

ANNUAL REPORT

2017



Mission City, San Diego, CA



LETTER TO OUR SHAREHOLDERS

Dear Fellow Shareholders,

Our company achieved several important benchmarks in 2017 and is poised to continue to deliver attractive long-term returns to our investors through a combination of dividends and capital appreciation. Of note, we reached a milestone of \$1 billion in total real estate acquired without deviating from the disciplined, focused strategy that is at the core of the company.

Our thesis that high growth markets in the Southern and Western United States will outperform remains intact, and our markets continue to be national leaders in terms of office demand drivers, including employment and population growth. Management's primary focus continues to be the creation of long term value by driving occupancy, enhancing property level NOI and adding complementary properties to our portfolio.

Investments

During 2017 we acquired \$255 million of office properties with a 7.2% weighted average first year cash net operating income cap rate. These acquisitions consisted of 13 buildings and over 940,000 square feet in Dallas, Phoenix and San Diego. These cities possess some of the best real estate fundamentals in the country due to the strength and diversity of their local economies along with demonstrated employment and population growth.

We have identified a number of strategic opportunities to reposition properties or enhance property value within our portfolio. Key capital projects and repositionings are under way or planned for several of our properties, most notably at Park Tower in Tampa where the dramatic exterior and interior renovation has already begun to generate strong leasing activity. We expect that our shareholders will benefit from these investments through a combination of leasing vacant space, higher rental rates and improved property values.

Operations

We achieved strong same store cash NOI growth of 4.1% in 2017, as compared to 2016, and we continue to closely manage and invest in our properties to ensure the long-term prospects for continued growth. With year end occupancy at 87.7%, an opportunity exists to increase our NOI through the lease up of a number of highly desirable blocks of space.

In 2017, we completed two common equity offerings, raising gross proceeds of \$143.8 million, with our most recent raise in December achieving our highest common equity issuance price to date. Our liquidity position remains strong, with a conservative balance sheet, recently raised equity capital and substantial availability under our line of credit.

2018 & Beyond

Opportunities for value creation at our properties and in the capital markets remain ahead of us. We feel strongly that we have selected markets and acquired properties that are well positioned for growth in the coming years and that our recent dispositions have proven our ability to create value within these markets.

On behalf of our Board of Directors, our entire management team and myself, I sincerely thank you for your continued support and trust. We look forward to communicating our progress with you throughout 2018.

Sincerely,



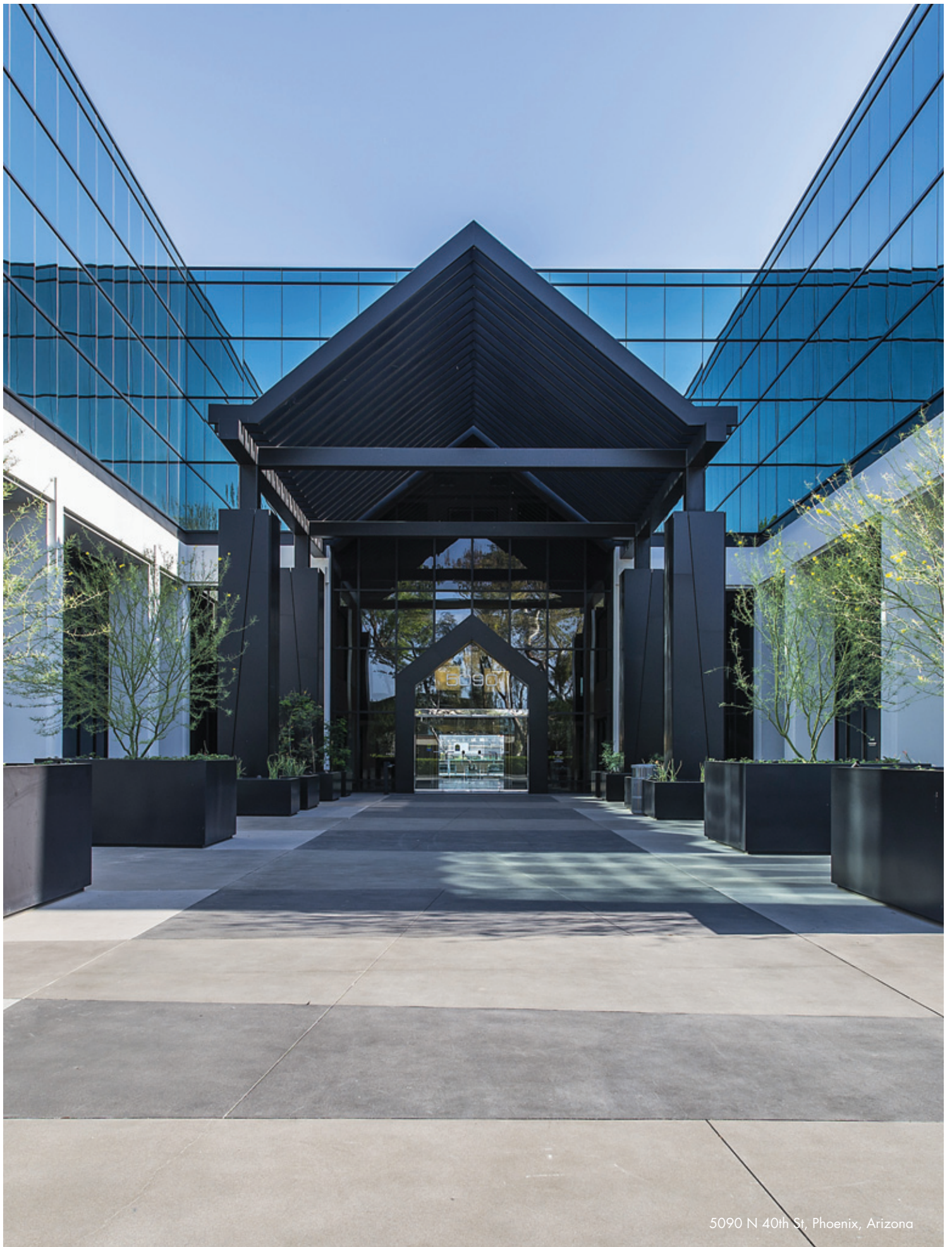
Jamie Farrar, CEO

FORWARD LOOKING STATEMENTS

Certain statements contained in this presentation, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements within the meaning of the federal securities laws and as such are based upon City Office REIT, Inc. (or the "Company") and its current beliefs as to the outcome and timing of future events. There can be no assurance that actual future developments affecting the Company will be those anticipated by the Company. Examples of forward-looking statements include projected capital resources, projected profitability and portfolio performance, estimates of market rental rates, projected capital improvements, expected sources of financing, expectations as to the timing of closing of acquisitions, dispositions, or other transactions, the expected operating performance of anticipated near-term acquisitions and descriptions relating to these expectations, including without limitation, the anticipated net operating income yield. Forward-looking statements presented in this presentation are based on management's beliefs and assumptions made by, and information currently available to, management.

When used, the words "anticipate," "believe," "expect," "intend," "may," "might," "plan," "estimate," "project," "should," "will," "result" and similar expressions that do not relate solely to historical matters are intended to identify forward-looking statements. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Forward-looking statements involve risks and uncertainties (some of which are beyond the Company's control) and are subject to change based upon various factors, including but not limited to the following risks and uncertainties: changes in the real estate industry and in performance of the financial markets; competition in the leasing market; the demand for and market acceptance of our properties for rental purposes; the amount and growth of our expenses; tenant financial difficulties and general economic conditions, including interest rates, as well as economic conditions in our geographic markets; changes in regulations or laws, including tax laws, in the markets in which we operate; defaults or non-renewal of leases; risks associated with joint venture partners; the risks associated with the ownership and development of real property, including risks related to natural disasters; risks associated with property acquisitions, including our entry into new markets with which we are unfamiliar; the failure to acquire or sell properties as and when anticipated; the outcome of claims and litigation involving or affecting the Company; the ability to satisfy conditions necessary to close pending transactions; our failure to maintain our status as real estate investment trust, or REIT; and other risks and uncertainties detailed in the Company's filings with the Securities and Exchange Commission, including but not limited to the Company's reports on Form 10-K, Form 10-Q and Form 8-K and in the Company's other SEC filings from time to time.

Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, the Company's business, financial condition, liquidity, cash flows and results could differ materially from those expressed in any forward-looking statement. While forward-looking statements reflect our good faith beliefs as of the date of this presentation, they are not guarantees or indications of future performance. Any forward-looking statements speak only as of the date of this presentation. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. 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. Use caution in relying on past forward-looking statements, which were based on results and trends at the time they are made, before anticipating future results or trends.

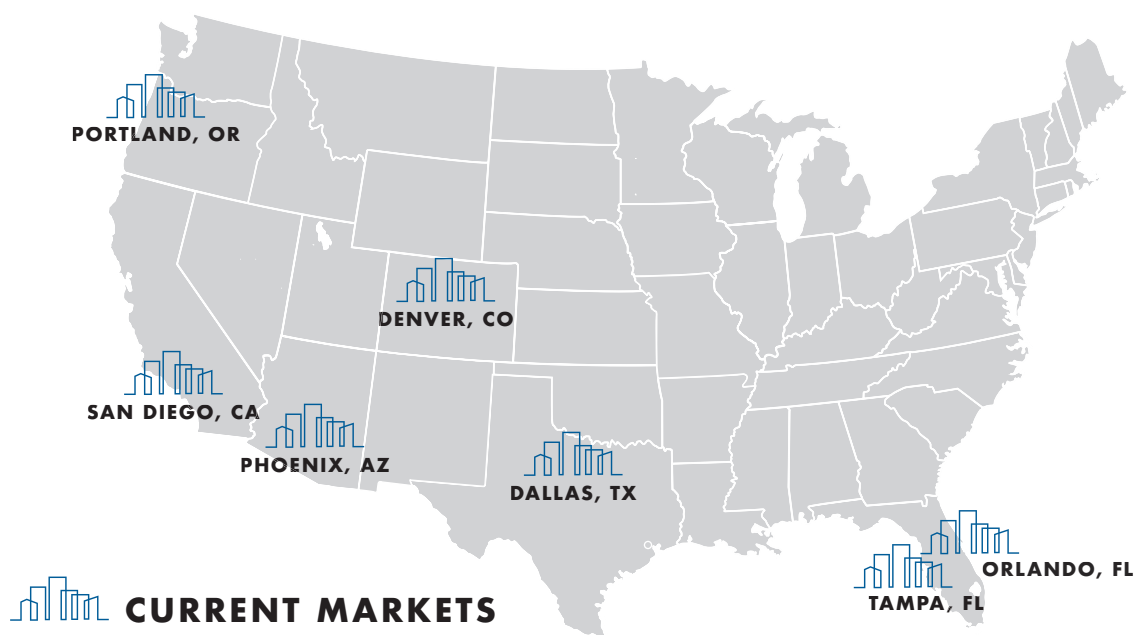


CITY OFFICE REIT (NYSE: CIO)

Corporate Overview

City Office REIT owns quality office properties in high growth markets in the Southern and Western United States

- › Focused on creating shareholder value through a targeted acquisition strategy and internal cash flow growth
- › City Office REIT owns 5.2 million square feet of office properties as of December 31, 2017. Our properties are generally:
 - › Located in vibrant, growing markets with strong leasing fundamentals
 - › Occupied by a high percentage of quality credit tenants
 - › In good condition having undergone substantial capital improvements
- › Experienced management team; strong alignment of shareholder interests with those of management and Board of Directors
- › Focused acquisition strategy concentrated on thriving markets with leading economic fundamentals
 - › Well located Class A & B office properties in both CBD and key amenity-rich, transit-oriented suburban locations
 - › Acquisition prices generally between \$25 - \$100 million
 - › Typical target acquisition cap rates between 7% and 8%



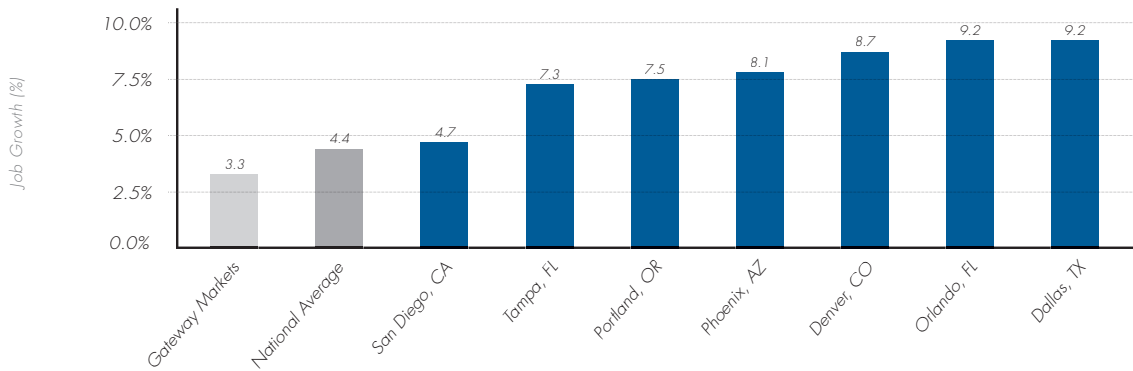
* Excludes Washington Group Plaza in Boise, ID; which was sold in March 2018

MARKET CHARACTERISTICS

Focused on Markets with Desirable Attributes for Office Real Estate

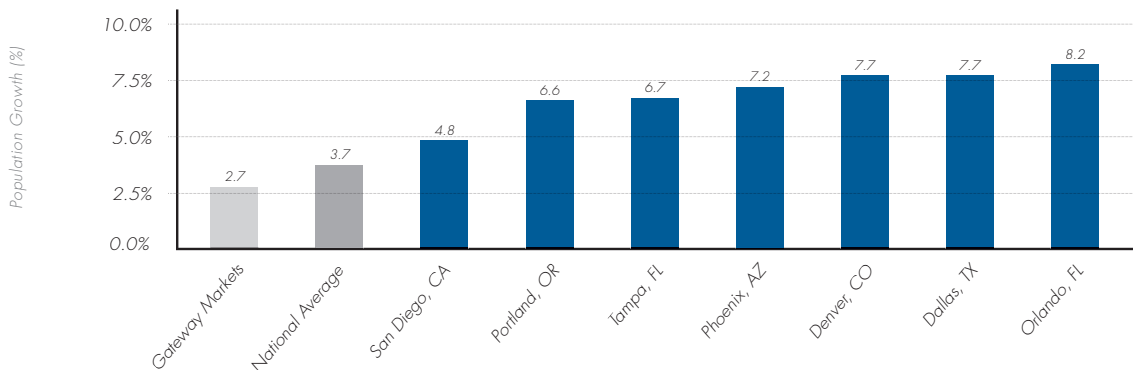
- › Strong economic fundamentals and demographics
- › Above average population growth
- › Diverse employment base with national and international employers
- › Educated workforce
- › Low-cost centers for businesses to operate
- › State capital or university concentration

PROJECTED JOB GROWTH ESTIMATES FROM 2018 TO 2023



Source: SNL Financial

PROJECTED POPULATION GROWTH ESTIMATES FROM 2018 TO 2023



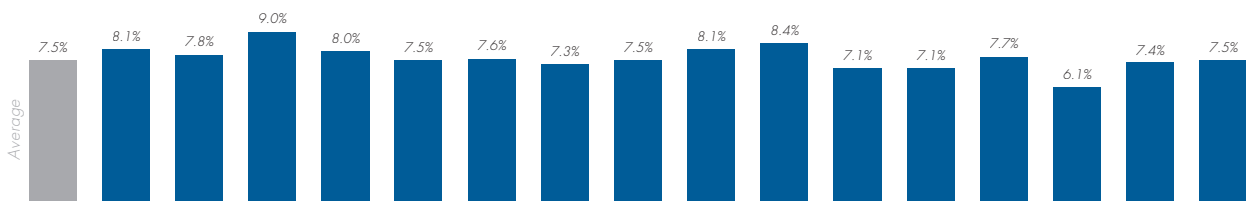
Source: SNL Financial

INVEST WHERE WE HAVE AN ADVANTAGE

Non-Gateway Office Markets Provide Attractive Opportunities for City Office

- › Less competition from larger institutional investors; local real estate operators often lack the capital to compete for acquisitions
- › Outsized population and employment growth catalysts create conditions for strong operating performance
- › Average announced post - IPO cap rate of 7.5%
- › CIO reported same store cash NOI growth of 4.1% for the full year 2017, compared to 2016

