictions.

**Future issuances of OP Units would reduce our ownership interest in the Operating Trust and may result in shareholder dilution.**

As of December 31, 2019, we beneficially owned 99.96% of the outstanding OP Units. Our Operating Trust may, in connection with our acquisition of additional properties or otherwise, issue OP Units to third parties. Additionally, we have and may in the future issue long-term equity awards convertible into OP Units (LTIP Units) to trustees, officers, or employees. Such issuances of OP Units, or the conversion of LTIP Units into OP Units, would reduce our ownership in the Operating Trust and, consequently, our share of distributions from the Operating Trust. Because OP Units may be redeemed (sometimes subject to vesting or performance achievements) for, at our election, cash or common shares, additional common shares may be issued in respect of any such redeemed OP Units, which would dilute existing shareholders. Our shareholders do not have any voting rights with respect to any such issuances, redemptions or other operational activities of the Operating Trust.

**Our recourse against Trustees and officers may be limited by the limited rights granted to our shareholders in our declaration of trust.**

Our declaration of trust limits the liability of our Trustees and officers to us and our shareholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our Trustees and officers will not have any liability to us and our shareholders for money damages other than liability resulting from:

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

Our declaration of trust and bylaws require us to indemnify any present or former Trustee or officer, to the maximum extent permitted by Maryland law, who is made or threatened to be made a party to a proceeding by reason of his or her service in that capacity. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former Trustees and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our shareholders may have more limited rights against our present and former Trustees and officers than might otherwise exist absent the provisions in our declaration of trust and bylaws or that might exist with other companies, which could limit your recourse in the event of actions not in your best interest.

**Conflicts of interest could arise in the future between the interests of the Company's shareholders and the interests of other holders of OP Units, which may impede business decisions that could benefit our shareholders.**

Conflicts of interest may exist or could arise in the future as a result of the relationships between the Company and its affiliates, on the one hand, and the Operating Trust or holders of OP Units, on the other. Our trustees and officers have duties to the Company and its shareholders under applicable Maryland law in connection with their management of the Company. At the same time, we, as trustee, have fiduciary duties to the Operating Trust and to the holders of all OP Units under Maryland law in connection with the management of the Operating Trust. The Company's duties as trustee to the Operating Trust and its Unitholders may come into conflict with the duties of our trustees and officers to the Company and our shareholders.

Additionally, the organizational documents of the Operating Trust expressly limit our liability by providing that the Company will not be liable for monetary or other damages or otherwise for losses sustained, liabilities incurred or benefits not derived in connection with such decisions unless the Company acted with willful misfeasance, bad faith, gross negligence or reckless disregard of duty, and the act or omission was material to the matter giving rise to the loss, liability or benefit not derived. Moreover, the organizational documents of the Operating Trust provide that the Operating Trust may indemnify, and pay or reimburse reasonable expenses to, the Company and the Company's and the Operating Trust's present or former unitholders, trustees, officers or agents and any other persons acting on behalf of the Company that the Company may designate from and against all claims and liabilities by reason of his, her or its service in such capacity. The Operating Trust has the power, with the approval of the Company, to provide such indemnification and advancement of expenses. The provisions of Maryland law that allow the fiduciary duties of a trustee to be modified by such organizational documents have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the organizational documents of the Operating Trust that purport to waive or restrict our fiduciary duties that would be in effect were it not for such organizational documents.

**Shareholder litigation against us or our Trustees and officers may be referred to binding arbitration proceedings which may increase our risk of default.**

Our bylaws provide that actions by our shareholders against us or against our Trustees and officers, including derivative and class actions, may be referred to binding arbitration proceedings. As a result, our shareholders would not be able to pursue litigation for these disputes in courts against us or our Trustees and officers if the disputes were referred to arbitration. In

addition, the ability to collect attorneys' fees or other damages may be limited, which may discourage attorneys from agreeing to represent parties wishing to commence such a proceeding.

**We may change our operational, financing and investment policies without shareholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.**

Our Board of Trustees determines our operational, financing and investment policies and may amend or revise our policies, including our policies with respect to our intention to qualify for taxation as a REIT, acquisitions and/or investments, dispositions, growth, operations, indebtedness, capitalization and distributions, or approve transactions that deviate from these policies, without a vote of, or notice to, our shareholders. Policy changes could adversely affect the market value of our common shares and our ability to make distributions to our shareholders. Further, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. We could become more highly leveraged, which could result in an increase in our debt service costs. Higher leverage also increases the risk of default on our obligations. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk.

***Risks Related to Our Taxation as a REIT***

**Qualifying as a REIT involves highly technical and complex provisions of the Code.**

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis.

New legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. H.R. 1, the Tax Cuts and Jobs Act, the tax reform legislation passed on December 22, 2017, makes fundamental changes to the individual and corporate tax laws that may materially impact us and our shareholders. Certain rules applicable to REITs are particularly difficult to interpret or to apply in the case of REITs investing in real estate mortgage loans that are acquired at a discount, subject to work-outs or modifications, or reasonably expected to be in default at the time of acquisition. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

**If we do not qualify as a REIT or fail to remain qualified as a REIT, we will be subject to U.S. federal income tax and potentially to additional state and local taxes which would reduce the amount of cash available for distribution to our shareholders.**

We believe that we have been organized and have operated, and will continue to be organized and to operate, in a manner to allow us to qualify us to be taxed under the Code as a REIT. However, we cannot be certain that, upon review or audit, the IRS will agree with this conclusion. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult, or impossible, for us to remain qualified as a REIT. We do not intend to request a ruling from the IRS as to our REIT qualification.

As a REIT, we generally do not pay U.S. federal income tax on our net income that we distribute currently to our shareholders. However, actual qualification as a REIT under the Code depends on satisfying complex statutory requirements, for which there are only limited judicial and administrative interpretations. Many of the REIT requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from specific passive sources, such as rent, that are itemized in the REIT tax laws. In addition, to qualify as a REIT, we cannot own specified amounts of debt and equity securities of some issuers. We also are required to distribute to our shareholders with respect to each year at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains). Even a technical or inadvertent mistake could jeopardize our REIT status and, given the highly complex nature of the rules governing REITs and the ongoing importance of factual determinations, we cannot provide any assurance that we will continue to qualify as a REIT.

If we fail to qualify as a REIT for U.S. federal income tax purposes, and are unable to avail ourselves of certain savings provisions set forth in the Code, we likely would be subject to U.S. federal income tax at regular corporate rates. As a taxable corporation, we would not be allowed to take a deduction for distributions to shareholders in computing our taxable income or

pass through long term capital gains to individual shareholders at favorable rates. We also could be subject to the U.S. federal alternative minimum tax (for taxable years beginning before December 31, 2017) and possibly increased state and local taxes. We would not be able to elect to be taxed as a REIT for four years following the year we first failed to qualify unless the IRS were to grant us relief under certain statutory provisions. If we failed to qualify as a REIT, we likely would have to pay significant income taxes, which likely would reduce our net earnings available for investment or distribution to our shareholders. If we fail to qualify as a REIT, such failure may adversely affect our ability to raise capital and to service our debt. This likely would have a significant adverse effect on our earnings and the value of our securities. In addition, we would no longer be required to pay any distributions to shareholders. If we fail to qualify as a REIT for U.S. federal income tax purposes and are able to avail ourselves of one or more of the statutory savings provisions in order to maintain our REIT status, we would nevertheless be required to pay penalty taxes of \$50,000 or more for each such failure.

**Distributions to our shareholders may be taxed at rates that are higher than the 20% tax rate currently in effect for qualified dividends paid by “C” corporations, which could cause some investors to view an investment in REITs to be less attractive.**

Beginning in 2018, under H.R. 1, distributions paid by REITs to noncorporate shareholders generally are eligible for rates that are 20% lower than ordinary income tax rates. For those shareholders who pay income tax at the top marginal rate of 37%, the tax rate applicable to distributions paid by REITs would be 29.6%, which is higher than the 20% tax rate currently applicable to qualified dividend income paid by “C” corporations. The more favorable tax rates currently available for corporate dividends may cause investors who are individuals, trusts and estates to perceive that an investment in a REIT is less attractive than an investment in a non-REIT entity that pays dividends, thereby reducing the demand and market price of our shares.

**REIT distribution requirements could adversely affect our ability to execute our business plan.**

We generally must distribute annually at least 90% of our “REIT taxable income” (determined before the deduction for dividends paid and excluding net capital gains) in order for U.S. federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to make distributions to our shareholders to comply with the REIT requirements of the Code and avoid entity-level taxes.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with U.S. generally accepted accounting principles, or GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash or between the deduction of expenses and actual payment of those expenses may occur. For example, under amendments to the Code made by H.R. 1, income must be accrued for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, subject to certain exceptions, which could create mismatches between REIT taxable income and the receipt of cash attributable to such income. In addition, newly-proposed Treasury regulations could limit the deduction we may claim for our proportionate share of the compensation expense attributable to the remuneration paid by the Operating Trust for services performed by certain of our highly-ranked and highly-compensated employees, which could create mismatches between REIT taxable income and cash available for distribution. If we do not have other funds available in these situations we could be required to (i) borrow funds on unfavorable terms, (ii) sell investments at disadvantageous prices, (iii) distribute amounts that would otherwise be invested in future acquisitions and/or investments, or (iv) make a taxable distribution of our common shares as part of a distribution in which shareholders may elect to receive our common shares or (subject to a limit measured as a percentage of the total distribution) cash to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement. These alternatives could increase our costs or reduce our shareholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our shares.

**Even if we qualify and remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.**

Even if we qualify and remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. We are subject to U.S. federal and state income tax (and any applicable non-U.S. taxes) on the net income earned by our taxable REIT subsidiaries. Moreover, if we have net income from “prohibited transactions,” that income will be subject to a 100% tax. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to U.S. federal income tax on that income because not all states and

localities treat REITs the same way they are treated for federal U.S. income tax purposes. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our shareholders.

**Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.**

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and 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 REIT real estate assets. The remainder of our investment in securities (other than government securities 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 and qualified real estate assets) can consist of the securities of any one issuer, no more than 20% (25% for taxable years beginning before January 1, 2018) of the value of our total securities can be represented by securities of one or more taxable REIT subsidiaries, or TRS, and, effective for our taxable year that began on January 1, 2016 and all future taxable years, no more than 25% of the value of our assets can be represented by debt instruments issued by “publicly offered REITs.” 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 from our portfolio, or contribute to a TRS, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income, increasing our income tax liability, and reducing amounts available for distribution to our stockholders. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments (or, in some cases, forego the sale of such investments) that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make, and, in certain cases, maintain ownership of certain attractive investments.

**The tax on “prohibited transactions” may limit our ability to engage in transactions which would be treated as sales for U.S. federal income tax purposes.**

A REIT’s net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Our Trustees have adopted an office repositioning strategy to own and acquire at a discount to replacement cost high-quality, multi-tenant assets in markets and sub-markets with favorable long-term supply and demand fundamentals. Our efforts in the office sector will primarily be focused on larger buildings in central business districts and major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply. We believe that the dispositions related to the repositioning of our portfolio along with other dispositions that we have made or that we might make in the future will not be subject to the 100% penalty tax; however, because application of the prohibited transactions tax could be based on an analysis of all of the facts and circumstances, there can be no assurance that the gains on our prior real estate sales have not, or any future real estate sales will not, be subject to the 100% prohibited transaction tax.

**With less rental revenue from the fewer properties, in order to comply with the 75% gross income test, we may be required to invest in debt obligations secured by mortgages on real property, such as mortgage-backed securities (MBS), which have more risks than investments in cash and cash equivalents.**

One of the gross income requirements a REIT must satisfy each taxable year is that at least 75% of its gross income (excluding gross income from prohibited transactions and qualifying hedges) generally must be derived directly or indirectly from investments relating to real property or mortgages on real property. As of December 31, 2019, we had equity interests in seven office properties and cash and cash equivalents of \$2.8 billion. With fewer income-producing real properties, we receive less rental revenue as a percentage of our total revenue. In order to comply with the 75% gross income test for each taxable year, we may be required to invest more of our assets in debt obligations secured by mortgages on real property, such as MBS, rather than cash and cash equivalents. Those mortgage debt obligations, such as MBS, have more risks than investments in cash and cash equivalents, including, but limited to, risks relating to default on payment obligations, prepayment and interest rate fluctuations. In addition, we may engage certain third parties to facilitate our investment in MBS or other mortgage debt obligations, and, as a result, we rely on such third parties to successfully invest our assets.



**Our ownership of TRSs has been and will continue to be limited and our transactions with our TRSs 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.**

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% (25% for taxable years beginning before January 1, 2018) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, for taxable years prior to 2018, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's length basis.

TRSs that we have formed are subject to and will continue to be subject to U.S. federal, state and local income tax on their taxable income, and their after-tax net income is available for distribution to us but is not required to be distributed by such TRSs to us. We believe that the aggregate value of the stock and securities of our TRSs has been and we anticipate that the aggregate value will continue to be less than 20% (25% for taxable years beginning before January 1, 2018) of the value of our total assets (including our TRS stock and securities). Furthermore, we have monitored and will continue to monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we have scrutinized and will continue to scrutinize all of our transactions with TRSs to ensure that they are entered into on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS limitation discussed above or to avoid application of the 100% excise tax discussed above.

**Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.**

The REIT provisions of the Code limit our ability to hedge our liabilities. Generally, income from a hedging transaction into which we enter to manage risk of interest rate fluctuations with respect to borrowings, including gain from the disposition of such hedging transactions, to the extent the hedging transactions hedge indebtedness incurred by us to acquire or carry real estate assets does not constitute "gross income" for purposes of the 75% or 95% gross income tests, provided we properly identify the hedge pursuant to the applicable sections of the Code and Treasury regulations. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a taxable REIT subsidiary. This could increase the cost of our hedging activities because our taxable REIT subsidiary would be subject to tax on income or gains resulting from hedges entered into by it or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our taxable REIT subsidiary will generally not provide any tax benefit, except for being carried forward for use against future taxable income in our taxable REIT subsidiary, provided, however, losses in our taxable REIT subsidiary arising in taxable years beginning after December 31, 2017 may only be deducted against 80% of future taxable income in the taxable REIT subsidiary.

**There is a risk of changes in the tax law applicable to REITs.**

The IRS, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our shareholders. In particular, H.R. 1, which generally takes effect for taxable years beginning on or after January 1, 2018 (subject to certain exceptions), makes many significant changes to the U.S. federal income tax laws that may profoundly impact the taxation of individuals and corporations (both regular C corporations as well as corporations that have elected to be taxed as REITs). A number of changes that affect noncorporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes will impact us and our shareholders in various ways, some of which may be adverse or potentially adverse compared to prior law. To date, while the IRS has issued guidance with respect to certain of the new provisions, there remain interpretive issues that will require further clarification. It is likely that technical corrections legislation will be needed for certain aspects of the new law and give proper effect to Congressional intent. There can be no assurance, however, that technical clarifications or changes needed to prevent unintended or unforeseen tax consequences will be enacted by Congress in the near future.

### Item 1B. Unresolved Staff Comments.

None.

### Item 2. Properties.

*General.* At December 31, 2019, we had real estate investments totaling approximately \$662.1 million in seven properties (12 buildings), that were leased to 129 tenants. We account for the operations of all our properties in one reporting segment. At December 31, 2019, we owned the following real estate (dollars in thousands):

Property	State	Number of Buildings	Undepreciated Carrying Value	Depreciated Carrying Value	Annualized Rental Revenue(1)
1225 Seventeenth Street (17th Street Plaza)	CO	1	\$ 165,096	\$ 124,554	\$ 25,701
1250 H Street, NW	DC	1	75,680	39,778	9,510
Georgetown-Green and Harris Buildings	DC	2	62,298	52,890	6,183
109 Brookline Avenue	MA	1	51,317	28,069	8,772
206 East 9th Street (Capitol Tower)	TX	1	51,774	43,214	9,358
Bridgepoint Square	TX	5	102,369	53,988	14,486
333 108th Avenue NE (Tower 333)	WA	1	153,587	116,928	22,661
<b>Total</b>		<b>12</b>	<b>\$ 662,121</b>	<b>\$ 459,421</b>	<b>\$ 96,671</b>

- (1) Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2019, plus estimated recurring expense reimbursements; excludes lease value amortization, straight line rent adjustments, abated (free) rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.

At December 31, 2019, one property (one building) was encumbered by a mortgage note payable totaling \$25.7 million (including a net unamortized premium and net unamortized deferred financing costs). For more information regarding this mortgage note, see Note 7 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

### Item 3. Legal Proceedings.

We are or may become a party to various legal proceedings. We are not currently involved in any litigation nor, to our knowledge, is any litigation threatened against us where the outcome would, in our judgment based on information currently available to us, have a material adverse effect on the Company.

### 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.**

Our common shares are traded on the NYSE (symbol: EQC). As of February 6, 2020, there were 1,106 shareholders of record of our common shares. However, because many of our common shares are held by brokers and other institutions on behalf of shareholders, we believe that there are considerably more beneficial holders of our common shares than record holders.

#### **Distributions**

Under our governing documents and Maryland law, distributions to our shareholders are to be authorized and declared by our Board of Trustees.

On September 24, 2019, our Board of Trustees declared a special, one-time cash distribution of \$3.50 per common share/unit to shareholders/unitholders of record on October 7, 2019. On October 23, 2019, we paid this distribution to such shareholders/unitholders in the aggregate amount of \$427.7 million.

On September 26, 2018, our Board of Trustees declared a special, one-time cash distribution of \$2.50 per common share/unit to shareholders/unitholders of record on October 9, 2018. On October 23, 2018, we paid this distribution to such shareholders/unitholders in the aggregate amount of \$304.7 million. In February 2019, the number of earned awards for certain recipients of the Company's restricted stock units was determined. Pursuant to the terms of such awards, we paid a one-time catch-up cash distribution of \$2.50 per common share/unit to these recipients in the aggregate amount of \$1.2 million upon such determination.

The timing and amount of future distributions is determined at the discretion of our Board of Trustees and will depend upon various factors that our Board of Trustees deems relevant, including, but not limited to, our results of operations, our financial condition, debt and equity capital available to us, our expectations of our future capital requirements and operating performance, including our FFO, our Normalized FFO, and our cash available for distribution, restrictive covenants in our financial or other contractual arrangements (including those in our senior notes indenture), tax law requirements to qualify for taxation as and to remain a REIT, restrictions under Maryland law and our expected needs and availability of cash to pay our obligations and fund acquisitions. If our taxable income exceeds our net operating loss carryforwards, we will likely be required to make a distribution. Whether we will make a distribution in 2020 and the timing of any such distribution remains uncertain. There can be no assurance that we will pay distributions in the future.

#### **Issuer Repurchases**

##### *Common Share Repurchase Program*

On March 14, 2018, our Board of Trustees authorized the repurchase of up to \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. In March 2019, this share repurchase authorization, of which \$130.9 million was not utilized, expired. On March 13, 2019, our Board of Trustees authorized the repurchase of up to an additional \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization.

During the year ended December 31, 2019, we did not purchase any common shares under our common share repurchase program. The \$150.0 million of remaining authorization available under our share repurchase program as of December 31, 2019 is scheduled to expire on March 13, 2020.

##### *Surrender of Common Shares for Tax Withholding*

During the year ended December 31, 2019, certain of our employees surrendered common shares owned by them to satisfy their statutory tax withholding obligations in connection with the vesting of restricted common shares and restricted stock units.

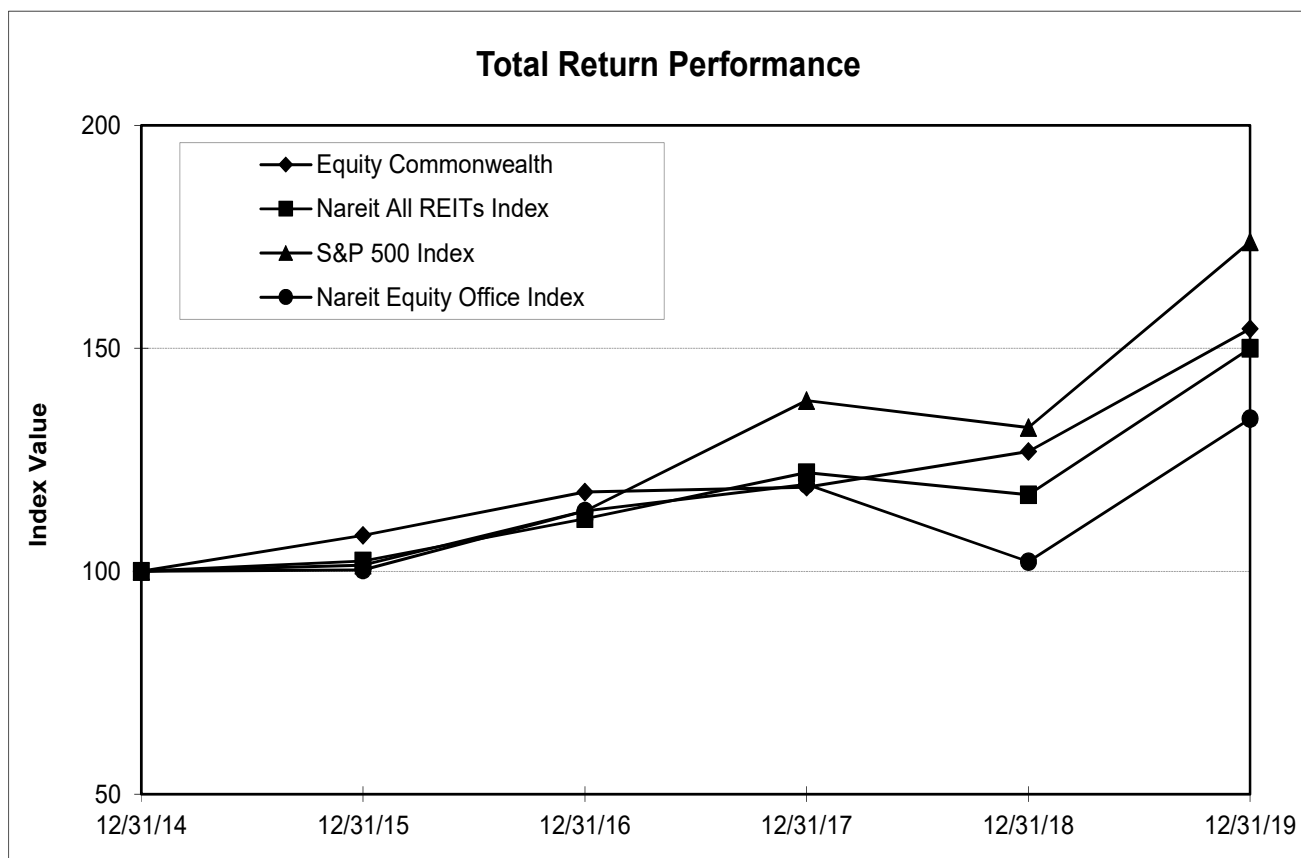
#### **Unregistered Sales of Securities**

There were no unregistered sales of equity securities during the year ended December 31, 2019.

## Performance Graph

Notwithstanding anything to the contrary set forth in any of our filings under the Securities Act or the Exchange Act that might incorporate SEC filings, in whole or in part, the following performance graph will not be incorporated by reference into any such filings.

The following graph compares the cumulative total shareholder return of our common shares for the period from December 31, 2014 to December 31, 2019, to the Nareit All REITs Index, Standard & Poor's 500 Index (S&P 500 Index), and to the Nareit Equity Office Index over the same period. The graph assumes an investment of \$100.00 in our common shares and each index and the reinvestment of all distributions. The shareholder return shown on the graph below is not indicative of future performance.



Index	Period Ended					
	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Equity Commonwealth	\$ 100.00	\$ 108.02	\$ 117.80	\$ 118.85	\$ 126.89	\$ 154.37
Nareit All REITs Index	\$ 100.00	\$ 102.29	\$ 111.79	\$ 122.14	\$ 117.14	\$ 150.01
S&P 500 Index	\$ 100.00	\$ 101.38	\$ 113.51	\$ 138.29	\$ 132.23	\$ 173.86
Nareit Equity Office Index	\$ 100.00	\$ 100.29	\$ 113.49	\$ 119.45	\$ 102.13	\$ 134.22

Source: S&P Global Market Intelligence

## Item 6. Selected Financial Data.

The following table sets forth selected financial data for the periods and dates indicated. This data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and the consolidated financial statements and accompanying notes included in "Exhibits and Financial Statement Schedules" in Part IV, Item 15 of this Annual Report on Form 10-K. Reclassifications have been made to the prior years' financial statements to conform to the current year's presentation. Amounts are in thousands, except per share data.

Operating Data	Year Ended December 31,				
	2019	2018	2017	2016	2015
Total revenues	\$ 127,850	\$ 197,022	\$ 340,571	\$ 500,680	\$ 714,891
Expenses:					
Operating expenses	46,418	79,916	141,425	200,706	324,948
Depreciation and amortization	28,122	49,041	90,708	131,806	194,001
General and administrative	38,442	44,439	47,760	50,256	57,457
Loss on asset impairment	—	12,087	19,714	58,476	17,162
Total expenses	112,982	185,483	299,607	441,244	593,568
Interest and other income, net	72,392	46,815	26,380	10,331	5,989
Interest expense	(8,908)	(26,585)	(52,183)	(84,329)	(107,316)
(Loss) gain on early extinguishment of debt	(6,374)	(7,122)	(493)	(2,680)	6,661
Foreign currency exchange loss	—	—	—	(5)	(8,857)
Gain on sale of properties, net	422,172	251,417	15,498	250,886	84,421
Income before income taxes	494,150	276,064	30,166	233,639	102,221
Income tax expense	(1,284)	(3,156)	(500)	(745)	(2,364)
Net income	492,866	272,908	29,666	232,894	99,857
Net income attributable to noncontrolling interest	(186)	(95)	(10)	—	—
Net income attributable to Equity Commonwealth	492,680	272,813	29,656	232,894	99,857
Preferred distributions	(7,988)	(7,988)	(7,988)	(17,956)	(27,924)
Excess fair value of consideration paid over carrying value of preferred shares	—	—	—	(9,609)	—
Net income attributable to Equity Commonwealth common shareholders	\$ 484,692	\$ 264,825	\$ 21,668	\$ 205,329	\$ 71,933
Weighted average common shares outstanding—basic	122,091	122,314	124,125	125,474	128,621
Weighted average common shares outstanding—diluted	126,260	123,385	125,129	126,768	129,437
Basic earnings per common share attributable to Equity Commonwealth common shareholders:	\$ 3.97	\$ 2.17	\$ 0.17	\$ 1.64	\$ 0.56
Diluted earnings per common share attributable to Equity Commonwealth common shareholders:	\$ 3.90	\$ 2.15	\$ 0.17	\$ 1.62	\$ 0.56
Common distributions declared	\$ 3.50	\$ 2.50	\$ —	\$ —	\$ —

Balance Sheet Data	December 31,				
	2019	2018	2017	2016	2015
Real estate properties(1)	\$ 662,121	\$ 1,139,642	\$ 1,747,611	\$ 2,856,890	\$ 3,887,352
Total assets	3,319,377	3,530,772	4,236,945	4,526,075	5,231,164
Total indebtedness, net	25,691	274,955	848,578	1,141,667	1,697,116
Total shareholders' equity	3,244,577	3,182,801	3,299,366	3,260,447	3,368,487
Noncontrolling interest	1,295	1,197	1,129	—	—
Total equity	3,245,872	3,138,998	3,300,495	3,260,447	3,368,487

(1) Excludes value of acquired real estate leases.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included in Part IV, Item 15 of this Annual Report on Form 10-K. This section of this Annual Report on Form 10-K generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this Annual Report on Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### OVERVIEW

We are an internally managed and self-advised REIT primarily engaged in the ownership and operation of office properties in the United States. We were formed in 1986 under Maryland law. The Company operates as what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT, conducting substantially all of its activities through the Operating Trust. As of December 31, 2019, the Company beneficially owned 99.96% of the outstanding OP Units.

At December 31, 2019, our portfolio consisted of seven properties (12 buildings), with a combined 2.5 million square feet and a total undepreciated book value of \$662.1 million, and a depreciated book value of \$459.4 million. As of December 31, 2019, we had \$2.8 billion of cash and cash equivalents.

As of December 31, 2019, our overall portfolio was 94.7% leased. During the year ended December 31, 2019, we entered into leases, excluding leasing activity for assets during the quarter in which the asset was sold or classified as held for sale, for 617,000 square feet, including lease renewals for 383,000 square feet and new leases for 234,000 square feet. Leases entered into during the year ended December 31, 2019, including both lease renewals and new leases, had weighted average cash rental rates that were approximately 2.5% higher than prior rental rates for the same space and weighted average GAAP rental rates that were approximately 11.7% higher than prior rental rates for the same space. The change in GAAP rents is different than the change in cash rents due to differences in the amount of rent abatements, the magnitude and timing of contractual rent increases over the lease term, and the length of term for the newly executed leases compared to the prior leases.

During the year ended December 31, 2019, we sold three properties (six buildings) with a combined 2.7 million square feet for an aggregate gross sales price of \$812.1 million, excluding credits and closing costs. During the year ended December 31, 2018, we sold seven properties (nine buildings) with a combined 4.4 million square feet for an aggregate gross sales price of \$1.0 billion, excluding credits and closing costs. During the year ended December 31, 2019, we redeemed an aggregate of \$250.0 million of outstanding unsecured notes. Additionally, in February 2020, we sold our 0.3 million square foot property at 109 Brookline Avenue for a gross sale price of \$270.0 million, and in February 2020, we entered into a contract to sell our 0.4 million square foot property at 333 108th Avenue NE for a gross sale price of \$401.5 million. We currently have one other property totaling 0.2 million square feet for sale. For more information regarding these transactions, see Notes 3 and 19 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. As we have sold assets, our income from operations has declined.

On September 24, 2019, our Board of Trustees declared a special, one-time cash distribution of \$3.50 per common share/unit to shareholders/unitholders of record on October 7, 2019. On October 23, 2019, we paid this distribution to such shareholders/unitholders in the aggregate amount of \$427.7 million.

We have engaged CBRE, Inc. (CBRE) to provide property management services for our properties. We pay CBRE a property-by-property management fee and may engage CBRE from time-to-time to perform project management services, such as coordinating and overseeing the completion of tenant improvements and other capital projects at the properties. We reimburse CBRE for certain expenses incurred in the performance of its duties, including certain personnel and equipment costs. For the years ended December 31, 2019 and 2018, we incurred expenses of \$5.2 million and \$9.2 million, respectively, related to our property management agreement with CBRE, for property management fees, typically calculated as a percentage of the properties' revenues, and salary and benefits reimbursements for property personnel, such as property managers, engineers and maintenance staff. As of December 31, 2019 and 2018, we had amounts payable pursuant to these services of \$0.6 million and \$0.8 million, respectively.

We continue to execute our office repositioning strategy to own and acquire at a discount to replacement cost high-quality, multi-tenant office assets in markets and sub-markets with favorable long-term supply and demand fundamentals. We expect our efforts in the office sector to continue to be primarily focused on larger buildings in central business districts and

major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply. We currently target such efforts towards acquiring portfolios of properties or pursuing other large acquisitions as opposed to purchasing individual properties, although we may acquire individual properties if opportunities to do so are consistent with our strategy. However, to create a foundation for long-term growth, the set of opportunities that we pursue in the future may include acquisitions and/or investments in office or non-office property types.

In repositioning our portfolio, we may sell additional properties, depending on market conditions. With the progress we have had executing dispositions, and the strength and liquidity of our balance sheet, we are in a position to increasingly shift our focus to capital allocation. We intend to use our capital for acquisitions and/or investments in new properties or businesses, repay debt, repurchase common shares or make distributions that further our long-term strategic goals.

We may be unable to identify suitable investment opportunities. If we do not redeploy capital, we will strive to achieve a sale, liquidation or otherwise exit our business in one or more transactions in a manner that optimizes shareholder value. We are unable to predict if or when we will make a determination to sell, liquidate or otherwise exit our business.

### ***Property Operations***

Leased occupancy data for 2019 and 2018 is as follows (square feet in thousands):

	<b>All Properties(1)</b>		<b>Comparable Properties(2)</b>	
	<b>As of December 31,</b>		<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Total properties	7	10	7	7
Total square feet	2,469	5,120	2,469	2,469
Percent leased(3)	94.7 %	94.8 %	94.7 %	93.2 %

(1) Excludes properties sold.

(2) Based on properties owned continuously from January 1, 2018 through December 31, 2019 and excludes properties sold.

(3) Percent leased includes space subject to leases that have commenced, space being fitted out for occupancy pursuant to existing leases, and space which is leased but not occupied or is being offered for sublease by tenants.

The weighted average lease term based on square feet for leases entered into during the year ended December 31, 2019 was 4.9 years. Commitments made for leasing expenditures and concessions, such as tenant improvements and leasing commissions, for leases entered into during the year ended December 31, 2019, excluding leasing activity for assets during the quarter in which the asset was sold or classified as held for sale, totaled \$25.5 million, or \$41.30 per square foot on average (approximately \$8.37 per square foot per year of the lease term).

As of December 31, 2019, approximately 6.5% of our leased square feet and 7.5% of our annualized rental revenue, determined as set forth below, are included in leases scheduled to expire through December 31, 2020. Renewal and new leases and rental rates at which available space may be relet in the future will depend on prevailing market conditions at the times these leases are negotiated. We believe that the in-place cash rents for leases expiring in 2020, that have not been backfilled, are below market. Lease expirations by year, as of December 31, 2019, are as follows (square feet and dollars in thousands):

Year	Number of Tenants Expiring	Leased Square Feet Expiring(1)	% of Leased Square Feet Expiring(1)	Cumulative % of Leased Square Feet Expiring(1)	Annualized Rental Revenue Expiring(2)	% of Annualized Rental Revenue Expiring	Cumulative % of Annualized Rental Revenue Expiring
2020	17	151	6.5 %	6.5 %	\$ 7,227	7.5 %	7.5 %
2021	23	235	10.0 %	16.5 %	7,530	7.8 %	15.3 %
2022	13	154	6.6 %	23.1 %	8,036	8.3 %	23.6 %
2023	21	276	11.8 %	34.9 %	11,843	12.3 %	35.9 %
2024	15	275	11.7 %	46.6 %	11,427	11.8 %	47.7 %
2025	11	163	7.0 %	53.6 %	4,962	5.1 %	52.8 %
2026	8	80	3.4 %	57.0 %	3,574	3.7 %	56.5 %
2027	5	142	6.1 %	63.1 %	2,051	2.1 %	58.6 %
2028	3	59	2.5 %	65.6 %	2,923	3.0 %	61.6 %
2029	6	194	8.3 %	73.9 %	9,012	9.3 %	70.9 %
Thereafter	7	610	26.1 %	100.0 %	28,086	29.1 %	100.0 %
	<u>129</u>	<u>2,339</u>	<u>100.0 %</u>		<u>\$ 96,671</u>	<u>100.0 %</u>	
Weighted average remaining lease term (in years):		<u>7.5</u>			<u>7.9</u>		

- (1) Leased Square Feet as of December 31, 2019 includes space subject to leases that have commenced, space being fitted out for occupancy pursuant to existing leases, and space which is leased but is not occupied or is being offered for sublease by tenants. The Leased Square Feet Expiring corresponds to the latest-expiring signed lease for a given suite. Thus, backfilled suites expire in the year stipulated by the new lease.
- (2) Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2019, plus estimated recurring expense reimbursements; excludes lease value amortization, straight line rent adjustments, abated (free) rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.