ANNOUNCED POST - IPO ACQUISITION CAP RATES*



* Includes each acquisition from IPO to December 31, 2017 in sequential order; acquisition cap rates represent announced, projected year one cap rates at the time of acquisition

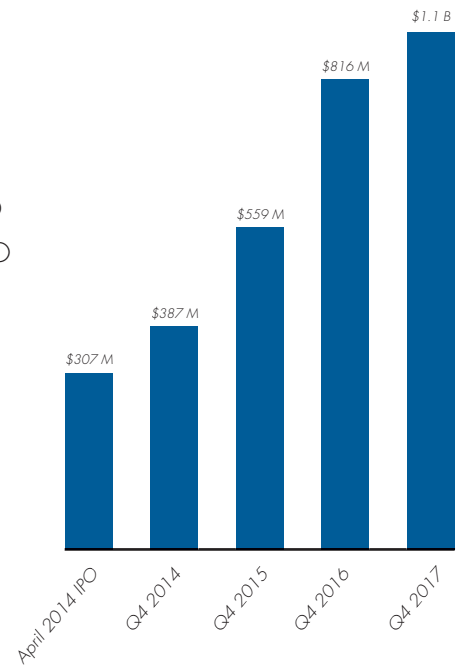
PROVEN GROWTH STRATEGY

Over \$1 Billion in Total Real Estate Acquired

- › In 2017, closed on 13 buildings for \$255 million at a 7.2% weighted average capitalization rate
- › Growing economies of scale in most markets
- › Increased net leasable square footage to 5.2 million from 1.9 million at IPO
- › Increased average annualized base rent/SF to \$22.78 from \$17.95 at IPO

Efficient Access to Capital

- › \$289 million in common stock follow-on offerings
- › \$112 million Series A preferred stock offering
- › \$342 million in property-level debt financings*



TOTAL REAL ESTATE**

* Financings subsequent to IPO, as of December 31, 2017
 ** Represents implied asset value at IPO plus acquisitions at cost

DEMONSTRATING VALUE CREATION



Washington Group Plaza – Boise, ID

- › Sold for \$86.5 million in March 2018
- › Gain in excess of \$45 million
- › Completed numerous leasing transactions and implemented extensive operational improvements and cost savings
- › Opportunistic sale to largest tenant in the complex



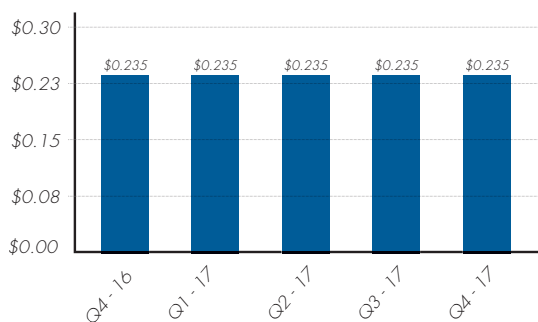
AmberGlen – Portland, OR

- › \$9.2 million gain on sale for CIO's 76% ownership
- › Retained three of the five building at AmberGlen with long term lease profiles and quality tenants
- › Strong market conditions allowed for opportunistic sale

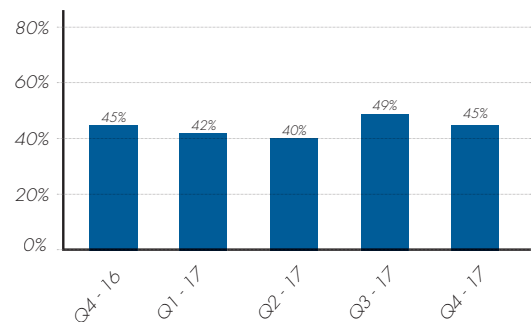
STRONG HISTORICAL PERFORMANCE

City Office Has Delivered a 9.7% Average Annual Total Return Since IPO *

QUARTERLY COMMON DIVIDENDS PAID



NET DEBT TO ENTERPRISE VALUE **



* As of December 31, 2017. Total Return includes reinvestment of dividends, source: SNL Financial

** Net Debt to Enterprise Value calculated as CIO share of debt less CIO share of unrestricted cash divided by market value as of quarter end

EXECUTIVE MANAGEMENT TEAM



Jamie Farrar, Chief Executive Officer & Director

- › Over 20 years experience, including real estate, private equity and corporate finance industry experience
- › Completed the acquisition of approximately \$2.0 billion of real estate since 2011
- › Prior experience with a family office focused on real estate and hospitality and the private equity group of the TD Bank



Greg Tylee, Chief Operating Officer & President

- › Over 20 years experience, including real estate acquisitions, operations and high-rise development
- › Involved in real estate transactions including development and management with a combined enterprise value of over \$2.0 billion
- › Former President of Bosa Properties Inc., a prominent real estate development company with over 400 employees



Tony Maretic, Chief Financial Officer, Secretary & Treasurer

- › Over 20 years experience, including senior financial and operational roles, of which 10 years were spent within the real estate industry
- › Former Chief Operating Officer and Chief Financial Officer of Earls Restaurants Ltd., a multinational hospitality company
- › Held financial management positions with a U.S. based senior living real estate company and Bentall Kennedy

BOARD OF DIRECTORS

John McLernon, Chairman*

Jamie Farrar, CEO and Director

William Flatt, Director*

Mark Murski, Director*

Stephen Shraiberg, Director*

John Sweet, Director*

** Indicates independent director*

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

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

For the transition period from _____ to _____

Commission file no: 001-36409

CITY OFFICE REIT, INC.

Maryland
(State or other jurisdiction
of incorporation)

98-1141883
(IRS Employer
Identification No.)

1075 West Georgia Street
Suite 2010
Vancouver, BC
V6E 3C9

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (604) 806-3366

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$0.01 par value
6.625% Series A Cumulative Redeemable Preferred
Stock, \$0.01 par value per share

New York Stock Exchange
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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging Growth Company

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 Act). Yes No

As of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$374.5 million, based on the closing sales price of \$12.70 per share as reported on the New York Stock Exchange.

As of February 23, 2018, the registrant had 36,118,163 shares of common stock outstanding.

Documents incorporated by reference: Portions of the registrant's Definitive Proxy Statement for the 2018 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year end) are incorporated by reference in this Annual Report on Form 10-K in response to Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14.

CITY OFFICE REIT, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the federal securities laws. These forward-looking statements are included throughout this Annual Report on Form 10-K, including in the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and “Certain Relationships and Related Person Transactions,” and relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, financial condition, liquidity, capital resources, cash flows, results of operations and other financial and operating information. We have used the words “approximately,” “anticipate,” “assume,” “believe,” “budget,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “future,” “intend,” “may,” “outlook,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “will” and similar terms and phrases to identify forward-looking statements in this Annual Report on Form 10-K. All of our forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we are expecting, including:

- adverse economic or real estate developments in the office sector or the markets in which we operate;
- changes in local, regional, national and international economic conditions;
- our inability to compete effectively;
- our inability to collect rent from tenants or renew tenants’ leases on attractive terms if at all;
- demand for and market acceptance of our properties for rental purposes;
- defaults on or non-renewal of leases by tenants;
- increased interest rates and any resulting increase in financing or operating costs;
- decreased rental rates or increased vacancy rates;
- our failure to obtain necessary financing or access the capital markets on favorable terms or at all;
- changes in the availability of acquisition opportunities;
- availability of qualified personnel;
- our inability to successfully complete real estate acquisitions or dispositions on the terms and timing we expect, or at all;
- our failure to successfully operate acquired properties and operations;
- changes in our business, financing or investment strategy or the markets in which we operate;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- our failure to qualify and maintain our status as a real estate investment trust (“REIT”);
- government approvals, actions and initiatives, including the need for compliance with environmental requirements;
- outcome of claims and litigation involving or affecting us;
- financial market fluctuations;
- changes in real estate, taxation and zoning laws and other legislation and government activity and changes to real property tax rates and the taxation of REITs in general; and
- additional factors discussed under the sections captioned “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.”

The forward-looking statements contained in this Annual Report on Form 10-K are based on historical performance and management's current plans, estimates and expectations in light of information currently available to us and are subject to uncertainty and changes in circumstances. There can be no assurance that future developments affecting us will be those that we have anticipated. Actual results may differ materially from these expectations due to the factors, risks and uncertainties described above, changes in global, regional or local political, economic, business, competitive, market, regulatory and other factors described in "Risk Factors," many of which are beyond our control. We believe that these factors include those described in "Risk Factors." Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove to be incorrect, our actual results may vary in material respects from what we may have expressed or implied by these forward-looking statements. We caution that you should not place undue reliance on any of our forward-looking statements. Any forward-looking statement made by us in this Annual Report on Form 10-K speaks only as of the date of this Annual Report on Form 10-K. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by applicable securities laws.

PART I

ITEM 1. BUSINESS

Overview

We are an internally-managed corporation organized in the state of Maryland on November 26, 2013 focused on acquiring, owning and operating high-quality office properties located primarily in metropolitan areas in the Southern and Western United States. Our target markets possess a number of attractive demographic and employment characteristics that we believe will lead to capital appreciation and growth in rental income at our properties. Our senior management team has extensive industry relationships and a proven track record in executing this strategy, which we believe provides a competitive advantage to our stockholders. We have elected, and intend to continue to qualify, to be taxed as a REIT for U.S. federal income tax purposes.

We believe that our target markets offer the opportunity for attractive risk-adjusted returns due to the following characteristics: favorable economic growth trends, growing populations with above average employment growth forecasts, a large number of government offices, large international, national and regional employers across diversified industries, low-cost centers for business operations, proximity to large universities and increasing office occupancy rates. We also believe that new construction of office properties has been limited in many of our markets since 2008 because rental rates in these markets generally have not supported significant new development. Within our target markets, we focus primarily on Class A and B properties with a purchase price between \$25 million and \$100 million and expected capitalization rates generally between seven and eight percent. We believe that we have a competitive advantage in acquiring these properties in our target markets because large institutional investors generally have focused on larger properties in gateway markets such as Boston, Chicago, Los Angeles, New York, San Francisco and Washington, D.C., while local real estate operators in our markets typically do not benefit from the same access to capital as public REITs.

Our senior management team has extensive experience in real estate markets and is made up of James Farrar, our chief executive officer, Gregory Tylee, our president and chief operating officer, and Anthony Maretic, our chief financial officer, each with over 20 years of experience. We internally asset manage our properties but use local firms for property management and leasing in our markets to benefit from their local market knowledge, efficient operations and existing infrastructure.

At December 31, 2017, we owned 48 office buildings with a total of approximately 5.2 million square feet of net rentable area (“NRA”) in the metropolitan areas of Boise, Dallas, Denver, Orlando, Phoenix, Portland, San Diego and Tampa. We believe that our properties are high quality assets that provide excellent access to transportation options, are located near affluent neighborhoods, contain extensive amenities and are well-maintained. We also believe that our properties have a stable and diverse tenant base, including federal and state governmental agencies and national and regional businesses. As of December 31, 2017, our portfolio was approximately 87.7% leased and approximately 49.6% of the base rental revenue from our properties was derived from tenants in these markets that are federal or state government agencies or investment grade tenants or their subsidiaries. Our properties also have a stable, long-term tenancy profile and our occupied and committed leases have staggered expirations and a weighted average remaining lease term to maturity of 4.7 years at December 31, 2017. The majority of our leases are full service gross leases pursuant to which our tenants reimburse us for operating expenses, property taxes and insurance in excess of a base amount. This structure helps insulate us from increases in certain operating expenses and provides a more predictable cash flow. Our leases typically include rent escalation provisions designed to provide annual growth in our rental income.

For further information on our target markets and the composition of our tenant base, see “Item 2— Properties.”

As of December 31, 2017, we had 17 full-time employees. We believe that our relations with our employees are satisfactory.

Business Objectives and Growth Strategies

Our principal business objective is to provide attractive risk-adjusted returns to our investors over the long-term through a combination of dividends and capital appreciation. We believe the following strategies will help us achieve our business objective and continue to distinguish us from other owners and operators of office properties in our markets:

Acquire Properties in Our Target Markets: We seek to expand our portfolio through acquisitions of office properties primarily located in our target markets. We believe that current economic conditions and relatively low levels of competition from institutional buyers have created attractive investment opportunities for the acquisition of office properties in our target markets as compared to gateway markets. We also use our management team's market-specific knowledge as well as the expertise of our local real estate operators and our investment partners to identify acquisitions that we believe offer cash flow stability and value enhancement.

Leverage Strong Relationships of Our Management Team: Our senior management team has extensive relationships within our markets, including with real estate owners, developers, operators and brokers. We have strong relationships with our local third-party real estate operators, which typically manage or lease a large number of properties in the submarkets and markets where our properties are located, providing economies of scale and local market insight. In addition, our management team has strong lending relationships with various banks and insurance companies.

Seek Contractual Rent Escalations: Our leases typically provide for contractual increases in base rental rates. These rental escalations are expected to result in predictable increases in rental revenues for us over time. We will continue to seek to include contractual rent escalators in future leases to further facilitate predictable growth in rental income.

Lease Currently Vacant Space: As of December 31, 2017, the weighted average in place occupancy rate of our properties was approximately 87.7%, and approximately 88.5% when excluding assets under contract for sale, and we believe that there is potential to generate additional rental income by leasing space in these properties that is currently unoccupied. We believe that our properties compete for tenants with other landlords that are capital constrained and may not be able to enhance their buildings' appeal through capital investments or offer tenants attractive tenant improvement packages.

Implement Improvements and Cost-Saving Initiatives: We actively pursue cost reduction initiatives, such as eliminating redundant or unnecessary expenses and engaging property tax appeal specialists to lower property tax costs, and make an ongoing effort to increase expense recoveries from tenants on new and renewed leases.

2017 Highlights

- In 2017, we completed acquisitions of 13 office buildings, containing an aggregate of approximately 944,000 square feet of net rentable area, for an aggregate purchase price of approximately \$254.6 million.
- In 2017, we declared and paid an aggregate of \$0.94 of dividends per share of common stock.
- In January 2017, we completed a follow-on public offering of 5,750,000 shares of our common stock, inclusive of the underwriters' full exercise of the overallotment option, resulting in gross proceeds to us of approximately \$71.3 million.
- In May 2017, we completed the sale of two of the five buildings at AmberGlen property in Portland, Oregon for a combined sales price of \$18.9 million, representing a net gain on sale of \$9.2 million for the Company's 76% ownership.
- In September 2017, exercised our option to increase the authorized borrowing capacity under the Secured Credit Facility from \$100 million to \$150 million.
- In December 2017, we completed a follow-on public offering of 5,750,000 shares of our common stock, inclusive of the underwriters' full exercise of the overallotment option, resulting in gross proceeds to us of approximately \$72.5 million.

Competition

We compete with other REITs (both public and private), public and private real estate companies, private real estate investors and lenders, both domestic and foreign, in acquiring properties. We also face competition in leasing or subleasing available properties to prospective tenants.

We believe that our management's experience and relationships in, and local knowledge of, the markets in which we operate put us at a competitive advantage when seeking acquisitions. However, some of our competitors have greater resources than we do, or may have a more flexible capital structure when seeking to finance acquisitions. We also face competition in leasing or subleasing available properties to prospective tenants. Some real estate operators may be willing to enter into leases at lower contractual rental rates. However, we believe that our intensive management services are attractive to tenants and serve as a competitive advantage.