A principal source of funds for our operations is rents from tenants at our properties. Rents are generally received from our tenants monthly in advance. As of December 31, 2019, tenants representing 2.0% or more of our total annualized rental revenue were as follows (square feet in thousands):

Tenant	Square Feet(1)	% of Total Leased Square Feet(1)	% of Annualized Rental Revenue(2)	Weighted Average Remaining Lease Term
1. Expedia, Inc.(3)	427	18.3 %	22.9 %	—
2. Dana-Farber Cancer Institute, Inc.	77	3.3 %	4.1 %	9.7
3. Beth Israel Deaconess Medical Center, Inc.	117	5.0 %	4.1 %	3.8
4. British International School of Washington	112	4.8 %	3.5 %	17.8
5. Equinor Energy Services, Inc.	77	3.3 %	3.4 %	4.0
6. Georgetown University	129	5.5 %	2.9 %	1.8
7. KPMG, LLP	87	3.7 %	2.8 %	7.8
8. CrowdStrike, Inc.	36	1.5 %	2.0 %	4.8
9. CBRE, Inc.	40	1.7 %	2.0 %	8.3
Total	1,102	47.1 %	47.7 %	4.4 (4)

- (1) Total Leased Square Feet as of December 31, 2019 includes space subject to leases that have commenced, space being fitted out for occupancy pursuant to existing leases, and space which is leased but is not occupied or is being offered for sublease by tenants.
- (2) Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2019, plus estimated recurring expense reimbursements; excludes lease value amortization, straight line rent adjustments, abated (free) rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.
- (3) During the third quarter of 2018, an affiliate of Amazon.com, Inc. entered into a new 16-year lease for 429,012 square feet, including all of the Expedia, Inc. space. The Amazon lease is expected to commence in the third quarter of 2020.
- (4) The weighted average remaining lease term including leases that have been backfilled with new tenants is 10.9 years.

### ***Financing Activities***

On June 28, 2019, we redeemed all \$250.0 million of our 5.875% senior unsecured notes due 2020 and recognized a loss on early extinguishment of debt of \$6.4 million for the year ended December 31, 2019 from prepayment fees, the write off of unamortized deferred financing fees and the write off of an unamortized discount. As of December 31, 2019, our only debt consists of one \$25.4 million mortgage note payable.

For more information regarding our financing sources and activities, please see the section captioned “Liquidity and Capital Resources—Our Investment and Financing Liquidity and Resources” below.

## RESULTS OF OPERATIONS

### Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

	Comparable Properties Results(1)				Other Properties Results(2)		Consolidated Results			
					Year Ended December 31,					
	2019	2018	\$ Change	% Change	2019	2018	2019	2018	\$ Change	% Change
	(in thousands)									
Rental revenue(3)	\$ 97,960	\$ 91,735	6,225	6.8 %	\$ 18,909	\$ 92,633	\$116,869	\$184,368	\$ (67,499)	(36.6)%
Other revenue(3)	10,316	9,572	744	7.8 %	665	3,082	10,981	12,654	(1,673)	(13.2)%
Operating expenses	(39,384)	(37,985)	(1,399)	3.7 %	(7,034)	(41,931)	(46,418)	(79,916)	33,498	(41.9)%
Net operating income(4)	\$ 68,892	\$ 63,322	\$ 5,570	8.8 %	\$ 12,540	\$ 53,784	81,432	117,106	(35,674)	(30.5)%
Other expenses:										
Depreciation and amortization							28,122	49,041	(20,919)	(42.7)%
General and administrative							38,442	44,439	(5,997)	(13.5)%
Loss on asset impairment							—	12,087	(12,087)	(100.0)%
Total other expenses							66,564	105,567	(39,003)	(36.9)%
Interest and other income, net							72,392	46,815	25,577	54.6 %
Interest expense							(8,908)	(26,585)	17,677	(66.5)%
Loss on early extinguishment of debt							(6,374)	(7,122)	748	(10.5)%
Gain on sale of properties, net							422,172	251,417	170,755	67.9 %
Income before income taxes							494,150	276,064	218,086	79.0 %
Income tax expense							(1,284)	(3,156)	1,872	(59.3)%
Net income							492,866	272,908	219,958	80.6 %
Net income attributable to noncontrolling interest							(186)	(95)	(91)	95.8 %
Net income attributable to Equity Commonwealth							492,680	272,813	219,867	80.6 %
Preferred distributions							(7,988)	(7,988)	—	— %
Net income attributable to Equity Commonwealth common shareholders							\$484,692	\$264,825	\$ 219,867	83.0 %

- (1) Comparable properties consist of 7 properties (12 buildings) we owned continuously from January 1, 2018 to December 31, 2019.
- (2) Other properties consist of properties sold.
- (3) Certain reclassifications were made to conform the prior period to our presentation of the condensed consolidated statements of operations due to the impact of adopting Accounting Standards Update 2016-02. Amounts that were previously disclosed as "Tenant reimbursements and other income" are now included in "Rental revenue" and are no longer presented as a separate line item. Parking revenues that do not represent components of leases and were previously disclosed as "Rental income" are now included in "Other revenue." Subsequent to January 1, 2019, provisions for credit losses are included in "Rental revenue." Provisions for credit losses prior to January 1, 2019 were disclosed as "Operating expenses" and were not reclassified to conform prior periods to the current presentation.
- (4) We define net operating income, or NOI, as shown above, as income from our real estate including lease termination fees received from tenants less our property operating expenses. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions and corporate level expenses. For a discussion of why we consider NOI to be an appropriate supplemental measure to net income as well as a reconciliation of NOI to net income, the most directly comparable financial measure under GAAP reported on our consolidated financial statements, please see "Liquidity and Capital Resources - Property Net Operating Income (NOI)."

*Rental revenue.* Rental revenue decreased \$67.5 million, or 36.6%, in the 2019 period, compared to the 2018 period, primarily due to the properties sold in 2019 and 2018. Rental revenue at the comparable properties increased \$6.2 million, or 6.8%, in the 2019 period, compared to the 2018 period, primarily due to leasing activity, a \$2.1 million increase in lease termination fees and a \$2.7 million increase in escalations and real estate tax recoveries.

Rental revenue includes increases for straight line rent adjustments totaling \$0.4 million in the 2019 period and \$5.0 million in the 2018 period, and net increases (reductions) for amortization of acquired real estate leases and assumed real estate lease obligations totaling \$0.1 million in the 2019 period and \$(0.1) million in the 2018 period. Rental income also includes the recognition of lease termination fees totaling \$2.2 million in the 2019 period and \$2.9 million in the 2018 period.

*Other revenue.* Other revenue, which primarily includes parking revenue, decreased \$1.7 million, or 13.2% in the 2019 period, compared to the 2018 period, primarily due to the properties sold in 2019 and 2018. Other revenue increased \$0.7 million, or 7.8%, at the comparable properties in the 2019 period, compared to the 2018 period primarily due to increased parking revenue during the 2019 period.

*Operating expenses.* Operating expenses decreased \$33.5 million, or 41.9%, in the 2019 period, compared to the 2018 period, primarily due to the properties sold in 2019 and 2018. Operating expenses at our comparable properties increased \$1.4 million, or 3.7%, primarily due to a \$1.8 million increase in real estate tax expense, partially offset by a \$0.9 million decrease in utility expense.

*Depreciation and amortization.* Depreciation and amortization decreased \$20.9 million, or 42.7%, in the 2019 period, compared to the 2018 period, primarily due to the properties sold in 2019 and 2018.

*General and administrative.* General and administrative expenses decreased \$6.0 million, or 13.5% in the 2019 period, compared to the 2018 period, primarily due to a \$5.7 million decrease in share-based compensation expense and a \$1.7 million decrease in payroll expenses as a result of a staffing reduction, partially offset by a \$1.6 million increase in compensation expenses related to severance from \$1.8 million in the 2018 period to \$3.4 million in the 2019 period.

*Loss on asset impairment.* We recorded impairment charges of \$12.1 million in the 2018 period related to 777 East Eisenhower Parkway and 97 Newberry Road, based upon the shortening of our expected period of ownership and updated market information in accordance with our impairment analysis procedures. We did not record any impairment charges in the 2019 period.

*Interest and other income, net.* Interest and other income, net increased \$25.6 million, or 54.6%, in the 2019 period, compared to the 2018 period, primarily due to \$17.5 million of additional interest received on higher invested balances and higher average interest rates in 2019, a \$5.0 million loss on the sale of marketable securities in the 2018 period and a \$2.1 million loss on the sale of a real estate mortgage receivable in 2018. This mortgage receivable of \$7.7 million represented mortgage financing we provided upon the sale of three properties in 2013.

*Interest expense.* Interest expense decreased \$17.7 million, or 66.5%, in the 2019 period, compared to the 2018 period, primarily due to the prepayment in March 2018 of all \$175.0 million of our 5.75% senior unsecured notes due 2042, the redemption at par of the total \$400.0 million outstanding under our 5-year and 7-year term loans in May 2018, the termination of our credit agreement in December 2018, the redemption in June 2019 of all \$250 million of our 5.875% senior unsecured notes due 2020 and a decrease in amortization of deferred financing fees.

*Loss on early extinguishment of debt.* The loss on early extinguishment of debt of \$6.4 million in the 2019 period reflects the write off of unamortized deferred financing fees, the write off of an unamortized discount and prepayment fees related to the redemption of all \$250 million of our 5.875% senior unsecured notes due 2020. The loss on early extinguishment of debt of \$7.1 million in the 2018 period reflects the write off of unamortized deferred financing fees related to our redemption at par of the total \$400.0 million outstanding under our 5-year and 7-year term loans, the write off of unamortized deferred financing fees related to our repayment at par of all \$175.0 million of our 5.75% senior unsecured notes due 2042, prepayment fees and the write off of unamortized deferred financing fees related to our repayment of \$4.9 million of mortgage debt at 97 Newberry Road and the write off of unamortized deferred financing fees related to our termination of the credit agreement

*Gain on sale of properties, net.* Gain on sale of properties, net increased \$170.8 million, or 67.9%, in the 2019 period, compared to the 2018 period. Gain on sale of properties, net in the 2019 period primarily related to the following (dollars in thousands):

Asset	Gain on Sale
1735 Market Street	\$ 192,985
600 108th Avenue NE	149,009
Research Park	78,158
	<u>\$ 420,152</u>

Gain on sale of properties, net in the 2018 period primarily relates to the following (dollars in thousands):

Asset	Gain (Loss) on Sale
1600 Market Street	\$ 54,599
600 West Chicago Avenue	107,790
5073, 5075, & 5085 S. Syracuse Street	42,762
1601 Dry Creek Drive	26,979
777 East Eisenhower Parkway	5,308
8750 Bryn Mawr Avenue	15,194
97 Newberry Road	(1,174)
	<u>\$ 251,458</u>

*Income tax expense.* Income tax expense decreased \$1.9 million, or 59.3%, in the 2019 period, compared to the 2018 period, primarily due to a decrease in state and local taxes as a result of the sale of properties.

*Net income attributable to noncontrolling interest.* In 2019, 2018 and 2017, we granted LTIP Units to certain of our trustees and employees. As these LTIP Units vest, they automatically convert to operating partnership units, or OP Units. The net income attributable to noncontrolling interest of \$0.2 million in the 2019 period and \$0.1 million in the 2018 period relates to the allocation of net income to the LTIP/OP Unit holders.

### ***Inflation***

Inflation in the past several years in the United States has been modest. Future inflation might have either positive or negative impacts on our business. Inflation might cause the value of our real estate to increase. Inflation might also cause our costs of equity and debt capital and operating costs to increase. An increase in our capital costs or in our operating costs may result in decreased earnings unless it is offset by increased revenues. Further inflation may permit us to increase rents upon lease renewal or enter new leases above the previous rent amounts for the leased space.

In the event we incur any variable rate debt in the future, we may enter into interest rate hedge arrangements in order to mitigate the adverse impact of any increased cost of debt capital in the event of material inflation. The decision to enter into these agreements will be based on various factors, including the amount of any floating rate debt outstanding, our belief that material interest rate increases are likely to occur, the costs of and our expected benefit from these agreements and upon requirements of our borrowing arrangements.

In periods of rapid inflation, our tenants' operating costs may increase faster than revenues, which may have an adverse impact upon us if our tenants' operating income becomes insufficient to pay our rent. To mitigate the adverse impact of tenant financial distress upon us, we require many of our tenants to provide guarantees or security for our rent.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Our Operating Liquidity and Resources***

As of December 31, 2019, we had \$2.8 billion of cash and cash equivalents. We expect to use our cash balances, cash flow from our operations and proceeds of any future property sales to fund our operations, repay debt, make distributions, repurchase our common shares, make acquisitions and/or investments in properties or businesses, fund tenant improvements and leasing costs and for other general business purposes. We believe our cash balances and the cash flow from our operations will be sufficient to fund our ordinary course activities.

Our future cash flows from operating activities will depend primarily upon our:

- ability to maintain or improve the occupancy of, and the rental rates at, our properties;
- ability to control operating and financing expense increases at our properties; and
- ability to purchase additional properties, which produce rents, less property operating expenses, in excess of our costs of acquisition capital.

In addition, our future cash flows will also depend in part on interest income earned on our invested cash balances.

Volatility in energy costs and real estate taxes may cause our future operating expenses to fluctuate; however, the impact of these fluctuations is expected to be partially offset by the pass through of operating expenses to our tenants pursuant to lease terms, although there can be no assurance that we will be able to successfully offset these expenses or that doing so would not negatively impact our competitive position or business.

Cash flows provided by (used in) operating, investing and financing activities were \$98.9 million, \$995.7 million and \$(698.1) million, respectively, for the year ended December 31, 2019, and \$89.5 million, \$942.1 million and \$(988.1) million, respectively, for the year ended December 31, 2018. Changes in these three categories of our cash flows between 2019 and 2018 are primarily related to a decrease in property net operating income (as the result of property dispositions), an increase in interest income (as a result of additional interest received on higher invested balances and higher average interest rates in 2019), real estate improvements, dispositions of properties, proceeds from sales and maturities of marketable securities, repayments of debt, repurchase of our common shares and distributions to our common shareholders.

### ***Our Investment and Financing Liquidity and Resources***

On June 28, 2019, we redeemed all \$250.0 million of our 5.875% senior unsecured notes due 2020 and recognized a loss on early extinguishment of debt of \$6.4 million for the year ended December 31, 2019 from prepayment fees, the write off of unamortized deferred financing fees and the write off of an unamortized discount. As of December 31, 2019, our only debt consists of one \$25.4 million mortgage note payable.

On September 24, 2019, our Board of Trustees declared a special, one-time cash distribution of \$3.50 per common share/unit to shareholders/unitholders of record on October 7, 2019. On October 23, 2019, we paid this distribution to such shareholders/unitholders in the aggregate amount of \$427.7 million.

During the year ended December 31, 2019, we paid an aggregate of \$8.0 million of distributions on our series D preferred shares. On January 10, 2020, our Board of Trustees declared a dividend of \$0.40625 per series D preferred share, which will be paid on February 18, 2020 to shareholders of record on January 30, 2020.

On March 13, 2019, our Board of Trustees authorized the repurchase of up to \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. During the year ended December 31, 2019, we did not repurchase any of our common shares under our share repurchase program. The \$150.0 million of remaining authorization available under our share repurchase program as of December 31, 2019 is scheduled to expire on March 13, 2020.

Our outstanding debt maturity and interest rate as of December 31, 2019, were as follows (dollars in thousands):

Year	Scheduled Principal Payments During Period	
	Secured Fixed Rate Debt(1)	Interest Rate(2)
2020	\$ 597	5.7 %
2021	24,836	5.7 %
Thereafter	—	— %
	<u>\$ 25,433</u>	<u>5.7 %</u>

(1) Total debt outstanding as of December 31, 2019, including net unamortized premiums and net unamortized deferred financing costs, was \$25,691.

(2) Contractual interest rate.

For further information about our indebtedness, see Note 7 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference.

As the maturity date of our debt approaches, we may explore alternatives to repay the amount due. Such alternatives may include using our cash balances, incurring additional debt and issuing new equity securities. We have an effective shelf registration statement that allows us to issue certain types of public securities on an expedited basis, but it does not apply to debt securities nor does it assure that there will be buyers for any such securities.

We believe that we will have access to various types of financings, including debt or equity offerings, to fund any future acquisitions and/or investments and to pay our debt and other obligations as they become due. Although we are not currently rated by the debt rating agencies, the completion and the costs of any future debt transactions will depend primarily upon market conditions and our credit ratings at such time, if any. We have no control over market conditions. Our credit ratings will depend upon evaluations by credit rating agencies of our business practices and plans and, in particular, whether we appear to have the ability to maintain our earnings, to space our debt maturities and to balance our use of debt and equity capital so that our financial performance and leverage ratios afford us flexibility to withstand any reasonably foreseeable adverse changes. We intend to conduct our business activities in a manner which will continue to afford us reasonable access to capital for investment and financing activities. However, there can be no assurance regarding our ability to complete any debt or equity offerings or that our cost of any future public or private financings will not increase.

During the year ended December 31, 2019, we sold three properties (six buildings) with a combined 2.7 million square feet for an aggregate sales price of \$812.1 million, excluding credits and closing costs. In February 2020, we sold our 0.3 million square foot property at 109 Brookline Avenue for a gross sale price of \$270.0 million, and in February 2020, we entered into a contract to sell our 0.4 million square foot property at 333 108th Avenue NE for a gross sale price of \$401.5 million. For more information regarding these transactions, see Notes 3 and 19 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, which are incorporated herein by reference.

During the years ended December 31, 2019, 2018 and 2017 amounts capitalized at our properties, including properties sold or classified as held for sale, for tenant improvements, leasing costs and building improvements were as follows (amounts in thousands):

	Years Ended December 31,		
	2019	2018	2017
Tenant improvements(1)	\$ 7,529	\$ 47,248	\$ 29,161
Leasing costs(2)	5,409	21,674	16,073
Building improvements(3)	6,366	9,046	25,880

- (1) Tenant improvements include capital expenditures to improve tenants' space.
- (2) Leasing costs include leasing commissions and related legal expenses.
- (3) Building improvements generally include expenditures to replace obsolete building components and expenditures that extend the useful life of existing assets. Tenant-funded capital expenditures are excluded.