Segment and Geographic Financial Information

During 2017, we had one reportable segment, our office properties segment. For information about our office property revenues and long-lived assets and other financial information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

Environmental Matters

A wide variety of environmental and occupational health and safety laws and regulations affect our properties. These complex laws, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these laws may directly impact us. Under various local environmental laws, ordinances and regulations, an owner of real property, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and the owner's liability therefore could exceed or impair the value of the property, and/or the assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenues.

We believe that our properties are in compliance in all material respects with all federal, state and local environmental laws and regulations regarding hazardous or toxic substances and other environmental matters. We have not been notified by any governmental authority of any material non-compliance, liability or claim relating to hazardous or toxic substances or other environmental matter in connection with any of our properties.

Availability of Reports Filed with the Securities and Exchange Commission

A copy of this Annual Report on Form 10-K, as well as our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available, free of charge, on our Internet website (www.cityofficereit.com). All of these reports are made available on our website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"). Our Governance Guidelines and Code of Business Conduct and Ethics and the charters of the Audit, Compensation, and Nominating and Corporate Governance Committees of our Board of Directors are also available on our website at www.cityofficereit.com, and are available in print to any stockholder upon written request to City Office REIT, Inc., c/o Investor Relations, Suite 2010, 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9. Our telephone number is +1 (604) 806-3366. The information on or accessible through our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filing we make with the SEC.

ITEM 1A. RISK FACTORS

Risks Relating to Our Business and Our Properties

There are inherent risks associated with real estate investments and with the real estate industry, each of which could have an adverse impact on our financial performance and the value of our properties.

Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond our control. Our financial performance and the value of our properties can be affected by many of these factors, including the following:

- adverse changes in financial conditions of buyers, sellers and tenants of our properties, including bankruptcies, financial difficulties or lease defaults by our tenants;
- the national, regional and local economy, which may be negatively impacted by concerns about inflation, government deficits or government budgets, unemployment rates, decreased consumer confidence, industry slowdowns, reduced corporate profits, liquidity concerns in our markets and other adverse business concerns;
- local real estate conditions, such as an oversupply of, or a reduction in, demand for office space and the availability and creditworthiness of current and prospective tenants;
- vacancies or ability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options;
- changes in operating costs and expenses, including, without limitation, increasing labor and material costs, insurance costs, energy prices, environmental restrictions, real estate taxes and costs of compliance with laws, regulations and government policies, which we may be restricted from passing on to our tenants;
- fluctuations in interest rates, which could adversely affect our ability, or the ability of buyers and tenants of our properties, to obtain financing on favorable terms or at all, or impact the market price of our properties we own or target for investment;
- competition from other real estate investors with significant capital, including other real estate operating companies, other publicly traded REITs and institutional investment funds;
- inability to refinance our indebtedness, which could result in a default on our obligation and trigger cross default provisions that could result in a default on other indebtedness;
- the convenience and quality of competing office properties;
- inability to collect rent from tenants;
- our ability to secure adequate insurance;
- our ability to secure adequate management services and to maintain our properties;
- changes in, and changes in enforcement of, laws, regulations and governmental policies, including, without limitation, health, safety, environmental, zoning, immigration and tax laws, government fiscal, monetary and trade policies and the Americans with Disabilities Act of 1990 (the “ADA”); and
- civil unrest, acts of war, cyber attacks, terrorist attacks and natural disasters, including earthquakes, wind damage and floods, which may result in uninsured and underinsured losses.

In addition, because the yields available from equity investments in real estate depend in large part on the amount of rental income earned, as well as property operating expenses and other costs incurred, a period of economic slowdown or recession, or declining demand for real estate, or the public perception that any of these

events may occur, could result in a general decline in rents or an increased incidence of defaults among our existing leases, and, consequently, our properties, including any held by joint ventures, may fail to generate revenues sufficient to meet operating, debt service and other expenses. As a result, we may have to borrow amounts to cover fixed costs, and our financial condition, results of operations, cash flow, per share market price of our common stock and ability to satisfy our principal and interest obligations and to make distributions to our stockholders may be adversely affected.

Significant competition may decrease or prevent increases in our properties' occupancy and rental rates and may reduce our investment opportunities.

We compete with numerous owners, operators and developers of office properties, many of which own properties similar to ours in the same submarkets in which our properties are located. Furthermore, undeveloped land in many of the markets in which we operate is generally more readily available and less expensive than in gateway markets, which are commonly defined as New York, Los Angeles, Washington, D.C., Boston, Chicago and San Francisco. If our competitors offer space from existing or new buildings at rental rates below current market rates, or below the rental rates that we currently charge our tenants, we may lose existing or potential tenants and we may be pressured to reduce our rental rates below those that we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain or attract tenants when our tenants' leases expire. Our competitors may have substantially greater financial resources than we do and may be able to accept more risk than we can prudently manage. In the future, competition from these entities may reduce the number of suitable investment opportunities offered to us or increase the bargaining power of property owners seeking to sell. As a result, our financial condition, results of operations, cash flows and market price of our common stock could be adversely affected.

We are dependent on our key personnel and the loss of such key personnel could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

We are dependent on the efforts of our key officers and employees, including James Farrar, our Chief Executive Officer, Gregory Tylee, our President and Chief Operating Officer, and Anthony Maretic, our Chief Financial Officer, Secretary and Treasurer. The loss of Mr. Farrar's, Mr. Tylee's and/or Mr. Maretic's services could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders. Although we have employment agreements with them, we cannot assure you they will remain employed with us.

A decrease in demand for office space may have a material adverse effect on our financial condition and results of operations.

Our portfolio of properties consists entirely of office properties and because we seek to acquire similar properties, a decrease in the demand for office space may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate portfolio. If parts of our properties are leased within a particular sector, a significant downturn in that sector in which the tenants' businesses operate would adversely affect our results of operations. In addition, where a government agency is a tenant, which is the case for a number of our properties, austerity measures, the inability of the federal, state or local government to approve a budget, and governmental deficit reduction programs may lead government agencies to stop paying rent, consolidate and reduce their office space, terminate their lease or decrease their workforce, which may reduce demand for office space in the government sector.

Failure by any major tenant to make rental payments to us, because of a deterioration of its financial condition, a termination of its lease, a non-renewal of its lease or otherwise, could seriously harm our results of operations.

As of December 31, 2017, approximately 32.4% of the base rental revenue of our properties was derived from our ten largest tenants. Our largest tenant is the Colorado Department of Public Health and Environment, which accounted for approximately 5.8% of base rental revenue of our properties for the year ended December 31, 2017.

At any time, our tenants may experience a downturn in their businesses that may significantly weaken their financial condition, whether as a result of general economic conditions or otherwise. As a result, our tenants may fail to make rental payments when due, delay lease commencements, decline to extend or renew leases upon expiration or declare bankruptcy. Any of these actions could result in the termination of the tenants' leases or the failure to renew a lease and the loss of rental income attributable to the terminated leases. The occurrence of any of the situations described above could seriously harm our results of operations.

We may be unable to secure funds for future tenant or other capital improvements or payment of leasing commissions, which could limit our ability to attract or replace tenants and adversely impact our ability to make cash distributions to our stockholders.

When tenants do not renew their leases or otherwise vacate their space, it is common that, in order to attract replacement tenants, we will be required to expend funds for tenant improvements, payment of leasing commissions and other concessions related to the vacated space. Such tenant improvements may require us to incur substantial capital expenditures. We may not be able to fund capital expenditures solely from cash provided from our operating activities because we must distribute at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, each year to qualify as a REIT. As a result, our ability to fund tenant and other capital improvements or payment of leasing commissions through retained earnings may be limited. If we have insufficient capital reserves, we will have to obtain financing from other sources. We may also have future financing needs for other capital improvements to refurbish or renovate our properties. If we are unable to secure financing on terms that we believe are acceptable or at all, we may be unable to make tenant and other capital improvements or payment of leasing commissions or we may be required to defer such improvements. If this happens, it may cause one or more of our properties to suffer from a greater risk of obsolescence or a decline in value, as a result of fewer potential tenants being attracted to the property or existing tenants not renewing their leases. If we do not have access to sufficient funding in the future, we may not be able to make necessary capital improvements to our properties, pay leasing commissions or other expenses or pay distributions to our stockholders.