During the year ended December 31, 2019, commitments made for expenditures in connection with leasing space at our properties, excluding leasing activity for assets during the quarter in which the asset was sold or classified as held for sale, were as follows (dollar and square foot measures in thousands):

	New Leases	Renewals	Total
Square feet leased during the period	234	383	617
Tenant improvements and leasing commissions	\$ 18,306	\$ 7,174	\$ 25,480
Tenant improvements and leasing commissions per square foot	\$ 78.23	\$ 18.73	\$ 41.30
Weighted average lease term by square foot (years)	6.4	4.0	4.9
Tenant improvements and leasing commissions per square foot per year of lease term	\$ 12.24	\$ 4.63	\$ 8.37

### ***Debt Covenants***

After the redemption of all \$250.0 million of our 5.875% senior unsecured notes due 2020 on June 28, 2019, we no longer have any notes outstanding under our public debt indenture and related supplements, collectively, the Indenture, and we are no longer required to maintain the financial ratio covenants prescribed in the Indenture. As a result, we are no longer rated by the debt rating agencies.

### **OFF BALANCE SHEET ARRANGEMENTS**

As of December 31, 2019, we had no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## CONTRACTUAL OBLIGATIONS

As of December 31, 2019, our contractual obligations were as follows (dollars in thousands):

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt obligations	\$ 25,433	\$ 597	\$ 24,836	\$ —	\$ —
Tenant related obligations <sup>(1)</sup>	73,858	72,519	1,339	—	—
Projected interest expense <sup>(2)</sup>	1,577	1,456	121	—	—
Operating lease obligations—corporate office space	881	881	—	—	—
<b>Total</b>	<b>\$ 101,749</b>	<b>\$ 75,453</b>	<b>\$ 26,296</b>	<b>\$ —</b>	<b>\$ —</b>

- (1) Committed tenant related obligations are leasing commissions and tenant improvements and are based on leases in effect as of December 31, 2019.
- (2) Projected interest expense is attributable to only the long term debt obligation listed above at existing rates and is not intended to project future interest costs which may result from debt prepayments, new debt issuances or changes in interest rates.

## FUNDS FROM OPERATIONS (FFO) AND NORMALIZED FFO

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or Nareit. Nareit defines FFO as net income (loss), calculated in accordance with GAAP, excluding real estate depreciation and amortization, gains (or losses) from sales of depreciable property, impairment of depreciable real estate, and our portion of these items related to equity investees and non-controlling interests. Our calculation of Normalized FFO differs from Nareit's definition of FFO because we exclude certain items that we view as nonrecurring or impacting comparability from period to period. We consider FFO and Normalized FFO to be appropriate measures of operating performance for a REIT, along with net income, net income attributable to Equity Commonwealth common shareholders and cash flow from operating activities.

We believe that FFO and Normalized FFO provide useful information to investors because by excluding the effects of certain historical amounts, such as depreciation expense, FFO and Normalized FFO may facilitate a comparison of our operating performance between periods and with other REITs. FFO and Normalized FFO do not represent cash generated by operating activities in accordance with GAAP and should not be considered as alternatives to net income, net income attributable to Equity Commonwealth common shareholders or cash flow from operating activities, determined in accordance with GAAP, or as indicators of our financial performance or liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of our needs. These measures should be considered in conjunction with net income, net income attributable to Equity Commonwealth common shareholders and cash flow from operating activities as presented in our consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Other REITs and real estate companies may calculate FFO and Normalized FFO differently than we do.

The following table provides a reconciliation of net income to FFO attributable to Equity Commonwealth common shareholders and unitholders and a calculation to Normalized FFO attributable to Equity Commonwealth common shareholders and unitholders (in thousands):

	Years Ended December 31,		
	2019	2018	2017
<b>Reconciliation to FFO:</b>			
Net income	\$ 492,866	\$ 272,908	\$ 29,666
Real estate depreciation and amortization	27,037	47,816	89,519
Loss on asset impairment	—	12,087	19,714
Gain on sale of properties, net	(422,172)	(251,417)	(15,498)
FFO attributable to Equity Commonwealth	97,731	81,394	123,401
Preferred distributions	(7,988)	(7,988)	(7,988)
FFO attributable to Equity Commonwealth common shareholders and unitholders	<u>\$ 89,743</u>	<u>\$ 73,406</u>	<u>\$ 115,413</u>
<b>Reconciliation to Normalized FFO:</b>			
FFO attributable to Equity Commonwealth common shareholders and unitholders	\$ 89,743	\$ 73,406	\$ 115,413
Lease value amortization	(117)	54	1,774
Straight line rent adjustments	(418)	(4,971)	(14,425)
Loss on early extinguishment of debt	6,374	7,122	493
Loss on sale of securities	—	4,987	—
Loss on sale of real estate mortgage receivable	—	2,117	—
Income taxes related to gains on property sales	142	2,726	—
Normalized FFO attributable to Equity Commonwealth common shareholders and unitholders	<u>\$ 95,724</u>	<u>\$ 85,441</u>	<u>\$ 103,255</u>

## PROPERTY NET OPERATING INCOME (NOI)

We use property net operating income, or NOI, to evaluate the performance of our properties. We define NOI as income from our real estate including lease termination fees received from tenants less our property operating expenses. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions and corporate level expenses.

The following table includes the reconciliation of NOI to net income, the most directly comparable financial measure under GAAP reported in our consolidated financial statements. We consider NOI to be an appropriate supplemental measure to net income because it helps to understand the operations of our properties. We use NOI internally to evaluate property level performance, and we believe that NOI provides useful information to investors regarding our results of operations because it reflects only those income and expense items that are incurred at the property level and may facilitate comparisons of our operating performance between periods and with other REITs. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered as an alternative to net income, net income attributable to Equity Commonwealth common shareholders or cash flow from operating activities, determined in accordance with GAAP, or as an indicator of our financial performance or liquidity, nor is this measure necessarily indicative of sufficient cash flow to fund all of our needs. This measure should be considered in conjunction with net income, net income attributable to Equity Commonwealth common shareholders and cash flow from operating activities as presented in our consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Other REITs and real estate companies may calculate NOI differently than we do.



A reconciliation of NOI to net income for the years ended December 31, 2019, 2018 and 2017, is as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Rental revenue	\$ 116,869	\$ 184,368	\$ 324,415
Other revenue	10,981	12,654	16,156
Operating expenses	(46,418)	(79,916)	(141,425)
NOI	<u>\$ 81,432</u>	<u>\$ 117,106</u>	<u>\$ 199,146</u>
NOI	\$ 81,432	\$ 117,106	\$ 199,146
Depreciation and amortization	(28,122)	(49,041)	(90,708)
General and administrative	(38,442)	(44,439)	(47,760)
Loss on asset impairment	—	(12,087)	(19,714)
Interest and other income, net	72,392	46,815	26,380
Interest expense	(8,908)	(26,585)	(52,183)
Loss on early extinguishment of debt	(6,374)	(7,122)	(493)
Gain on sale of properties, net	422,172	251,417	15,498
Income before income taxes	494,150	276,064	30,166
Income tax expense	(1,284)	(3,156)	(500)
Net income	<u>\$ 492,866</u>	<u>\$ 272,908</u>	<u>\$ 29,666</u>

## CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are those that will have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and estimates are consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in real property. These policies affect our assessment of the carrying values and impairments of long lived assets.

We periodically evaluate our properties for possible impairments. Impairment indicators may include declining tenant occupancy, lack of progress releasing vacant space, tenant bankruptcies, low long term prospects for improvement in property performance, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life and legislative, market or industry changes that could permanently reduce the value of a property. If indicators of impairment are present, we evaluate the carrying value of the related property by comparing it to the expected future undiscounted cash flows to be generated from that property over our anticipated hold period. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. Projections of expected future operating cash flows require that we estimate future market rental revenue amounts subsequent to the expiration of current lease agreements, future property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property's fair value and could result in the misstatement of the carrying value of our real estate assets and net income (loss).

These policies involve significant judgments made based upon experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual value, the ability and willingness of our tenants to perform their obligations to us, current and future economic conditions and competitive factors in the markets in which our properties are located. Competition, economic conditions and other factors may cause occupancy declines in the future. In the future, we may need to revise our carrying value assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense related to properties we own or decrease the carrying values of our assets.

## RELATED PERSON TRANSACTIONS

For information about our related person transactions, see Note 17 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to risks associated with market changes in interest rates, as set forth below.

#### Interest Rate Risk

We manage our exposure to interest rate risk by monitoring available financing alternatives. Other than as described below, we do not currently foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

At December 31, 2019, our outstanding fixed rate debt consisted of the following secured mortgage note (dollars in thousands):

Debt	Principal Balance(1)	Annual Interest Rate(1)	Annual Interest Expense(1)	Maturity	Open at Par Date
206 East 9th Street	\$ 25,433	5.69 %	\$ 1,601	1/5/2021	7/5/2020

- (1) The principal balance, annual interest rate and annual interest expense are the amounts stated in the applicable contract. In accordance with GAAP, our carrying value and recorded interest expense may differ from these amounts because of market conditions and issuance costs at the time we assumed or issued this debt. For more information, see Note 7 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K.

Our secured note requires principal and interest payments through maturity pursuant to an amortization schedule.

#### *Fixed Rate Debt*

Because our fixed rate mortgage note bears interest at a fixed rate, changes in market interest rates during the term of this debt will not affect our interest obligations. If this note was refinanced at interest rates which are 100 basis points higher or lower than shown above, our per annum interest cost would increase or decrease, respectively, by approximately \$0.3 million.

#### *Floating Rate Debt*

At December 31, 2019, we did not have any outstanding floating rate debt.

### Item 8. Financial Statements and Supplementary Data.

The information required by Item 8 is included in Item 15 of this Annual Report on Form 10-K.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

### Item 9A. Controls and Procedures.

#### *Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019.

### ***Changes in Internal Control Over Financial Reporting***

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Management Report on Assessment of Internal Control Over Financial Reporting***

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in *Internal Control—Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2019 our internal control over financial reporting is effective.

Ernst & Young LLP, the independent registered public accounting firm that audited our 2019 consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting. The report appears on page F-2.

### **Item 9B. Other Information.**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance.**

Our Code of Business Conduct and Ethics applies to all our representatives, including our officers and Trustees. Our Code of Business Conduct and Ethics is posted on our website, [www.eqcre.com](http://www.eqcre.com). A printed copy of our Code of Business Conduct and Ethics is also available free of charge to any person who requests a copy by writing to our Secretary, Equity Commonwealth, Two North Riverside Plaza, Suite 2100, Chicago, IL 60606. We have disclosed and intend to disclose any amendments or waivers to our Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller (or any person performing similar functions) on our website.

The remainder of the information required by Item 10 is incorporated by reference to our definitive Proxy Statement.

### **Item 11. Executive Compensation.**

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by Item 12 is incorporated by reference to our definitive Proxy Statement.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by Item 13 is incorporated by reference to our definitive Proxy Statement.

### **Item 14. Principal Accountant Fees and Services.**

The information required by Item 14 is incorporated by reference to our definitive Proxy Statement.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(i) and (ii) Financial Statements and Financial Statement Schedule.

The following consolidated financial statements and financial statement schedule of Equity Commonwealth are included on the pages indicated:

	<u>Page</u>
Reports of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Comprehensive Income	F-5
Consolidated Statements of Equity	F-6
Consolidated Statements of Cash Flows	F-8
Notes to Consolidated Financial Statements	F-10
Schedule III—Real Estate and Accumulated Depreciation	S-1

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, or are inapplicable, and therefore have been omitted.

(iii) Exhibits.

Exhibits to our Annual Report on Form 10-K for the year ended December 31, 2019 have been included only with the version of that Annual Report on Form 10-K filed with the SEC. A copy of that Annual Report, including the exhibits, is available free of charge by visiting [www.sec.gov](http://www.sec.gov) or upon written request to: Investor Relations, Equity Commonwealth, Two North Riverside Plaza, Suite 2100, Chicago, IL 60606, telephone (312) 646-2800.

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Amendment and Restatement of Declaration of Trust of the Company, dated July 1, 1994, as amended to date. (Incorporated by reference to the Company's Current Report on Form 8-K filed August 1, 2014.)
3.2	Articles Supplementary, dated October 10, 2006. (Incorporated by reference to the Company's Current Report on Form 8-K filed October 11, 2006.)
3.3	Articles Supplementary, dated May 31, 2011. (Incorporated by reference to the Company's Current Report on Form 8-K filed May 31, 2011.)
3.4	Articles Supplementary, dated March 14, 2018. (Incorporated by reference to the Company's Current Report on Form 8-K filed March 15, 2018.)
3.5	Third Amended and Restated Bylaws of the Company, adopted March 15, 2017. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.)
4.1	Form of Common Share Certificate. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.)
4.2	Form of 6 1/2% Series D Cumulative Convertible Preferred Share Certificate. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
4.3	Description of the Company's Securities. (Filed herewith.)

Exhibit Number	Description
10.1	Articles of Amendment and Restatement of Declaration of Trust of EQC Operating Trust, dated November 10, 2016. (Incorporated by reference to the Company's Current Report on Form 8-K filed November 14, 2016.)
10.2	Assumption Agreement, dated as of November 10, 2016, between EQC Operating Trust and Equity Commonwealth. (Incorporated by reference to the Company's Current Report on Form 8-K filed November 14, 2016.)
10.3	Contribution and Assignment Agreement, dated November 10, 2016, between the Company and EQC Operating Trust. (Incorporated by reference to the Company's Current Report on Form 8-K filed November 14, 2016.)
10.4	Master Sub-Management Agreement, dated as of June 13, 2014, between Equity Commonwealth Management LLC, a wholly owned subsidiary of the Company, and CBRE, Inc. (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed June 17, 2014.)
10.5	Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed June 18, 2015.)
10.6	Amendment No. 1 to the Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 18, 2016.)
10.7	Amendment No. 2 to the Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Registration Statement on Form S-8 filed July 16, 2019.)
10.8	Form of Restricted Stock Agreement for Employees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 15, 2018.)
10.9	Form of Restricted Stock Unit Agreement for Employees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 15, 2018.)
10.10	Form of Time-Based LTIP Unit Agreement for Employees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 15, 2018.)
10.11	Form of Performance-Based LTIP Unit Agreement for Employees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 15, 2018.)
10.12	Form of Restricted Stock Agreement for Chairman of the Board under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 15, 2018.)
10.13	Form of Restricted Stock Unit Agreement for Chairman of the Board under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 15, 2018.)
10.14	Form of Time-Based LTIP Unit Agreement for Chairman of the Board under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 15, 2018.)
10.15	Form of Performance-Based LTIP Unit Agreement for Chairman of the Board under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 15, 2018.)
10.16	Form of Restricted Stock Agreement for Trustees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed June 15, 2016.)

Exhibit Number	Description
10.17	Form of Time-Based LTIP Unit Agreement for Trustees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed June 21, 2017.)
10.18	Summary of Trustee Compensation. (+) (Filed herewith.)
10.19	Sale Agreement by and between EQC Operating Trust and EQC TRS, Inc. and Silverstein/Arden 1735 Market Holdco LP, dated January 29, 2019. (Incorporated by reference to the Company's Current Report on Form 8-K filed January 30, 2019.)
10.20	Change in Control Agreement, dated as of April 24, 2019, by and between the Company, Equity Commonwealth Management LLC and David Helfand. (+) (†) (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.)
21.1	Subsidiaries of the Company. (Filed herewith.)
23.1	Consent of Ernst & Young LLP. (Filed herewith.)
31.1	Rule 13a-14(a) Certification. (Filed herewith.)
31.2	Rule 13a-14(a) Certification. (Filed herewith.)
32.1	Section 1350 Certification. (Furnished herewith.)
101.1	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows and (vi) related notes to these financial statements, tagged as blocks of text and in detail. (Filed herewith.)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

(+) Management contract or compensatory plan or arrangement.

† Pursuant to Instruction 2 of Item 601 of Regulation S-K, Registrant has omitted certain change in control agreements (the "Omitted CIC Agreements"), which are substantially identical in all material respects except as to the parties thereto, the dates of execution, or other details. The below schedule identifies the Omitted CIC Agreements. The only term in the Omitted CIC Agreements that differs from the change in control agreement filed herewith is the term of coverage under the Company's group health plan, which is 24 months under Section 3(a)(iv) of the Omitted CIC Agreements. The Registrant hereby agrees to file the Omitted CIC Agreements upon request by the Commission.

Schedule

1. Change in Control Agreement, dated as of April 24, 2019, by and between the Company, Equity Commonwealth Management LLC and Adam Markman.
2. Change in Control Agreement, dated as of April 24, 2019, by and between the Company, Equity Commonwealth Management LLC and David Weinberg.
3. Change in Control Agreement, dated as of April 24, 2019, by and between the Company, Equity Commonwealth Management LLC and Orrin Shifrin.

**Item 16. Form 10-K Summary.**

Not applicable





## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Trustees of Equity Commonwealth

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

We have audited the accompanying consolidated balance sheets of Equity Commonwealth (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) (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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 13, 2020 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**

Critical audit matters 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. We determined that there are no critical audit matters.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1986.

Chicago, Illinois

February 13, 2020

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Trustees of Equity Commonwealth

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

We have audited Equity Commonwealth's internal control over financial reporting as of December 31, 2019, 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, Equity Commonwealth (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, 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 Equity Commonwealth as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed at Item 15(a) and our report dated February 13, 2020 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 Report on Assessment of 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  
Chicago, Illinois  
February 13, 2020

**EQUITY COMMONWEALTH**  
**CONSOLIDATED BALANCE SHEETS**  
(amounts in thousands, except share data)

	December 31,	
	2019	2018
<b>ASSETS</b>		
Real estate properties:		
Land	\$ 85,627	\$ 135,142
Buildings and improvements	576,494	1,004,500
	<u>662,121</u>	<u>1,139,642</u>
Accumulated depreciation	(202,700)	(375,968)
	<u>459,421</u>	<u>763,674</u>
Cash and cash equivalents	2,795,642	2,400,803
Marketable securities	—	249,602
Restricted cash	5,003	3,298
Rents receivable	19,554	51,089
Other assets, net	39,757	62,306
Total assets	<u>\$ 3,319,377</u>	<u>\$ 3,530,772</u>
<b>LIABILITIES AND EQUITY</b>		
Senior unsecured debt, net	\$ —	\$ 248,473
Mortgage notes payable, net	25,691	26,482
Accounts payable, accrued expenses and other	37,153	58,300
Rent collected in advance	3,127	9,451
Distributions payable	7,534	4,068
Total liabilities	<u>73,505</u>	<u>346,774</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest, \$0.01 par value: 50,000,000 shares authorized;		
Series D preferred shares; 6.50% cumulative convertible; 4,915,196 shares issued and outstanding, aggregate liquidation preference of \$122,880	119,263	119,263
Common shares of beneficial interest, \$0.01 par value: 350,000,000 shares authorized; 121,924,199 and 121,572,155 shares issued and outstanding, respectively	1,219	1,216
Additional paid in capital	4,313,831	4,305,974
Cumulative net income	3,363,654	2,870,974
Cumulative other comprehensive loss	—	(342)
Cumulative common distributions	(3,851,666)	(3,420,548)
Cumulative preferred distributions	(701,724)	(693,736)
Total shareholders' equity	<u>3,244,577</u>	<u>3,182,801</u>
Noncontrolling interest	1,295	1,197
Total equity	<u>3,245,872</u>	<u>3,183,998</u>
Total liabilities and equity	<u>\$ 3,319,377</u>	<u>\$ 3,530,772</u>

See accompanying notes.

**EQUITY COMMONWEALTH**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(amounts in thousands, except per share data)

	December 31,		
	2019	2018	2017
<b>Revenues:</b>			
Rental revenue	\$ 116,869	\$ 184,368	\$ 324,415
Other revenue	10,981	12,654	16,156
Total revenues	<u>127,850</u>	<u>197,022</u>	<u>340,571</u>
<b>Expenses:</b>			
Operating expenses	46,418	79,916	141,425
Depreciation and amortization	28,122	49,041	90,708
General and administrative	38,442	44,439	47,760
Loss on asset impairment	—	12,087	19,714
Total expenses	<u>112,982</u>	<u>185,483</u>	<u>299,607</u>
Interest and other income, net	72,392	46,815	26,380
Interest expense (including net amortization of debt discounts, premiums and deferred financing fees of \$204, \$2,553 and \$3,135, respectively)	(8,908)	(26,585)	(52,183)
Loss on early extinguishment of debt	(6,374)	(7,122)	(493)
Gain on sale of properties, net	422,172	251,417	15,498
Income before income taxes	<u>494,150</u>	<u>276,064</u>	<u>30,166</u>
Income tax expense	(1,284)	(3,156)	(500)
Net income	492,866	272,908	29,666
Net income attributable to noncontrolling interest	(186)	(95)	(10)
Net income attributable to Equity Commonwealth	<u>492,680</u>	<u>272,813</u>	<u>29,656</u>
Preferred distributions	(7,988)	(7,988)	(7,988)
Net income attributable to Equity Commonwealth common shareholders	<u>\$ 484,692</u>	<u>\$ 264,825</u>	<u>\$ 21,668</u>
Weighted average common shares outstanding — basic	<u>122,091</u>	<u>122,314</u>	<u>124,125</u>
Weighted average common shares outstanding — diluted	<u>126,260</u>	<u>123,385</u>	<u>125,129</u>
<b>Earnings per common share attributable to Equity Commonwealth common shareholders:</b>			
Basic	<u>\$ 3.97</u>	<u>\$ 2.17</u>	<u>\$ 0.17</u>
Diluted	<u>\$ 3.90</u>	<u>\$ 2.15</u>	<u>\$ 0.17</u>

See accompanying notes.

**EQUITY COMMONWEALTH**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(amounts in thousands)

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 492,866	\$ 272,908	\$ 29,666
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on derivative instruments	—	456	(248)
Unrealized gain, net on marketable securities	342	1,199	361
Total comprehensive income	493,208	274,563	29,779
Comprehensive income attributable to the noncontrolling interest	(186)	(95)	(10)
Total comprehensive income attributable to Equity Commonwealth	\$ 493,022	\$ 274,468	\$ 29,769

See accompanying notes.

**EQUITY COMMONWEALTH**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
(amounts in thousands, except share data)

	Equity Commonwealth Shareholders										
	Preferred Shares					Common Shares					
	Series D										
	Number of Shares	Preferred Shares	Cumulative Preferred Distributions	Number of Shares	Common Shares	Cumulative Common Distributions	Additional Paid in Capital	Cumulative Net Income	Cumulative Other Comprehensive Loss	Noncontrolling Interest	Total
Balance at December 31, 2016	4,915,196	\$ 119,263	\$ (677,760)	123,994,465	\$ 1,240	\$ (3,111,868)	\$ 4,363,177	\$ 2,566,603	\$ (208)	\$ —	\$ 3,260,447
Comprehensive income:											
Net income	—	—	—	—	—	—	—	29,656	—	10	29,666
Unrealized loss on derivative instrument	—	—	—	—	—	—	—	—	(248)	—	(248)
Unrealized gain on marketable securities	—	—	—	—	—	—	—	—	361	—	361
Total comprehensive income	—	—	—	—	—	—	—	—	—	—	29,779
Repurchase of shares	—	—	—	(43,329)	—	—	(3,188)	—	—	—	(3,188)
Share-based compensation	—	—	—	266,480	2	—	20,156	—	—	1,256	21,414
Contributions	—	—	—	—	—	—	—	—	—	31	31
Distributions	—	—	(7,988)	—	—	—	—	—	—	—	(7,988)
Adjustment for noncontrolling interest	—	—	—	—	—	—	168	—	—	(168)	—
Balance at December 31, 2017	4,915,196	119,263	(685,748)	124,217,616	1,242	(3,111,868)	4,380,313	2,596,259	(95)	1,129	3,300,495
Comprehensive income:											
Net income	—	—	—	—	—	—	—	272,813	—	95	272,908
Unrealized gain on derivative instruments	—	—	—	—	—	—	—	—	456	—	456
Unrealized gain on marketable securities	—	—	—	—	—	—	—	—	1,199	—	1,199
Total comprehensive income	—	—	—	—	—	—	—	—	—	—	274,563
Reclassification pursuant to change in accounting principle											
Repurchase of shares	—	—	—	(3,163,730)	(31)	—	(93,945)	—	—	—	(93,976)
Share-based compensation	—	—	—	518,269	5	—	18,371	—	—	1,321	19,697
Contributions	—	—	—	—	—	—	—	—	—	1	1
Distributions	—	—	(7,988)	—	—	(308,680)	—	—	—	(114)	(316,782)
Adjustment for noncontrolling interest	—	—	—	—	—	—	1,235	—	—	(1,235)	—
Balance at December 31, 2018	4,915,196	119,263	(693,736)	121,572,155	1,216	(3,420,548)	4,305,974	2,870,974	(342)	1,197	3,183,998

See accompanying notes.

**EQUITY COMMONWEALTH**  
**CONSOLIDATED STATEMENTS OF EQUITY (Continued)**  
(amounts in thousands, except share data)

	Equity Commonwealth Shareholders									
	Preferred Shares					Common Shares				
	Series D									
Number of Shares	Preferred Shares	Cumulative Preferred Distributions	Number of Shares	Common Shares	Cumulative Common Distributions	Additional Paid in Capital	Cumulative Net Income	Cumulative Other Comprehensive Loss	Noncontrolling Interest	Total
Comprehensive income:										
Net income	—	—	—	—	—	—	492,680	—	186	492,866
Unrealized gain on marketable securities	—	—	—	—	—	—	—	342	—	342
Total comprehensive income	—	—	—	—	—	—	492,680	342	—	493,208
Repurchase of shares	—	—	—	(168,327)	(2)	(5,485)	—	—	—	(5,487)
Share-based compensation	—	—	—	520,371	5	13,095	—	—	1,326	14,426
Distributions	—	—	(7,988)	—	—	(431,118)	—	—	(1,167)	(440,273)
Adjustment for noncontrolling interest	—	—	—	—	—	247	—	—	(247)	—
Balance at December 31, 2019	4,915,196	\$ 119,263	\$ (701,724)	1,219,241	\$ 1,219	\$ (3,851,666)	\$ 3,363,654	\$ —	\$ 1,295	\$ 3,245,872

See accompanying notes.

**EQUITY COMMONWEALTH**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(amounts in thousands)

	Year Ended December 31,		
	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 492,866	\$ 272,908	\$ 29,666
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	23,782	40,386	73,169
Net amortization of debt discounts, premiums and deferred financing fees	204	2,553	3,135
Straight line rental income	(418)	(4,971)	(14,425)
Amortization of acquired real estate leases	158	2,187	8,994
Other amortization	4,009	6,127	9,989
Amortization of right-of-use asset	736	—	—
Share-based compensation	14,426	19,697	21,414
Loss on asset impairment	—	12,087	19,714
Loss on early extinguishment of debt	6,374	7,122	493
Loss on sale of marketable securities	—	4,987	—
Net gain on sale of properties	(422,172)	(251,417)	(15,498)
Loss on sale of real estate mortgage receivable	—	2,117	—
Change in assets and liabilities:			
Rents receivable and other assets	(13,099)	(19,886)	(23,708)
Accounts payable, accrued expenses and other	(5,311)	(704)	(9,384)
Rent collected in advance	(2,610)	(3,657)	(3,563)
Cash provided by operating activities	<u>98,945</u>	<u>89,536</u>	<u>99,996</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Real estate improvements	(26,052)	(49,930)	(64,813)
Insurance proceeds received	—	1,443	4,000
Principal payments received from real estate mortgages receivable	—	—	313
Proceeds from sale of properties, net	771,787	961,079	802,324
Proceeds from sale of real estate mortgage receivable	—	5,599	—
Purchase of marketable securities	—	—	(276,238)
Proceeds from sale of marketable securities	—	23,933	—
Proceeds from maturity of marketable securities	250,000	—	—
Cash provided by investing activities	<u>995,735</u>	<u>942,124</u>	<u>465,586</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repurchase and retirement of common shares	(5,487)	(93,976)	(3,188)
Payments on borrowings	(255,842)	(581,460)	(295,053)
Contributions from holders of noncontrolling interest	—	1	31
Distributions to common shareholders	(428,649)	(304,612)	—
Distributions to preferred shareholders	(7,988)	(7,988)	(7,988)
Distributions to holders of noncontrolling interest	(170)	(114)	—
Cash used in financing activities	<u>(698,136)</u>	<u>(988,149)</u>	<u>(306,198)</u>
Increase in cash, cash equivalents, and restricted cash	396,544	43,511	259,384
Cash, cash equivalents, and restricted cash at beginning of year	<u>2,404,101</u>	<u>2,360,590</u>	<u>2,101,206</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 2,800,645</u>	<u>\$ 2,404,101</u>	<u>\$ 2,360,590</u>

See accompanying notes.



**EQUITY COMMONWEALTH**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
(amounts in thousands)

	Year Ended December 31,		
	2019	2018	2017
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Interest paid	\$ 13,032	\$ 27,117	\$ 56,796
Taxes paid, net	2,933	2,264	910
<b>NON-CASH INVESTING ACTIVITIES:</b>			
Recognition of right-of-use asset and lease liability	\$ 1,503	\$ —	\$ —
Accrued capital expenditures	1,383	13,540	7,168
<b>NON-CASH FINANCING ACTIVITIES:</b>			
Distributions payable	\$ 7,534	\$ 4,068	\$ —

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows (in thousands):

	December 31,		
	2019	2018	2017
Cash and cash equivalents	\$2,795,642	\$2,400,803	\$2,351,693
Restricted cash	5,003	3,298	8,897
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$2,800,645</u>	<u>\$2,404,101</u>	<u>\$2,360,590</u>

See accompanying notes.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1. Organization

Equity Commonwealth, or the Company, is a real estate investment trust, or REIT, formed in 1986 under the laws of the State of Maryland. Our business is primarily the ownership and operation of office properties in the United States.

On November 10, 2016, the Company converted to what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT. In connection with this conversion, the Company contributed substantially all of its assets to EQC Operating Trust, a Maryland real estate investment trust, or the Operating Trust, and the Operating Trust assumed substantially all of the Company's liabilities pursuant to a contribution and assignment agreement between the Company and the Operating Trust.

The Company now conducts and intends to continue to conduct substantially all of its activities through the Operating Trust. The Company beneficially owned, 99.96% of the outstanding shares of beneficial interest, designated as units, in the Operating Trust, or OP Units, as of December 31, 2019, and the Company is the sole trustee of the Operating Trust. As the sole trustee, the Company generally has the power under the declaration of trust of the Operating Trust to manage and conduct the business of the Operating Trust, subject to certain limited approval and voting rights of other holders of OP Units.

At December 31, 2019, our portfolio consisted of seven properties (12 buildings), with a combined 2.5 million square feet. As of December 31, 2019, we had \$2.8 billion of cash and cash equivalents. All numbers of properties, numbers of buildings and square feet are unaudited.

#### Note 2. Summary of Significant Accounting Policies

*Basis of Presentation.* The consolidated financial statements include our investments in 100% owned subsidiaries and majority owned subsidiaries that are controlled by us. References to we, us, our and the Company, refer to Equity Commonwealth and its consolidated subsidiaries as of December 31, 2019, unless the context indicates otherwise. All intercompany transactions and balances have been eliminated.

*Real Estate Properties.* We record real estate properties at cost. We depreciate real estate investments on a straight line basis over estimated useful lives of up to 40 years for buildings and improvements, and up to 12 years for personal property.

Each time we enter into a new lease, or materially modify an existing lease, we evaluate its classification as either a finance or operating lease. The classification of a lease as finance or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and fair market value of a leased property, appropriate discount rates and future cash flows.

We allocate the consideration paid for our properties among land, buildings and improvements and, for properties that qualify as acquired businesses under the Business Combinations Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, to identified intangible assets and liabilities, consisting of the value of above market and below market leases, the value of acquired in place leases and the value of tenant relationships. Purchase price allocations and the determination of useful lives are based on our estimates and, under some circumstances, studies from independent real estate appraisal firms to provide market information and evaluations that are relevant to our purchase price allocations and determinations of useful lives; however, we are ultimately responsible for the purchase price allocations and determination of useful lives.

We allocate the consideration to land, buildings and improvements based on a determination of the fair values of these assets assuming the property is vacant. We determine the fair value of a property using methods that we believe are similar to those used by independent appraisers. Purchase price allocations to above market and below market leases are based on the estimated present value (using an interest rate which reflects our assessment of the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the acquired in place leases and (2) our estimate of fair market lease rates for the corresponding leases, measured over a period equal to the remaining non-cancelable terms of the respective leases. Purchase price allocations to acquired in place leases and tenant relationships are determined as the excess of (1) the purchase price paid for a property after adjusting existing in place leases to estimated market rental rates over (2) the estimated fair value of the property as if vacant. We aggregate this value between acquired in place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease; however, the value of tenant relationships has not been separated from acquired in place lease value for our properties because we believe such value and related amortization expense is immaterial for acquisitions reflected in our historical financial statements. We consider certain

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

factors in performing these analyses including estimates of carrying costs during the expected lease up periods, including real estate taxes, insurance and other operating income and expenses and costs to execute similar leases in current market conditions, such as leasing commissions, legal and other related costs. If we believe the value of tenant relationships is material in the future, those amounts will be separately allocated and amortized over the estimated lives of the relationships. We recognize the excess, if any, of the consideration paid over amounts allocated to land, buildings and improvements and identified intangible assets and liabilities as goodwill and we recognize gains if amounts allocated exceed the consideration paid.

We amortize capitalized above market lease values as a reduction to rental income over the remaining terms of the respective leases. We amortize capitalized below market lease values as an increase to rental income over the remaining terms of the respective leases. We amortize the value of acquired in place leases exclusive of the value of above market and below market acquired in place leases to expense over the remaining terms of the respective leases. If a lease is terminated prior to its stated expiration, the unamortized lease intangibles relating to that lease is written off.

We review our properties for impairment quarterly, or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment indicators may include our decision to dispose of an asset before the end of its estimated useful life, declining tenant occupancy, lack of progress releasing vacant space, tenant bankruptcies, low long term prospects for improvement in property performance, weak or declining tenant profitability, and cash flow or liquidity. When indicators of potential impairment are present that suggest that the carrying amounts of real estate assets may not be recoverable, we assess the recoverability of these assets by determining whether the respective carrying values will be recovered through the estimated undiscounted future operating cash flows expected from the use of the assets and their eventual disposition. The determination of undiscounted cash flow includes consideration of many factors including income to be earned from the investment over our anticipated hold period, holding costs (exclusive of interest), estimated selling prices, and prevailing economic and market conditions. In the event that such expected undiscounted future cash flows do not exceed the carrying values, we estimate the fair value of the assets and record an impairment charge equal to the amount by which the carrying value exceeds the estimated fair value. Estimated fair values are calculated based on the following information, (i) recent third party estimates of market value, (ii) market prices for comparable properties, or (iii) the present value of future cash flows. During the year ended December 31, 2019, we did not record any loss on asset impairment. During the years ended December 31, 2018 and 2017, we recorded a loss on asset impairment totaling \$12.1 million and \$19.7 million, respectively, to reduce the carrying value of properties to their estimated fair values (see Note 14).

When we classify properties as held for sale, we discontinue the recording of depreciation expense and estimate their fair value less costs to sell. If we determine that the carrying value for these properties exceed their estimated fair value less costs to sell, we record a loss on asset impairment. As of December 31, 2019 and 2018, we did not have any properties classified as held for sale.

Certain of our real estate assets contain hazardous substances, including asbestos. We believe any asbestos in our buildings is contained in accordance with current regulations. If we remove the asbestos or renovate or demolish these properties, certain environmental regulations govern the manner in which the asbestos must be handled and removed. We do not believe that there are other environmental conditions or issues at any of our properties that have had or will have a material adverse effect on us. However, no assurances can be given that conditions or issues are not present at our properties or that costs we may be required to incur in the future to remediate contamination or comply with environmental, health and safety laws will not have a material adverse effect on our business or financial condition. As of December 31, 2019 and 2018, we did not have any accrued environmental remediation costs.