We may be required to make rent or other concessions and significant capital expenditures to improve our properties in order to retain and attract tenants, which could adversely affect our financial condition, results of operations and cash flow.

In order to retain existing tenants and attract new clients, we may be required to offer more substantial rent abatements, tenant improvements and early termination rights or accommodate requests for renovations, build-to-suit remodeling and other improvements or provide additional services to our tenants. As a result, we may have to make significant capital or other expenditures in order to retain tenants whose leases expire and to attract new tenants in sufficient numbers, which could adversely affect our results of operations and cash flow. Additionally, if we need to raise capital to make such expenditures and are unable to do so, or such capital is otherwise unavailable, we may be unable to make the required expenditures. This could result in non-renewals by tenants upon expiration of their leases, which could adversely affect our financial condition, results of operations and cash flow.

We depend on external sources of capital that are outside of our control, which may affect our ability to seize strategic opportunities, satisfy our debt obligations and make distributions to our stockholders.

In order to maintain our qualification as a REIT, we are generally required under the U.S. Internal Revenue Code of 1986, as amended (the "Code") to annually distribute at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. In addition, as a REIT, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs (including redevelopment, acquisition, expansion and renovation activities, payments of principal and interest on and the refinancing of our existing debt, tenant improvements

and leasing costs), from operating cash flow. Consequently, we may rely on third-party sources to fund our capital needs. We may not be able to obtain the necessary financing on favorable terms, in the time period that we desire or at all. Any additional debt we incur will increase our leverage, expose us to the risk of default and may impose operating restrictions on us, and any additional equity we raise could be dilutive to existing stockholders. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market's view of the quality of our assets;
- the market's perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash distributions; and
- the market price of securities we may issue from time to time.

If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, satisfy our principal and interest obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

Covenants in our Amended and Restated Credit Agreement may cause us to fail to qualify as a REIT.

In order to maintain our qualification as a REIT, we are generally required under the Code to distribute annually at least 90% of our net taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Under our Amended and Restated Credit Agreement, we are generally prohibited from making distributions in excess of 100% of Core Funds From Operations, as defined in the Amended and Restated Credit Agreement. If Core Funds From Operations is less than 90% of our net taxable income, we will not be able to make sufficient distributions to maintain our REIT status. In addition, if Core Funds From Operations is greater than 90% of our net taxable income but less than 100% of our net taxable income, we will be required to pay income tax at regular corporate rates on any net taxable income we are prohibited from distributing as a result of this covenant. Furthermore, if we fail to distribute at least the sum of 85% of our REIT ordinary income for the year, 95% of our REIT capital gain for the year and any undistributed taxable income from prior years, we will incur a 4% nondeductible excise tax on the excess of such required distribution over the amount we actually distribute.

We have a substantial amount of indebtedness outstanding which may affect our ability to pay distributions, may expose us to interest rate fluctuation risk and may expose us to the risk of default under our debt obligations.

Our total consolidated principal indebtedness, as of December 31, 2017, was approximately \$494.5 million. We do not anticipate that our internally generated cash flows will be adequate to repay our existing indebtedness upon maturity, and, therefore, we expect to repay our indebtedness through refinancings and future offerings of equity and debt securities, either of which we may be unable to secure on favorable terms or at all. Our substantial outstanding indebtedness, and the limitations imposed on us by our debt agreements, could have other significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to capitalize upon emerging acquisition opportunities or meet operational needs;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;

- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- we may be forced to enter into financing arrangements with particularly burdensome collateral requirements or restrictive covenants;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations or require us to retain cash for reserves;
- we may be unable to hedge floating rate debt, counterparties may fail to honor their obligations under our hedge agreements and these agreements may not effectively hedge interest rate fluctuation risk;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans;
- our default under any of our indebtedness with cross default provisions could result in a default on other indebtedness; and
- cross default provisions on properties with minority parties could trigger indemnity obligations.

If any one of these events were to occur, our financial condition, results of operations, cash flows, market price of our common stock or preferred stock and ability to satisfy our debt service obligations and to pay distributions to you could be adversely affected. In addition, any foreclosure on our properties could create taxable income without accompanying cash proceeds, which could adversely affect our ability to meet the distribution requirements necessary to maintain our qualification as a REIT.

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

As of December 31, 2017, our principal indebtedness represented approximately 55.2% of our total assets. However, our organizational documents contain no limitations on the amount of indebtedness that we or City Office REIT Operating Partnership, L.P. (our “Operating Partnership”) may incur. We could alter the balance between our total outstanding indebtedness and the value of our properties at any time. If we become more highly leveraged, the resulting increase in outstanding debt could adversely affect our ability to make debt service payments, to pay our anticipated distributions and to make the distributions required to maintain our qualification as a REIT. The occurrence of any of the foregoing risks could adversely affect our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our securities.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

In providing financing to us, a lender may impose restrictions on us that would affect our ability to incur additional debt, make certain investments, reduce liquidity below certain levels, make distributions to our stockholders and otherwise affect our distribution and operating policies. In general, we expect that our loan agreements will restrict our ability to encumber or otherwise transfer our interest in the respective property without the prior consent of the lender. Such loan documents may contain other negative covenants that may limit our ability to discontinue insurance coverage or impose other limitations. Any such restriction or limitation may limit our ability to make distributions to you. Further, such restrictions could make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT.

We may engage in hedging transactions, which can limit our gains and increase exposure to losses.

Subject to maintaining our qualification as a REIT, we may enter into hedging transactions to protect us from the effects of interest rate fluctuations on floating rate debt. Our hedging transactions may include entering into interest rate swap agreements or interest rate cap or floor agreements, or other interest rate exchange contracts. Hedging activities may not have the desired beneficial impact on our results of operations or financial

condition. No hedging activity can completely insulate us from the risks associated with changes in interest rates. Moreover, interest rate hedging could fail to protect us or adversely affect us because, among other things:

- available interest rate hedging may not correspond directly with the interest rate risk for which we seek protection;
- the duration of the hedge may not match the duration of the related liability;
- the party owing money in the hedging transaction may default on its obligation to pay;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value, such as downward adjustments, or “mark-to-market losses,” which would reduce our stockholders’ equity.

Hedging involves risk and typically involves costs, including transaction costs, that may reduce our overall returns on our investments. These costs increase as the period covered by the hedging increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distribution to stockholders. We generally intend to hedge as much of the interest rate risk as we determine is in our best interests given the cost of such hedging transactions. The REIT tax rules may limit our ability to enter into hedging transactions by requiring us to limit our income from non-qualifying hedges. If we are unable to hedge effectively because of the REIT tax rules, we will face greater interest rate exposure than may be commercially prudent.

Changes in the method pursuant to which the LIBOR rates are determined and potential phasing out of LIBOR after 2021 may affect our financial results.

The chief executive of the United Kingdom Financial Conduct Authority (“FCA”), which regulates LIBOR, has recently announced that the FCA intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom or elsewhere. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. On August 24, 2017, the Federal Reserve Board requested public comment on a proposal by the Federal Reserve Bank of New York, in cooperation with the Office of Financial Research, to produce three new reference rates intended to serve as alternatives to LIBOR. These alternative rates are based on overnight repurchase agreement transactions secured by U.S. Treasury Securities. The Federal Reserve Bank said that the publication of these alternative rates is targeted to commence by mid-2018.

Any changes announced by the FCA, including the FCA Announcement, other regulators or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments we incur may change. In addition, although certain of our LIBOR based obligations provide for alternative methods of calculating the interest rate payable on certain of our obligations if LIBOR is not reported, which include requesting certain rates from major reference banks in London or New York, or alternatively using LIBOR for the immediately preceding interest period or using the initial interest rate, as applicable, uncertainty as to the extent and manner of future changes may result in interest rates and/or payments that are higher than, lower than or that do not otherwise correlate over time with the interest rates and/or payments that would have been made on our obligations if LIBOR rate was available in its current form.

Economic conditions may adversely affect the real estate market and our income.

Uncertainty over whether the U.S. economy will be adversely affected by inflation or stagflation, volatile energy costs, geopolitical issues, the availability and cost of credit, future policy and fiscal decisions of the federal

government, the mortgage market in the United States and the late-cycle real estate market may contribute to increased market volatility or threaten business and consumer confidence. This uncertain operating environment could adversely affect our ability to generate revenues, thereby reducing our operating income and earnings.

In addition, local real estate conditions such as an oversupply of properties or a reduction in demand for properties, competition from other similar properties, our ability to provide or arrange for adequate maintenance, insurance and management and advisory services, increased operating costs (including real estate taxes), the attractiveness, location of the property, changes in market rental rates and region-specific legislation or political initiatives may adversely affect a property's income and value. A rise in energy costs could result in higher operating costs, which may affect our results of operations. In addition, local conditions in the markets in which we own or intend to own properties may significantly affect occupancy or rental rates at such properties. Events that could prevent us from raising or maintaining rents or cause us to reduce rents include layoffs, plant closings, relocations of significant local employers and other events reducing local employment rates, an oversupply of—or a lack of demand for—office space, a decline in household formation, the inability or unwillingness of tenants to pay rent increases, and geopolitical developments having a disproportionate effect on the markets in which we operate.

Our joint venture investments could be adversely affected by the capital markets, our lack of sole decision-making authority, our reliance on joint venture partners' financial condition and any disputes that may arise between us and our joint venture partners.

We have in the past co-invested, and may in the future co-invest, with third parties through partnerships, joint ventures or other structures, acquiring non-controlling interests in, or sharing responsibility for managing the affairs of, a property, partnership, co-tenancy or other entity. 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 our joint venture partners and the possibility that joint venture partners might become bankrupt or fail to fund their share of required capital contributions, thus exposing us to liabilities in excess of our share of the investment or take action that could jeopardize our REIT status. The funding of our capital contributions may be dependent on proceeds from asset sales, credit facility advances and/or sales of equity securities. 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 our expenses.

We may incur significant costs complying with various federal, state and local laws, regulations and covenants that are applicable to our properties, which could have an adverse impact on our financial condition, results of operations, cash flows and market price of our common stock.

The properties in our portfolio are subject to various covenants and federal, state and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our properties and may require us to obtain approval or waivers from local officials or restrict our use of our properties and may require us to obtain approval from local officials of community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic or hazardous material abatement requirements. There can be no assurance that existing or future laws and regulatory policies, including federal laws or executive actions affecting the markets in which we operate, will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that could increase such delays or result in additional costs. Our growth strategy may be affected by our ability to obtain permits, licenses and zoning relief. Our failure to obtain such permits, licenses and zoning relief or to comply with applicable laws could have an adverse effect on our financial condition, results of operations, cash flow and per share market price of our common stock or preferred stock.

We could incur significant costs related to government regulation and private litigation over environmental matters involving the presence, discharge or threat of discharge of hazardous or toxic substances, which could adversely affect our operations, the value of our properties and our ability to make distributions to our stockholders.

Our properties may be subject to environmental liabilities. Under various federal, state and local laws, a current or previous owner, operator or tenant of real estate can face liability for environmental contamination created by the presence, discharge or threat of discharge of hazardous or toxic substances. Liabilities can include the cost to investigate, clean up and monitor the actual or threatened contamination and damages caused by the contamination or threatened contamination.

The liability under such laws may be strict, joint and several, meaning that we may be liable regardless of whether we knew of, or were responsible for, the presence of the contaminants, and the government entity or private party may seek recovery of the entire amount from us even if there are other responsible parties. Liabilities associated with environmental conditions may be significant and can sometimes exceed the value of the affected property. The presence of hazardous substances on a property may adversely affect our ability to sell or rent that property or to borrow using that property as collateral.

Environmental laws also:

- may require the removal or upgrade of underground storage tanks;
- regulate the discharge of storm water, wastewater and other pollutants;
- regulate air pollutant emissions;
- regulate hazardous materials' generation, management and disposal; and
- regulate workplace health and safety.

Existing conditions at some of our properties may expose us to liability related to environmental matters.

Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of our properties. Site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments do not generally include subsurface investigations or mold or asbestos surveys. None of the recent site assessments revealed any past or present environmental liability that we believe would have a material adverse effect on our business, financial condition, cash flows or results of operations. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns. Material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability.

Costs of future environmental compliance could negatively affect our ability to make distributions to our stockholders, and remedial measures required to address such conditions could have a material adverse effect on our business, financial condition, cash flows or results of operations.

Our properties may contain asbestos or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem, which could adversely affect the value of the affected property and our ability to make distributions to our stockholders.

We are required by federal regulations with respect to our properties to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials ("ACMs") and potential ACMs. We may be subject to an increased risk of personal injury lawsuits by workers and others exposed to ACMs and potential ACMs at our properties as a result of these regulations. The regulations may affect the value of any of our properties containing ACMs and potential ACMs. Federal, state and local laws and

regulations also govern the removal, encapsulation, disturbance, handling and disposal of ACMs and potential ACMs when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a property.

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. Concern about indoor exposure to mold has been increasing because exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions.

The presence of ACMs or significant mold at any of our properties could require us to undertake a costly remediation program to contain or remove the ACMs or mold from the affected property. In addition, the presence of ACMs or significant mold could expose us to claims of liability to our tenants, their or our employees, and others if property damage or health concerns arise.

Potential losses, including from adverse weather conditions, natural disasters and title claims, may not be covered by insurance.

Certain of our properties are located in states where natural disasters such as tornadoes, hurricanes and earthquakes are more common than in other states. Given recent extreme weather events across parts of the United States, including devastating hurricanes in Florida and wildfires in California, it is also possible that our other properties could incur significant damage due to other natural disasters. While we carry insurance to cover a substantial portion of the cost of such events, such as droughts or flooding, our insurance includes deductible amounts and certain items may not be covered by insurance. Future natural disasters may significantly affect our operations and properties and, more specifically, may cause us to experience reduced rental revenue (including from increased vacancy), incur clean-up costs or otherwise incur costs in connection with such events. Any of these events may have a material adverse effect on our business, cash flows, financial condition, results of operations and ability to make distributions to our stockholders.

Furthermore, we do not carry insurance for certain losses, including, but not limited to, losses caused by certain environmental conditions, such as mold or asbestos, riots, civil unrest or war. In addition, our title insurance policies may not insure for the current aggregate market value of our portfolio, and we do not intend to increase our title insurance coverage as the market value of our portfolio increases. As a result, we may not have sufficient coverage against all losses that we may experience, including from adverse title claims.

If we experience a loss that is uninsured or exceeds policy limits, we could incur significant costs and lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. 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.

Moreover, we carry several different lines of insurance, placed with several large insurance carriers. If any one of these large insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier and any outstanding claims would be at risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Replacing insurance coverage at unfavorable rates and the potential of uncollectible claims due to carrier insolvency could adversely affect our results of operations and cash flows.

Climate change may adversely affect our business.

To the extent that climate change does occur, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or a decrease in demand for our properties located in the areas affected by these conditions. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations would be adversely affected. In addition,

changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties in order to comply with such regulations.

We may be limited in our ability to diversify our investments making us more vulnerable economically than if our investments were diversified.

Our ability to diversify our portfolio may be limited both as to the number of investments owned and the geographic regions in which our investments are located. While we seek to diversify our portfolio by geographic location, we focus on our specified target markets that we believe offer the opportunity for attractive returns and, accordingly, our actual investments may result in concentrations in a limited number of geographic regions. As a result, there is an increased likelihood that the performance of any single property, or the economic performance of a particular region in which our properties are located, could materially affect our operating results.

We may acquire properties with lock-out provisions, or agree to such provisions in connection with obtaining financing, which may prohibit us from selling or refinancing a property during the lock-out period.