*Cash and Cash Equivalents.* Our cash and cash equivalents consist of cash maintained in time deposits, depository accounts and money market accounts. We continually monitor the credit ratings of the financial institutions holding our deposits to minimize our exposure to credit risk. Throughout the year, we have cash balances in excess of federally insured limits deposited with various financial institutions. We do not believe we are exposed to any significant credit risk on cash and cash equivalents.

*Marketable Securities.* All of our marketable securities were classified as available-for-sale and consisted of United States Treasury notes and common stock. Available-for-sale securities are presented on our consolidated balance sheets at fair value. Changes in values of the United States Treasury notes were recognized in cumulative other comprehensive loss. Realized gains and losses were recognized in earnings only upon the sale of the United States Treasury notes. Changes in values of common stock prior to their sale in March 2018, were recognized in interest and other income, net on the consolidated statements of operations.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Restricted Cash.* Restricted cash consists of amounts escrowed for future real estate taxes, insurance, leasing costs, capital expenditures and debt service, as required by our mortgage debt, as well as security deposits paid to us by some of our tenants.

*Other Assets, Net.* Other assets consist principally of deferred leasing costs, capitalized lease incentives and prepaid property operating expenses. Deferred leasing costs are amortized on a straight line basis over the terms of the respective leases. Capitalized lease incentives are amortized on a straight line basis against rental income over the terms of the respective leases.

*Revenue Recognition.* Rental revenue from operating leases, which includes rent concessions (including free rent and other lease incentives) and scheduled increases in rental rates during the lease term, is recognized on a straight line basis over the life of the lease agreements. We defer the recognition of contingent rental income, such as percentage rents, until the specific targets that trigger the contingent rental income are achieved. Rental revenue also includes property level operating expenses reimbursed by our tenants, as well as other incidental revenues, which are recorded as expenses are incurred.

*Share-Based Compensation.* All share-based compensation is measured at fair value on the grant date or date of modification, as applicable, and recognized in earnings over the requisite service period. Depending upon the settlement terms of the awards, all or a portion of the fair value of share-based awards may be presented as a liability or as equity in the consolidated balance sheets.

*Earnings Per Common Share.* Earnings per common share, or EPS, is computed using the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if our series D convertible preferred shares, our restricted share units, or RSUs, or beneficial interests in the Operating Trust, or LTIP Units, were converted into our common shares, which could result in a lower EPS amount. The effect of our series D convertible preferred shares on net income attributable to common shareholders is dilutive for the year ended December 31, 2019 and is anti-dilutive for the years ended December 31, 2018 and 2017.

*Reclassifications.* Reclassifications have been made to the prior years' financial statements and notes to conform to the current year's presentation.

*Legal Matters.* We are or may become a party to various legal proceedings. We are not currently involved in any litigation nor, to our knowledge, is any litigation threatened against us where the outcome would, in our judgment based on information currently available to us, have a material adverse effect on the Company.

*Income Taxes.* We are a REIT under the Internal Revenue Code of 1986, as amended, and are generally not subject to federal and state income taxes provided we distribute our taxable income to our shareholders and meet other requirements for qualifying as a REIT. We are also subject to certain state and local taxes without regard to our REIT status.

The Income Taxes Topic of the FASB ASC prescribes how we should recognize, measure and present in our financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Deferred tax assets are recognized to the extent that it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that has a greater than 50% likelihood of being realized upon settlement. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

*Use of Estimates.* Preparation of these financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires us to make estimates and assumptions that may affect the amounts reported in these financial statements and related notes. The actual results could differ from these estimates.

*New Accounting Pronouncements.* In August 2018, the FASB issued Accounting Standards Update, or ASU, 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which changes the fair value measurement disclosure requirements of ASC 820. This update is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. The adoption of ASU 2018-13 on January 1, 2020 will not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. This update is effective for

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. We adopted ASU 2018-07 on January 1, 2019, and the adoption did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires more timely recognition of credit losses associated with financial assets. This update is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The adoption of ASU 2016-13 on January 1, 2020 will not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASU 2016-02 supersedes previous leasing standards. For leases where we are the lessor, we account for these leases using an approach that is substantially equivalent to previous guidance prior to the adoption of ASU 2016-02. Additionally, under ASU 2016-02, lessors may only capitalize incremental direct leasing costs. For leases in which we are the lessee, we recognize a right-of-use asset and a lease liability equal to the present value of the minimum lease payments, with rent expense being recognized on a straight-line basis and the right of use asset being reduced when lease payments are made.

In July 2018, the FASB issued ASU 2018-11 to provide entities with relief from the costs of implementing certain aspects of ASU 2016-02. The amendment to the new leases standard includes a practical expedient that provides lessors an option not to separate lease and non-lease components when certain criteria are met and instead account for those components as a single component under the new leases standard. The amendment also provides a transition option that permits the application of the new guidance as of the adoption date rather than to all periods presented. We elected the practical expedient to account for both our lease (primarily base rent) and non-lease (primarily tenant reimbursements) components as a single component under the leases standard and elected the new transition option. We adopted these pronouncements on January 1, 2019, and the adoption did not have a material impact on our consolidated financial statements, as either a lessor or as a lessee.

Certain reclassifications were made to conform the prior period to our presentation of the condensed consolidated statements of operations as a result of adopting ASU 2016-02. Amounts that were previously disclosed as "Tenant reimbursements and other income" are now included in "Rental revenue" and are no longer presented as a separate line item. Parking revenues that do not represent components of leases and were previously disclosed as "Rental income" are now included in "Other revenue." Subsequent to January 1, 2019, provisions for credit losses are included in "Rental revenue." Provisions for credit losses prior to January 1, 2019 were disclosed as "Operating expenses" and were not reclassified to conform prior periods to the current presentation.

#### **Note 3. Real Estate Properties**

##### *Acquisitions and Expenditures*

We did not make any acquisitions during the years ended December 31, 2019, 2018 or 2017.

During the years ended December 31, 2019, 2018, and 2017, we made improvements, excluding tenant-funded improvements, to our properties totaling \$13.9 million, \$56.3 million and \$55.0 million, respectively.

We committed \$25.5 million for expenditures related to 0.6 million square feet of leases executed during 2019, excluding leasing activity for assets during the quarter in which the asset was sold or classified as held for sale. Committed but unspent tenant related obligations are leasing commissions and tenant improvements. Based on existing leases as of December 31, 2019, committed but unspent tenant related obligations were \$73.9 million.

**EQUITY COMMONWEALTH**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Property Dispositions:*

During the year ended December 31, 2019, we sold the following properties, which did not represent strategic shifts under ASC Topic 2015 (dollars in thousands):

<b>Property</b>	<b>Date Sold</b>	<b>Number of Properties</b>	<b>Number of Buildings</b>	<b>Square Footage</b>	<b>Gross Sales Price</b>	<b>Gain on Sale</b>
1735 Market Street(1)	March 2019	1	1	1,286,936	\$ 451,600	\$192,985
600 108th Avenue NE(2)	April 2019	1	1	254,510	195,000	149,009
Research Park(3)	June 2019	1	4	1,110,007	165,500	78,158
		<u>3</u>	<u>6</u>	<u>2,651,453</u>	<u>\$ 812,100</u>	<u>\$420,152</u>

- (1) Certain of our subsidiaries sold 100.0% of the equity interests in the fee simple owner of this property. The sale represents an individually significant disposition. The operating results of this property are included in continuing operations for all periods presented through the date of sale. Net income related to this property was \$197.5 million (of which \$193.0 million related to the gain on sale), \$8.5 million and \$5.6 million for the years ended December 31, 2019, 2018 and 2017 respectively.
- (2) The property includes an office building and additional development rights.
- (3) There is consideration of \$2.0 million being held in escrow related to the sale of this property. To the extent any of these proceeds are ultimately released to the Company, the gain on sale will increase.

During the year ended December 31, 2018, we sold the following properties, which did not represent strategic shifts under ASC Topic 2015 (dollars in thousands):

<b>Property</b>	<b>Date Sold</b>	<b>Number of Properties</b>	<b>Number of Buildings</b>	<b>Square Footage</b>	<b>Gross Sales Price</b>	<b>Gain (Loss) on Sale</b>
1600 Market Street	February 2018	1	1	825,968	\$ 160,000	\$ 54,599
600 West Chicago Avenue(1)	February 2018	1	2	1,561,477	510,000	107,790
5073, 5075, & 5085 S. Syracuse Street	March 2018	1	1	248,493	115,186	42,762
1601 Dry Creek Drive	May 2018	1	1	552,865	68,500	26,979
777 East Eisenhower Parkway	August 2018	1	1	290,530	29,500	5,308
8750 Bryn Mawr Avenue	September 2018	1	2	636,078	141,000	15,194
97 Newberry Road	December 2018	1	1	289,386	7,100	(1,174)
		<u>7</u>	<u>9</u>	<u>4,404,797</u>	<u>\$1,031,286</u>	<u>\$251,458</u>

- (1) The sale represents an individually significant disposition. The operating results of this property are included in continued operations for all periods presented through the date of sale. Net income for this property was \$0.3 million, \$110.6 million and \$9.3 million for the years ended December 31, 2019, 2018 and 2017, respectively.

During the year ended December 31, 2017, we sold 16 properties (37 buildings) with a combined 6,588,128 square feet for an aggregate gross sales price of \$862.6 million, excluding credits and closing costs.

*Lease Payments*

Our real estate properties are generally leased on gross lease and modified gross lease bases pursuant to non-cancelable, fixed term operating leases expiring between 2020 and 2037. These gross leases and modified gross leases require us to pay all or some property operating expenses and to provide all or some property management services. A portion of these property operating expenses are reimbursed by the tenants.

**EQUITY COMMONWEALTH**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The future minimum lease payments, excluding tenant reimbursement revenue, scheduled to be received by us during the current terms of our leases as of December 31, 2019 are as follows (in thousands):

2020	\$ 60,807
2021	69,306
2022	62,672
2023	58,260
2024	48,506
Thereafter	331,195
	<u>\$ 630,746</u>

Rental revenue consists of the following (in thousands):

	December 31,		
	2019	2018	2017
Lease payments	\$ 81,698	\$ 129,539	\$ 250,564
Variable lease payments	35,171	54,829	73,851
Rental revenue	<u>\$ 116,869</u>	<u>\$ 184,368</u>	<u>\$ 324,415</u>

**Note 4. Lease Intangibles**

Amortization of the lease intangibles for the years ended December 31, 2019, 2018, and 2017, is as follows (in thousands):

	Income Statement Location	December 31,		
		2019	2018	2017
Amortization of acquired in-place leases	Depreciation and amortization	\$ 275	\$ 2,133	\$ 7,220
Amortization of above and below market leases	Increase (decrease) to rental income	(117)	(54)	(1,774)

**Note 5. Marketable Securities**

During the year ended December 31, 2018, our marketable securities consisted of United States Treasury notes and common stock. The United States Treasury notes were classified as available-for-sale and matured in 2019.

On January 1, 2018 we adopted ASU 2016-01 and reclassified a \$1.9 million unrealized gain from cumulative other comprehensive loss to cumulative net income on our consolidated balance sheet. In March 2018, we sold all common stock we held for total proceeds of \$23.9 million and recognized a loss of \$5.0 million in interest and other income, net during the year ended December 31, 2018.

Below is a summary of our marketable securities as of December 31, 2018 (in thousands):

	December 31,		
	2018		
	Amortized Cost	Unrealized Loss	Estimated Fair Value
Marketable securities	<u>\$ 249,944</u>	<u>\$ (342)</u>	<u>\$ 249,602</u>

**EQUITY COMMONWEALTH**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 6. Other Assets**

*Real Estate Mortgages Receivable*

We provided mortgage financing totaling \$7.7 million at 6.0% per annum in connection with our sale of three properties (18 buildings) in January 2013 in Dearborn, MI. In August 2018, we sold this real estate mortgage receivable for \$5.7 million and recorded a loss of \$2.1 million in interest and other income for the year ended December 31, 2018.

We also provided mortgage financing totaling \$0.4 million at 6.0% per annum in connection with our sale of a property in Salina, NY in April 2012. In September 2017, we received a \$0.3 million repayment, representing a settlement of the obligation, related to this real estate mortgage receivable and recorded a loss of \$0.1 million in interest and other income for the year ended December 31, 2017.

As of December 31, 2019 and 2018, we did not have any real estate mortgages receivable.

*Deferred Leasing Costs and Capitalized Lease Incentives*

The following table summarizes our deferred leasing costs and capitalized lease incentives as of December 31, 2019, and 2018 (in thousands):

	December 31,	
	2019	2018
Deferred leasing costs	\$ 36,546	\$ 69,930
Accumulated amortization	(9,928)	(18,807)
Deferred leasing costs, net	<u>\$ 26,618</u>	<u>\$ 51,123</u>
Capitalized lease incentives	\$ 3,103	\$ 5,701
Accumulated amortization	(1,073)	(1,393)
Capitalized lease incentives, net	<u>\$ 2,030</u>	<u>\$ 4,308</u>

Future amortization of deferred leasing costs and capitalized lease incentives to be recognized by us during the current terms of our leases as of December 31, 2019 are approximately (in thousands):

	Deferred Leasing Costs	Capitalized Lease Incentives
2020	\$ 3,611	\$ 377
2021	3,594	340
2022	3,046	324
2023	2,637	280
2024	2,041	164
Thereafter	11,689	545
	<u>\$ 26,618</u>	<u>\$ 2,030</u>



**EQUITY COMMONWEALTH**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 7. Indebtedness**

At December 31, 2019 and 2018, our outstanding indebtedness included the following (in thousands):

	Interest Rate at December 31, 2019	Maturity Date	December 31,	
			2019	2018
<b>Unsecured fixed rate debt</b>				
5.875% Senior Unsecured Notes due 2020	— %	—	\$ —	\$ 250,000
<b>Secured fixed rate debt</b>				
206 East 9th Street	5.69 %	1/5/2021	\$ 25,433	\$ 26,000
			\$ 25,433	\$ 276,000
Unamortized net premiums, discounts and deferred financing fees			258	(1,045)
			<u>\$ 25,691</u>	<u>\$ 274,955</u>

*Unsecured Revolving Credit Facility and Term Loan:*

On May 4, 2018, we redeemed at par the total \$400.0 million outstanding under our 5-year and 7-year term loans and recognized a loss on early extinguishment of debt of \$1.5 million from the write off of unamortized deferred financing fees. Prior to the redemption of the term loans, borrowings under the 5-year term loan and 7-year term loan, subject to certain exceptions, had interest rates of LIBOR rate plus a margin of 90 to 180 basis points for the 5-year term loan and 140 to 235 basis points for the 7-year term loan, in each case depending on our credit rating.

On December 26, 2018, we terminated the credit agreement and recognized a loss on early extinguishment of debt of \$0.2 million from the write off of unamortized deferred financing fees. We were required to pay a facility fee of 12.5 to 30 basis points, depending on our credit rating, on the borrowings available under the revolving credit facility, whether or not utilized.

*Debt Covenants:*

After the redemption of all \$250.0 million of our 5.875% senior unsecured notes due 2020 on June 28, 2019, we no longer have any notes outstanding under our public debt indenture and related supplements, collectively the Indenture, and we are no longer required to maintain the financial ratio covenants prescribed in the Indenture. As a result, we are no longer rated by the debt rating agencies.

*Senior Unsecured Notes:*

On June 28, 2019, we redeemed all \$250.0 million of our 5.875% senior unsecured notes due 2020 and recognized a loss on early extinguishment of debt of \$6.4 million for the year ended December 31, 2019 from prepayment fees, the write off of unamortized deferred financing fees and the write off of an unamortized discount.

On March 7, 2018, we redeemed at par all \$175.0 million of our 5.75% senior unsecured notes due 2042 and recognized a loss on early extinguishment of debt of \$4.9 million from the write off of unamortized deferred financing fees.

On July 15, 2017, we redeemed at par \$250.0 million of our 6.65% senior unsecured notes due 2018 and recognized a loss on early extinguishment of debt of \$0.2 million for the year ended December 31, 2017 from the write off of unamortized deferred financing fees and the write off of an unamortized discount.

*Mortgage Notes Payable:*

At December 31, 2019, one of our properties with an aggregate net book value of \$43.2 million had a secured mortgage note totaling \$25.7 million (including a net premium and unamortized deferred financing fees) maturing in 2021.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2018, we repaid \$4.9 million of mortgage debt at 97 Newberry Road and recognized a loss on early extinguishment of debt of \$0.6 million for the year ended December 31, 2018 from prepayment fees and the write off of unamortized deferred financing fees.

In December 2017, we repaid \$2.0 million of mortgage debt at 33 Stiles Lane and recognized a loss on early extinguishment of debt of \$0.2 million for the year ended December 31, 2017 from prepayment fees and the write off of unamortized deferred financing fees.

In April 2017, we repaid at par \$41.3 million of mortgage debt at Parkshore Plaza and recognized a loss on early extinguishment of debt of \$0.1 million for the year ended December 31, 2017 from prepayment fees and the write off of unamortized deferred financing fees, net of the write off of an unamortized premium.

#### *Required Principal Payments:*

The required principal payments due during the next five years and thereafter under our outstanding debt at December 31, 2019 are as follows (in thousands):

2020	\$	597
2021		24,836
2022		—
2023		—
2024		—
Thereafter		—
	<u>\$</u>	<u>25,433</u>

#### **Note 8. Shareholders' Equity**

##### *Common Share Issuances:*

See Note 12 for information regarding equity issuances related to share-based compensation.

##### *Common Share Repurchases:*

On August 24, 2015, our Board of Trustees approved a common share repurchase program. On March 17, 2016, our Board of Trustees authorized the repurchase of up to \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. In March 2017, this share repurchase authorization, of which \$106.6 million was not utilized, expired. On March 15, 2017, our Board of Trustees authorized the repurchase of up to an additional \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. In March 2018, this share repurchase authorization, of which \$81.0 million was not utilized, expired. On March 14, 2018, our Board of Trustees authorized the repurchase of up to an additional \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. In March 2019, this share repurchase authorization, of which \$130.9 million was not utilized, expired. On March 13, 2019, our Board of Trustees authorized the repurchase of up to an additional \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization.

During the year ended December 31, 2019, we did not purchase any common shares under our common share repurchase program. During the year ended December 31, 2018, we purchased and retired 2,970,209 of our common shares at a weighted average price of \$29.67 per share for a total investment of \$88.1 million, of which \$69.0 million was under the March 2017 authorization and \$19.1 million was under the March 2018 authorization. During the year ended December 31, 2017, we did not purchase any common shares under our common share repurchase program. The \$150.0 million of remaining authorization available under our share repurchase program as of December 31, 2019 is scheduled to expire on March 13, 2020.

During the years ended December 31, 2019, 2018 and 2017, certain of our employees surrendered 168,327, 193,521 and 43,329 common shares owned by them, respectively, to satisfy their statutory tax withholding obligations in connection with the vesting of such common shares.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### *Common Share and Unit Distributions:*

On September 24, 2019, our Board of Trustees declared a special, one-time cash distribution of \$3.50 per common share/unit to shareholders/unitholders of record on October 7, 2019. On October 23, 2019, we paid this distribution to such shareholders/unitholders in the aggregate amount of \$427.7 million.

On September 26, 2018, our Board of Trustees declared a special, one-time cash distribution of \$2.50 per common share/unit to shareholders/unitholders of record on October 9, 2018. On October 23, 2018, we paid this distribution to such shareholders/unitholders in the aggregate amount of \$304.7 million. In February 2019, the number of earned awards for certain recipients of the Company's restricted stock units was determined. Pursuant to the terms of such awards, we paid a one-time catch-up cash distribution of \$2.50 per common share/unit to these recipients in the aggregate amount of \$1.2 million upon such determination.

We did not pay any cash distributions to our common shareholders in 2017.

The following characterizes distributions paid per common share for the years ended December 31, 2019, 2018, and 2017:

	Year Ended December 31,		
	2019	2018	2017
Ordinary income	50.3 %	100.0 %	— %
Return of capital	— %	— %	— %
Capital gain	46.9 %	— %	— %
Unrecaptured Section 1250 gain	2.8 %	— %	— %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>— %</u>

#### *Series D Preferred Shares:*

Each of our 4,915,196 series D cumulative convertible preferred shares accrue dividends of \$1.625, or 6.50% per annum of the liquidation amount, payable in equal quarterly payments. Our series D preferred shares are convertible, at the holder's option, into our common shares at a conversion rate of 0.5813 common shares per series D preferred share, which is equivalent to a conversion price of \$43.01 per common share, or 2,857,203 additional common shares at December 31, 2019. The conversion rate changed from 0.5215 to 0.5813 common shares per series D preferred share effective October 8, 2019 as a result of the common share distribution declared by our Board of Trustees in 2019. The conversion rate changed from 0.480775 to 0.5215 common shares per series D preferred share effective October 10, 2018 as a result of the common share distribution declared by our Board of Trustees in 2018.

If our common shares trade at or above the then applicable conversion price, we may, at our option, convert some or all of the series D preferred shares into common shares at the then applicable conversion rate. If a fundamental change occurs, which generally will be deemed to occur upon a change in control or a termination of trading of our common shares (or other equity securities into which our series D preferred shares are then convertible), holders of our series D preferred shares will have a special right to convert their series D preferred shares into a number of our common shares per \$25.00 liquidation preference, plus accrued and unpaid distributions, divided by 98% of the average closing market price of our common shares for a specified period before such event is effective, unless we exercise our right to repurchase these series D preferred shares for cash, at a purchase price equal to 100% of their liquidation preference, plus accrued and unpaid distributions. The issuance of a large number of common shares as a result of the exercise of this conversion right after a fundamental change may have a dilutive effect on net income attributable to Equity Commonwealth common shareholders per share for future periods. As of December 31, 2019, we had 4,915,196 outstanding series D preferred shares that were convertible into 2,857,203 of our common shares.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### *Preferred Share Distributions:*

Under our governing documents and Maryland law, distributions to our shareholders are to be authorized and declared by our Board of Trustees. In 2019, our Board of Trustees declared distributions on our series D preferred shares to date as follows:

Declaration Date	Record Date	Payment Date	Dividend Per Share
January 11, 2019	January 30, 2019	February 15, 2019	\$ 0.40625
April 11, 2019	April 29, 2019	May 15, 2019	\$ 0.40625
July 12, 2019	July 30, 2019	August 15, 2019	\$ 0.40625
October 11, 2019	October 31, 2019	November 15, 2019	\$ 0.40625

The following characterizes distributions paid per preferred share for the years ended December 31, 2019, 2018, and 2017:

	Year Ended December 31,		
	2019	2018	2017
Ordinary income	50.3 %	100.0 %	— %
Return of capital	— %	— %	100.00 %
Capital gain	46.9 %	— %	— %
Unrecaptured Section 1250 gain	2.8 %	— %	— %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.00 %</u>

#### **Note 9. Noncontrolling Interest**

Noncontrolling interest represents the portion of the units in the Operating Trust not beneficially owned by the Company. An OP Unit and a share of our common stock have essentially the same economic characteristics. Distributions with respect to OP Units will generally mirror distributions with respect to the Company's common shares. Unitholders (other than the Company) generally have the right, commencing six months from the date of issuance of such OP Units, to cause the Operating Trust to redeem their OP Units in exchange for cash or, at the option of the Company, common shares of the Company on a one-for-one basis. As sole trustee, the Company will have the sole discretion to elect whether the redemption right will be satisfied by the Company in cash or the Company's common shares. As a result, the Noncontrolling interest is classified as permanent equity. As of December 31, 2019, the portion of the Operating Trust not beneficially owned by the Company is in the form of OP Units and LTIP Units (see Note 12 for a description of LTIP Units). LTIP Units may be subject to additional vesting requirements.

The following table presents the changes in Equity Commonwealth's issued and outstanding common shares and units for the year ended December 31, 2019:

	Common Shares	OP Units and LTIP Units	Total
Outstanding at January 1, 2019	121,572,155	45,720	121,617,875
Repurchase of shares	(168,327)	—	(168,327)
Restricted share grants, time-based LTIP Unit grants and vested restricted stock units, net of forfeitures	520,371	2,940	523,311
Outstanding at December 31, 2019	<u>121,924,199</u>	<u>48,660</u>	<u>121,972,859</u>
Noncontrolling ownership interest in the Operating Trust			<u>0.04 %</u>

The carrying value of the Noncontrolling interest is allocated based on the number of OP Units and LTIP Units in proportion to the number of OP Units and LTIP Units plus the number of common shares. We adjust the noncontrolling interest balance at the end of each period to reflect the noncontrolling partners' interest in the net assets of the Operating Trust.

**EQUITY COMMONWEALTH**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Net income is allocated to the Noncontrolling interest in the Operating Trust based on the weighted average ownership percentage during the period. Equity Commonwealth's weighted average ownership interest in the Operating Trust was 99.96%, 99.96% and 99.97%, respectively, for the years ended December 31, 2019, 2018 and 2017.

**Note 10. Cumulative Other Comprehensive Loss**

The following tables present the amounts recognized in cumulative other comprehensive loss for the years ended December 31, 2019 and 2018 (in thousands):

	<b>Unrealized Loss on Marketable Securities</b>
Balance as of January 1, 2019	\$ (342)
Other comprehensive income	342
Balance as of December 31, 2019	\$ —

	<b>Unrealized Loss on Derivative Instruments</b>	<b>Unrealized Gain (Loss) on Marketable Securities</b>	<b>Total</b>
Balance as of January 1, 2018	\$ (456)	\$ 361	\$ (95)
Amounts reclassified from cumulative other comprehensive loss to cumulative net income pursuant to a change in accounting principle	—	(1,902)	(1,902)
Other comprehensive income before reclassifications	84	1,199	1,283
Amounts reclassified from cumulative other comprehensive loss to net income	372	—	372
Net current period other comprehensive income	456	1,199	1,655
Balance as of December 31, 2018	\$ —	\$ (342)	\$ (342)

The following table presents reclassifications out of cumulative other comprehensive loss for the years ended December 31, 2019 and 2018 (in thousands):

	<b>Amounts Reclassified from Cumulative Other Comprehensive Loss to Net Income</b>		
	<b>Year Ended December 31,</b>		
<b>Details about Cumulative Other Comprehensive Loss Components</b>	<b>2019</b>	<b>2018</b>	<b>Affected Line Items in the Statement of Operations</b>
Interest rate cap contract	\$ —	\$ 293	Interest and other income
Interest rate cap contract	—	79	Interest expense
	\$ —	\$ 372	

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### Note 11. Income Taxes

Our provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2019	2018	2017
<b>Current:</b>			
State and local	\$ (284)	\$ (3,156)	\$ (500)
<b>Deferred:</b>			
State and local	(1,000)	—	—
<b>Income tax expense</b>	<b>\$ (1,284)</b>	<b>\$ (3,156)</b>	<b>\$ (500)</b>

The tax expense recorded in the current period is primarily the result of the taxable gains from sales of properties during the years ended December 31, 2019 and 2018. During the year ended December 31, 2019, we recorded \$1.6 million related to uncertain tax positions, as part of our income tax provision.

A reconciliation of our effective tax rate and the U.S. Federal statutory income tax rate is as follows:

	Year Ended December 31,		
	2019	2018	2017
Taxes at statutory U.S. federal income tax rate	21.00 %	21.00 %	35.00 %
Dividends paid deduction and net operating loss utilization	(21.00)%	(21.00)%	(35.00)%
Federal taxes on built-in gain	— %	— %	— %
State and local income taxes	0.26 %	1.14 %	1.66 %
<b>Effective tax rate</b>	<b>0.26 %</b>	<b>1.14 %</b>	<b>1.66 %</b>

At December 31, 2019 and 2018, we had federal net operating loss, or NOL, carryforwards of approximately \$25 million and \$90 million, respectively. These amounts can be used to offset future taxable income, if any. The REIT will be entitled to utilize NOL carryforwards only to the extent that REIT taxable income exceeds our deduction for dividends paid. NOLs arising in taxable years ending before January 1, 2018 can generally be carried forward 20 years, with no carryforward limitation on NOLs generated after that date. Our NOL carryforwards expire in 2037.

#### Note 12. Share-Based Compensation

##### *Equity Commonwealth 2015 Omnibus Incentive Plan (2015 Incentive Plan)*

On June 16, 2015, at our 2015 annual meeting of shareholders, our shareholders approved the 2015 Incentive Plan. The 2015 Incentive Plan replaced the Equity Commonwealth 2012 Equity Compensation Plan (as amended, the 2012 Plan). The Board of Trustees approved the 2015 Incentive Plan, subject to shareholder approval, on March 18, 2015 (the Effective Date). On January 26, 2016, the Board of Trustees approved an amendment to the 2015 Incentive Plan to allow the Compensation Committee (Committee) to authorize in an award agreement a transfer of all or a part of certain equity awards not for value to a “family member” (as defined in the 2015 Incentive Plan). At our annual meeting of shareholders on June 20, 2019, our shareholders approved an amendment to the 2015 Incentive Plan to increase the number of common shares of beneficial interest authorized thereunder by 2,500,000. The following description of certain terms of the 2015 Incentive Plan is qualified in all respects by the terms of the 2015 Incentive Plan.

*Eligibility.* Awards may be granted under the 2015 Incentive Plan to employees, officers and non-employee directors of the Company, its subsidiaries or its affiliates, or consultants and advisors (who are natural persons) providing services to the Company, its subsidiaries or its affiliates, or any other person whose participation in the 2015 Incentive Plan is determined by the Committee to be in the best interests of the Company.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Term.* The 2015 Incentive Plan terminates automatically ten years after the Effective Date, unless it is terminated earlier by the Board of Trustees.

*Shares Available for Issuance.* Subject to adjustment as provided in the 2015 Incentive Plan, the maximum number of common shares of the Company that are available for issuance under the 2015 Incentive Plan is 5,750,000 shares.

*Awards.* The following types of awards may be made under the 2015 Incentive Plan, subject to limitations set forth in the 2015 Incentive Plan:

- Stock options;
- Stock appreciation rights;
- Restricted stock;
- Restricted stock units;
- Unrestricted stock;
- Dividend equivalent rights;
- Performance shares and other performance-based awards;
- Limited partnership interests in any partnership entity through which the Company may conduct its business in the future;
- Other equity-based awards; and
- Cash bonus awards.

Recipients of the Company's restricted shares have the same voting rights as any other common shareholder. During the period of restriction, the Company's unvested restricted shareholders are eligible to receive dividend payments on their shares at the same rate and on the same date as any other common shareholder. The restricted shares are service based awards and vest over a four-year period.

Recipients of the Company's restricted stock units, or RSUs, are entitled to receive dividends with respect to the common shares underlying the RSUs if and when the RSUs are earned, at which time the recipient will be entitled to receive an amount in cash equal to the aggregate amount of cash dividends that would have been paid in respect of the common shares underlying the recipient's earned RSUs had such common shares been issued to the recipient on the first day of the performance period. To the extent that an award does not vest, the dividends related to unvested RSUs will be forfeited. The RSUs are market-based awards with a service condition and recipients may earn RSUs based on the Company's total shareholder return, or TSR, relative to the TSRs of the companies that comprise the Nareit Office Index over a three-year performance period. Following the end of the three-year performance period, the number of earned awards will be determined. The earned awards vest in two tranches with 50% of the earned award vesting following the end of the performance period on the date the Committee determines the level of achievement of the performance metric and the remaining 50% of the earned award vesting approximately one year thereafter, subject to the grant recipient's continued employment. Compensation expense for the RSUs is determined using a Monte Carlo simulation model and is recognized ratably from the grant date to the vesting date of each tranche.

LTIP Units are a class of beneficial interests in the Operating Trust that may be issued to employees, officers or trustees of the Operating Trust, the Company or their subsidiaries, or LTIP Units. Time-based LTIP Units have the same general characteristics as restricted shares and market-based LTIP Units have the same general characteristics as RSUs. Each LTIP Unit will convert automatically into an OP Unit on a one-for-one basis when the LTIP Unit becomes vested and its capital account is equalized with the per-unit capital account of the OP Units. Holders of LTIP Units generally will be entitled to receive the same per-unit distributions as the other outstanding OP Units in the Operating Trust, except that market-based LTIP Units will not participate in distributions until expiration of the applicable performance period, at which time any earned market-based LTIP Units generally will become entitled to receive a catch-up distribution for the periods prior to such time.

*Administration.* The 2015 Incentive Plan will be administered by the Committee, which will determine all terms and recipients of awards under the 2015 Incentive Plan.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### *2019 Equity Award Activity*

During the year ended December 31, 2019, 384,811 RSUs vested, and, as a result, we issued 384,811 common shares, prior to certain employees surrendering their common shares to satisfy tax withholding obligations (see Note 8).

On June 20, 2019, in accordance with the Company's compensation plan for independent Trustees, the Committee awarded each of the nine independent Trustees \$0.1 million in restricted shares or time-based LTIP Units as part of their compensation for the 2019-2020 year of service on the Board of Trustees. These awards equated to 2,940 shares or time-based LTIP Units per Trustee, for a total of 23,520 shares and 2,940 time-based LTIP Units, valued at \$34.01 per share and unit, the closing price of our common shares on the New York Stock Exchange, or the NYSE, on that day. These shares and time-based LTIP Units vest one year after the date of the award.

On January 29, 2019, the Committee approved grants in the aggregate amount of 112,359 restricted shares and 228,128 RSUs at target (568,609 RSUs at maximum) to the Company's officers, certain employees and to Mr. Zell, the Chairman of our Board of Trustees, as part of their compensation for fiscal year 2018. The restricted shares granted on January 29, 2019 were valued at \$31.77 per share, the closing price of our common shares on the NYSE on that day.

#### *2018 Equity Award Activity*

On October 28, 2018, 225,655 RSUs vested, and, as a result, we issued 225,655 common shares, prior to certain employees surrendering their common shares to satisfy statutory tax withholding obligations (see Note 8).

On June 20, 2018, in accordance with the Company's compensation plan for independent Trustees, the Committee awarded each of the nine independent Trustees \$0.1 million in restricted shares or time-based LTIP Units as part of their compensation for the 2018-2019 year of service on the Board of Trustees. These awards equated to 3,200 shares or time-based LTIP Units per Trustee, for a total of 25,600 shares and 3,200 time-based LTIP Units, valued at \$31.25 per share and unit, the closing price of our common shares on the NYSE on that day. These shares and time-based LTIP Units vest one year after the date of the award.

On January 29, 2018, the Committee approved a grant of 125,409 restricted shares and 254,615 RSUs at target (634,628 RSUs at maximum) to the Company's officers, certain employees and to Mr. Zell, the Chairman of our Board of Trustees, as part of their compensation for fiscal year 2017. The restricted shares granted on January 29, 2018 were valued at \$29.78 per share, the closing price of our common shares on the NYSE on that day.

#### *2017 Equity Award Activity*

On November 8, 2017, 226,258 RSUs vested, and, as a result, we issued 226,258 common shares, prior to certain employees surrendering their common shares to satisfy statutory tax withholding obligations (see Note 8).

On June 20, 2017, in accordance with the Company's compensation plan for independent Trustees, the Committee awarded each of the nine independent Trustees \$0.1 million in restricted shares or time-based LTIP Units as part of their compensation for the 2017-2018 year of service on the Board of Trustees. These awards equated to 3,156 shares or time-based LTIP Units per Trustee, for a total of 25,248 shares and 3,156 time-based LTIP Units, valued at \$31.69 per share and unit, the closing price of our common shares on the NYSE on the grant date. These shares and time-based LTIP Units vested on June 20, 2018.

On January 24, 2017, the Committee approved a grant of 39,364 time-based LTIP Units, 79,924 market-based LTIP Units at target (199,211 market-based LTIP Units at maximum), 76,424 restricted shares and 155,168 RSUs at target (386,756 RSUs at maximum) to the Company's officers, certain employees and to Mr. Zell, the Chairman of our Board of Trustees, as part of their compensation for fiscal year 2016. The restricted shares and time-based LTIP Units were valued at \$31.47 per share and per unit, the closing price of our common shares on the NYSE on the grant date.



**EQUITY COMMONWEALTH**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Outstanding Equity Awards*

The table below presents a summary of restricted share, RSU and LTIP Unit activity for the years ended December 31, 2019, 2018 and 2017:

	Number of Restricted Shares and Time-Based LTIP Units	Weighted Average Grant Date Fair Value	Number of RSUs and Market- Based LTIP Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2016	752,209	\$ 26.79	2,572,768	\$ 15.75
Granted	144,192	31.51	585,967	15.97
Vested	(217,449)	27.97	(226,258)	15.99
Not earned(1)	—	—	(800,530)	15.99
Outstanding at December 31, 2017	678,952	\$ 27.41	2,131,947	\$ 15.69
Granted	154,209	30.05	634,628	14.90
Vested	(407,273)	27.06	(367,260)	15.79
Not earned(1)	—	—	(352,671)	15.47
Outstanding at December 31, 2018	425,888	\$ 28.70	2,046,644	\$ 15.47
Granted	138,819	32.20	568,609	15.91
Vested	(164,074)	28.60	(384,811)	15.53
Not earned(1)	—	—	(225,654)	15.57
Forfeited	(319)	31.08	(1,613)	15.56
Outstanding at December 31, 2019	<u>400,314</u>	\$ 29.95	<u>2,003,175</u>	\$ 15.57

(1) The table presents the maximum number of shares issued or issuable from outstanding equity awards. RSUs and market-based LTIP Units not earned are the shares market-based award recipients do not receive based on the performance measurement completed at the end of the performance period.

The 400,314 unvested restricted shares and time-based LTIP Units as of December 31, 2019 are scheduled to vest as follows: 144,234 shares/units in 2020, 114,919 shares/units in 2021, 86,959 shares/units in 2022 and 54,202 shares/units in 2023. As of December 31, 2019, the estimated future compensation expense for all unvested restricted shares and time-based LTIP Units was \$5.9 million. Compensation expense for the restricted share and time-based LTIP Units is being recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. The weighted average period over which the future compensation expense will be recorded for the restricted shares and time-based LTIP Units is approximately 2.2 years.

As of December 31, 2019, the estimated future compensation expense for all unvested RSUs and market-based LTIP Units was \$11.7 million. The weighted average period over which the future compensation expense will be recorded for the RSUs and market-based LTIP Units is approximately 2.1 years.

The assumptions and fair values for the RSUs and market-based LTIP Units granted for the years ended December 31, 2019, 2018 and 2017 are included in the following table on a per share and unit basis.

	2019	2018	2017
Fair value of RSUs and market-based LTIP Units granted at the target amount	\$ 39.65	\$ 37.13	\$ 39.81
Fair value of RSUs and market-based LTIP Units granted at the maximum amount	\$ 15.91	\$ 14.90	\$ 15.97
Expected term (years)	4	4	4
Expected volatility	13.98 %	15.74 %	17.30 %
Expected dividend yield	— %	1.68 %	1.59 %
Risk-free rate	2.52 %	2.26 %	1.49 %

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the years ended December 31, 2019, 2018 and 2017, we recorded \$14.4 million, \$19.7 million and \$21.4 million, respectively, of compensation expense, net of forfeitures, in general and administrative expense for grants to our Trustees, officers and employees related to our equity compensation plans. Forfeitures are recognized as they occur. At December 31, 2019, 2,859,628 shares/units remain available for issuance under the 2015 Incentive Plan.

#### Note 13. Defined Contribution Plan

We have a defined contribution plan that covers employees meeting eligibility requirements. We match 100% of the first 3% of compensation that an employee elects to defer plus 50% of compensation that an employee elects to defer exceeding 3% but not exceeding 5%, subject to a maximum of \$8,000. The Company's matching contribution vests immediately. The Company's contributions were \$0.2 million, \$0.3 million and \$0.3 million for the years ended December 31, 2019, 2018 and 2017, respectively.

#### Note 14. Fair Value of Assets and Liabilities

As of December 31, 2019, we do not have any assets or liabilities measured at fair value. The table below presents certain of our assets and liabilities measured at fair value during 2018, categorized by the level of inputs used in the valuation of each asset and liability (dollars in thousands):

Description	Total	Fair Value at December 31, 2018 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Recurring Fair Value Measurements:</b>				
Marketable securities	\$ 249,602	\$ 249,602	\$ —	\$ —

#### *Properties Held and Used*

As part of our office repositioning strategy adopted by our Board of Trustees, and pursuant to our accounting policy, in 2018, we evaluated the recoverability of the carrying values of each of the real estate assets that comprised our portfolio and determined that due to the shortening of the expected periods of ownership as a result of the office repositioning strategy and current estimates of market value less estimated costs to sell, it was necessary to reduce the net book value of a portion of the real estate assets in our portfolio to their estimated fair values. We anticipated the potential disposition of certain properties prior to the end of their remaining useful lives. As a result, in the first quarter of 2018, we recorded an impairment charge related to 777 East Eisenhower Parkway and 97 Newberry Road of \$12.1 million in accordance with our impairment analysis procedures. We determined this impairment based on independent third party broker information, which are level 3 inputs according to the fair value hierarchy established in ASC 820. We reduced the aggregate carrying value of these properties from \$41.8 million to their estimated fair value less estimated costs to sell of \$29.7 million. These properties were sold in 2018 (see Note 3 for additional information). We evaluated each of our properties and determined there were no additional valuation adjustments necessary at December 31, 2019 or 2018.

#### *Financial Instruments*

In addition to the assets described in the above table, our financial instruments include our cash and cash equivalents, restricted cash, senior unsecured debt and mortgage notes payable. At December 31, 2019 and 2018, the fair value of these additional financial instruments were not materially different from their carrying values, except as follows (in thousands):

	December 31, 2019		December 31, 2018	
	Principal Balance	Fair Value	Principal Balance	Fair Value
Senior unsecured debt and mortgage note payable	\$ 25,433	\$ 26,071	\$ 276,000	\$ 283,214

The fair values of our senior notes were based on quoted market prices (level 2 inputs) and the fair value of our mortgage note payable is based on estimates using discounted cash flow analyses and currently prevailing interest rates adjusted by credit risk spreads (level 3 inputs).

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other financial instruments that potentially subject us to concentrations of credit risk consist principally of rents receivable. As of December 31, 2019, we have one tenant, Expedia, Inc., that is responsible for 16.5% of our consolidated revenues, and no other single tenant of ours is responsible for more than 5.0% of our consolidated revenues (see Note 16).

#### Note 15. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per share (amounts in thousands except per share amounts):

	Year Ended December 31,		
	2019	2018	2017
<b>Numerator for earnings per common share - basic:</b>			
Net income	\$ 492,866	\$ 272,908	\$ 29,666
Net income attributable to noncontrolling interest	(186)	(95)	(10)
Preferred distributions	(7,988)	(7,988)	(7,988)
Numerator for net income per share - basic	<u>\$ 484,692</u>	<u>\$ 264,825</u>	<u>\$ 21,668</u>
<b>Numerator for earnings per common share - diluted:</b>			
Net income	\$ 492,866	\$ 272,908	\$ 29,666
Net income attributable to noncontrolling interest	(186)	(95)	—
Preferred distributions	—	(7,988)	(7,988)
Numerator for net income per share - diluted	<u>\$ 492,680</u>	<u>\$ 264,825</u>	<u>\$ 21,678</u>
<b>Denominator for earnings per common share - basic and diluted:</b>			
Weighted average number of common shares outstanding - basic <sup>(1)</sup>	122,091	122,314	124,125
RSUs <sup>(2)</sup>	1,138	956	912
LTIP Units <sup>(3)</sup>	174	115	92
Series D preferred shares; 6.50% cumulative convertible <sup>(4)</sup>	2,857	—	—
Weighted average number of common shares outstanding - diluted	<u>126,260</u>	<u>123,385</u>	<u>125,129</u>
<b>Net income per common share attributable to Equity Commonwealth common shareholders:</b>			
Basic	<u>\$ 3.97</u>	<u>\$ 2.17</u>	<u>\$ 0.17</u>
Diluted	<u>\$ 3.90</u>	<u>\$ 2.15</u>	<u>\$ 0.17</u>
<b>Anti-dilutive securities:</b>			
Effect of Series D preferred shares; 6.50% cumulative convertible <sup>(4)</sup>	—	2,563	2,363
Effect of LTIP Units	33	43	—
Effect of OP Units <sup>(5)</sup>	14	1	—

- (1) The years ended December 31, 2019, 2018 and 2017, include 210, 308, and 33 weighted-average, unvested, earned RSUs, respectively.
- (2) Represents weighted-average number of common shares that would have been issued if the year-end was the measurement date for unvested, unearned RSUs.
- (3) Represents the weighted-average dilutive shares issuable from LTIP Units if the year-end was the measurement date for the periods shown.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (4) The Series D preferred shares are excluded from the diluted earnings per share calculation for the years ended December 31, 2018 and 2017 because including the Series D preferred shares would also require that the preferred distributions be added back to net income, resulting in anti-dilution.
- (5) Beneficial interests in the Operating Trust.

#### Note 16. Segment Information

Our primary business is the ownership and operation of office properties, and we currently have one reportable segment. More than 90% of our revenues for the year ended December 31, 2019 are from office properties. For the year ended December 31, 2019, Expedia, Inc. individually accounted for 16.5% of our consolidated revenues.

#### Note 17. Related Person Transactions

The following discussion includes a description of our related person transactions for the years ended December 31, 2019, 2018 and 2017.

*Two North Riverside Plaza Joint Venture Limited Partnership:* We have a lease with Two North Riverside Plaza Joint Venture Limited Partnership, an entity associated with Mr. Zell, our Chairman, to occupy office space on the twentieth and twenty-first floors of Two North Riverside Plaza in Chicago, Illinois (20th/21st Floor Office Lease). The initial term of the lease is approximately five years, expiring December 2020, with one 5-year renewal option. We made improvements to the office space utilizing the \$0.7 million tenant improvement allowance pursuant to the lease. In connection with the 20th/21st Floor Office Lease, we also have a storage lease with Two North Riverside Plaza Joint Venture Limited Partnership for storage space in the basement of Two North Riverside Plaza. The storage lease expires December 31, 2020; however, each party has the right to terminate on 30 days' prior written notice. During the years ended December 31, 2019, 2018 and 2017, we recognized expense of \$0.9 million, \$0.8 million and \$0.8 million, respectively, pursuant to the 20th/21st Floor Office Lease and the related storage lease. The future minimum lease payments scheduled to be paid by us during the current terms of this lease as of December 31, 2019 are \$0.9 million in 2020. As of December 31, 2019 and 2018, we did not have any amounts due to Two North Riverside Plaza Joint Venture Limited Partnership pursuant to the 20th/21st Floor Office Lease and the related storage space.

#### Note 18. Selected Quarterly Financial Data (Unaudited)

The following is a summary of our unaudited quarterly results of operations for 2019 and 2018 (dollars in thousands):

	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$ 41,752	\$ 33,368	\$ 26,735	\$ 25,995
Net income attributable to Equity Commonwealth common shareholders	208,521	240,289	21,889	13,993
Net income attributable to Equity Commonwealth common shareholders per share—basic	1.71	1.97	0.18	0.11
Net income attributable to Equity Commonwealth common shareholders per share—diluted	1.67	1.93	0.18	0.11

The decrease in the second, third and fourth quarter 2019 total revenues is primarily attributable to properties sold in the first and second quarters of 2019. The first and second quarter 2019 net income attributable to Equity Commonwealth common shareholders was primarily attributable to the gain on sale of properties of \$193.0 million and \$227.2 million, respectively.

## EQUITY COMMONWEALTH

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$ 58,588	\$ 48,636	\$ 46,873	\$ 42,925
Net income attributable to Equity Commonwealth common shareholders	185,602	35,036	30,767	13,420
Net income attributable to Equity Commonwealth common shareholders per share—basic	1.50	0.29	0.25	0.11
Net income attributable to Equity Commonwealth common shareholders per share—diluted	1.48	0.29	0.25	0.11

The decrease in the second, third and fourth quarter 2018 total revenues is primarily attributable to properties sold in the first and second quarters of 2018. The first quarter 2018 net income attributable to Equity Commonwealth common shareholders was primarily attributable to the gain on sale of properties of \$205.2 million.

#### **Note 19. Subsequent Events**

On January 10, 2020, we announced that our Board of Trustees declared a dividend of \$0.40625 per series D preferred share, which will be paid on February 18, 2020 to shareholders of record on January 30, 2020.

On February 12, 2020, we sold our 0.3 million square foot property at 109 Brookline Avenue for a gross sale price of \$270.0 million.

On February 12, 2020, we entered into a contract to sell our 0.4 million square foot property at 333 108th Avenue NE for a gross sale price of \$401.5 million. This transaction is subject to customary closing extensions and conditions, and there is no certainty that this transaction will close.

**EQUITY COMMONWEALTH**  
**SCHEDULE III**  
**REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**December 31, 2019**  
**(dollars in thousands)**

Property	City	State	Initial Cost to Company			Cost Amount Carried at Close of Period					Accumulated Depreciation (3)	Date Acquired	Original Construction Date
			Encumbrances (1)	Land	Buildings and Improvements	Capitalized Subsequent to Acquisition, Net	Impairment /Write Downs	Land	Buildings and Improvements	Total(2)			
1225 Seventeenth Street	Denver	CO	\$ —	\$ 22,400	\$ 110,090	\$ 35,357	\$ (2,751)	\$ 22,400	\$ 142,696	\$ 165,096	\$ 40,542	6/24/2009	1982
1250 H Street, NW	Washington	DC	—	5,975	53,778	16,646	(719)	5,975	69,705	75,680	35,902	6/23/1998	1992
Georgetown-Green and Harris Buildings	Washington	DC	—	24,000	35,979	2,319	—	24,000	38,298	62,298	9,408	9/3/2009	1960;1975
109 Brookline Avenue	Boston	MA	—	3,168	30,397	19,149	(1,397)	3,168	48,149	51,317	23,248	9/28/1995	1915
206 East 9th Street	Austin	TX	25,433	7,900	38,533	5,996	(655)	7,900	43,874	51,774	8,560	5/31/2012	1984
Bridgepoint Square	Austin	TX	—	7,784	70,526	25,382	(1,323)	7,784	94,585	102,369	48,381	12/5/1997	1986;1996; 1997
333 108th Avenue NE	Bellevue	WA	—	14,400	136,412	2,808	(33)	14,400	139,187	153,587	36,659	11/12/2009	2008
			<u>\$ 25,433</u>	<u>\$ 85,627</u>	<u>\$ 475,715</u>	<u>\$ 107,657</u>	<u>\$ (6,878)</u>	<u>\$ 85,627</u>	<u>\$ 576,494</u>	<u>\$ 662,121</u>	<u>\$ 202,700</u>		

**EQUITY COMMONWEALTH**  
**SCHEDULE III**  
**REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**December 31, 2019**  
**(dollars in thousands)**

Analysis of the carrying amount of real estate properties and accumulated depreciation:

	Real Estate Properties	Accumulated Depreciation
Balance at January 1, 2017	\$ 2,856,890	\$ 755,255
Additions	55,041	71,979
Loss on asset impairment	(6,711)	—
Properties classified to held for sale	(138,130)	(62,064)
Disposals	(1,019,479)	(314,452)
Balance at December 31, 2017	1,747,611	450,718
Additions	58,618	39,161
Loss on asset impairment	(12,032)	—
Disposals	(654,555)	(113,911)
Balance at December 31, 2018	1,139,642	375,968
Additions	13,895	22,697
Disposals	(491,416)	(195,965)
Balance at December 31, 2019	<u>\$ 662,121</u>	<u>\$ 202,700</u>

- (1) Excludes net unamortized premiums and net unamortized deferred financing costs.
- (2) Excludes value of real estate intangibles. Aggregate cost for federal income tax purposes is approximately \$659,483.
- (3) Depreciation is calculated using the straight line method over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property.

## **Board of Trustees**

### **Sam Zell**

*Chairman of the Board*

### **James Corl**

*Trustee*

### **Martin Edelman**

*Trustee*

### **Edward Glickman**

*Trustee*

### **David Helfand**

*Trustee*

### **Peter Linneman**

*Lead Independent Trustee*

### **James Lozier, Jr.**

*Trustee*

### **Mary Jane Robertson**

*Trustee*

### **Kenneth Shea**

*Trustee*

### **Gerald Spector**

*Trustee*

### **James Star**

*Trustee*

## **Executive Officers**

### **David Helfand**

*President and Chief Executive Officer*

### **Adam Markman**

*Executive Vice President,  
Chief Financial Officer and Treasurer*

### **Orrin Shifrin**

*Executive Vice President,  
General Counsel and Secretary*

### **David Weinberg**

*Executive Vice President and  
Chief Operating Officer*

## **Investor Contact Information**

Phone: 312.646.2801

Email: [ir@eqcre.com](mailto:ir@eqcre.com)

## **Legal Counsel**

Fried, Frank, Harris, Shriver & Jacobson LLP

## **Independent Auditors**

Ernst & Young LLP

## **Transfer Agent**

Equiniti Trust Company  
1110 Centre Pointe Curve  
Suite 101

Mendota Heights, MN 55120-4100

Phone: 855.235.0840

[www.shareowneronline.com](http://www.shareowneronline.com)

## **Available Information**

A copy of our 2019 Annual Report on Form 10-K including the financial statements and schedules (excluding exhibits), as filed with the Securities and Exchange Commission, can be obtained without charge through our website at [www.eqcre.com](http://www.eqcre.com) or by writing to our Secretary at our executive offices address.





**Equity  
Commonwealth**

**Equity Commonwealth**

Two North Riverside Plaza

Suite 2100

Chicago, IL 60606

[www.eqcre.com](http://www.eqcre.com)

312.646.2801