We may acquire properties in exchange for common units and agree to restrictions on sales or refinancing, called “lock-out” provisions, which are intended to preserve favorable tax treatment for the owners of such properties who sell them to us. In addition, we may agree to lock-out provisions in connection with obtaining financing for the acquisition of properties. Lock-out provisions could materially restrict us from selling, otherwise disposing of or refinancing properties. These restrictions could affect our ability to turn our investments into cash and thus affect cash available for distributions to our stockholders. Lock-out provisions could impair our ability to take actions during the lock-out period that would otherwise be in the best interests of our stockholders and, therefore, could adversely impact the market value of our common stock. In particular, lock-out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

The real estate investments made, and to be made, by us are relatively difficult to sell quickly. As a result, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinancing of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinancing at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, our ability to dispose of one or more properties is subject to weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located.

In addition, the Code imposes restrictions on a REIT’s ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs effectively require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interest. Therefore, we may not be able to adjust our portfolio in response to economic or other conditions promptly or on favorable terms, which may adversely affect our financial condition, results of operations, cash flow and per share market price of our common stock or preferred stock.

If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser.

If we decide to sell any of our properties, we intend to use commercially reasonable efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide

financing to purchasers, we will bear the risk of default by the purchasers which would reduce the value of our assets, impair our ability to make distributions to our stockholders and reduce the price of our common stock.

We may be unable to collect balances due on our leases from any tenants in bankruptcy, which could adversely affect our cash flow and the amount of cash available for distribution to our stockholders.

The bankruptcy or insolvency of one or more of our tenants may adversely affect the income produced by our properties. We cannot assure you that any tenant that files for bankruptcy protection will continue to pay us rent. If a tenant files for bankruptcy, any or all of the tenant's or a guarantor of a tenant's lease obligations could be subject to a bankruptcy proceeding pursuant to Chapter 11 or Chapter 7 of the U.S. Bankruptcy Code. Such a bankruptcy filing would impose an automatic stay barring all efforts by us to collect pre-bankruptcy rents from these entities or their properties, unless we receive an order from the bankruptcy court lifting the automatic stay to permit us to pursue collections. A tenant or lease guarantor bankruptcy could delay our efforts to collect past due balances under the relevant leases and could ultimately preclude collection of these sums. If a lease is rejected by a tenant in bankruptcy, we would only have a general unsecured claim for damages. This claim could be paid only in the event funds were available and then only in the same percentage as that realized on other unsecured claims. Our claim would be capped at the rent reserved under the lease, without acceleration, for the greater of one year or 15% of the remaining term of the lease, but not greater than three years, plus rent already due but unpaid. Therefore, if a lease is rejected, it is possible that we would not receive payment from the tenant or that we would receive substantially less than the full value of any unsecured claims we hold, which would result in a reduction in our rental income, cash flow and the amount of cash available for distribution to our stockholders.

We may face additional risks and costs associated with owning properties occupied by government tenants, which could negatively impact our cash flows and results of operations.

As of December 31, 2017, we owned eight properties in which some or all of the tenants are federal government agencies. We may continue to pursue the acquisition of office properties in which substantial space is leased to governmental agencies. As such, lease agreements with these federal government agencies contain certain provisions required by federal law, which require, among other things, that the contractor (which is the lessor or the owner of the property), agree to comply with certain rules and regulations, including, but not limited to, rules and regulations related to anti-kickback procedures, examination of records, audits and records, equal opportunity provisions, prohibition against segregated facilities, certain executive orders, subcontractor cost or pricing data, certain provisions intending to assist small businesses and contractual rights of termination by the tenants. We may be subject to requirements of the Employment Standards Administration's Office of Federal Contract Compliance Programs and requirements to prepare affirmative action plans pursuant to the applicable executive order may be determined to be applicable to us.

In addition, some of our leases with government tenants may be subject to statutory or contractual rights of termination by the tenants, which will allow them to vacate the leased premises before the stated terms of the leases expire with little or no liability. For fiscal policy reasons, security concerns or other reasons, some or all of our government tenants may decide to vacate our properties. If a significant number of such vacancies occur, our rental income may materially decline, our cash flow and results of operations could be adversely affected and our ability to pay regular distributions to you may be jeopardized.

Our government tenants are also subject to discretionary funding from the federal government. Federal government programs are subject to annual congressional budget authorization and appropriation processes. For many programs, Congress appropriates funds on a fiscal year basis even though the program performance period may extend over several years. Laws and plans adopted by the federal government relating to, along with pressures on and uncertainty surrounding the federal budget, potential changes in priorities and spending levels, sequestration, the appropriations process, use of continuing resolutions (with restrictions, e.g., on new starts) and the permissible federal debt limit, could adversely affect the funding for our government tenants. The budget environment and uncertainty surrounding the appropriations processes remain significant long-term risks as budget cuts could adversely affect the viability of our government tenants.

Some of the leases at our properties contain “early termination” provisions which, if triggered, may allow tenants to terminate their leases without further payment to us, which could adversely affect our financial condition and results of operations and the value of the applicable property.

Certain tenants have a right to terminate their leases upon payment of a penalty, but others are not required to pay any penalty associated with an early termination. Most of our tenants that are federal or state governmental agencies, which account for approximately 18.8% of the base rental revenue from our properties as of December 31, 2017, may, under certain circumstances, vacate the leased premises before the stated terms of the leases expire with little or no liability to us. There can be no assurance that tenants will continue their activities and continue occupancy of the premises. Any cessation of occupancy by tenants may have an adverse effect on our operations.

The federal government’s “green lease” policies may adversely affect us.

In recent years, the federal government has instituted “green lease” policies which allow a government tenant to require leadership in energy and environmental design for commercial interiors, or LEED®-CI, certification in selecting new premises or renewing leases at existing premises. In addition, the Energy Independence and Security Act of 2007 allows the General Services Administration to prefer buildings for lease that have received an “Energy Star” label. Obtaining such certifications and labels may be costly and time consuming, but our failure to do so may result in our competitive disadvantage in acquiring new or retaining existing government tenants.

We may be unable to complete acquisitions and, even if acquisitions are completed, we may fail to successfully operate acquired properties.

Our business plan includes, among other things, growth through identifying suitable acquisition opportunities, consummating acquisitions and leasing such properties. We will evaluate the market of available properties and may acquire properties when we believe strategic opportunities exist. Our ability to acquire properties on favorable terms and successfully develop or operate them is subject to, among others, the following risks:

- we may be unable to acquire a desired property because of competition from other real estate investors with substantial capital, including from other REITs and institutional investment funds;
- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price;
- even if we enter into agreements for the acquisition of properties, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;
- we may incur significant costs in connection with evaluation and negotiation of potential acquisitions, including acquisitions that we are subsequently unable to complete;
- we may acquire properties that are not initially accretive to our results upon acquisition, and we may not successfully lease those properties to meet our expectations;
- we may be unable to finance the acquisition on favorable terms in the time period we desire, or at all;
- even if we are able to finance the acquisition, our cash flows may be insufficient to meet our required principal and interest payments;
- we may spend more than budgeted to make necessary improvements or renovations to acquired properties;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly the acquisition of portfolios of properties, into our existing operations;

- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities for clean-up of undisclosed environmental contamination, claims by tenants or other persons dealing with former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Acquired properties may be located in new markets where we may face risks associated with investing in an unfamiliar market.

We may acquire properties in markets that are new to us. When we acquire properties located in new markets, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures. We work to mitigate such risks through extensive diligence and research and associations with experienced service providers. However, there can be no guarantee that all such risks will be eliminated.

Adverse market and economic conditions could cause us to recognize impairment charges or otherwise impact our performance.

We intend to review the carrying value of our properties when circumstances, such as adverse market conditions, indicate a potential impairment may exist. We intend to base our review on an estimate of the future cash flows (excluding interest charges) expected to result from the property's use and eventual disposition on an undiscounted basis. We intend to consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of a real estate investment, an impairment loss will be recorded to the extent that the carrying value exceeds the estimated fair value of the property.

Impairment losses would have a direct impact on our operating results because recording an impairment loss results in an immediate negative adjustment to our operating results. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If the real estate market deteriorates, we may reevaluate the assumptions used in our impairment analysis. Impairment charges could materially adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the per share market price of, our common stock or preferred stock.

Litigation may result in unfavorable outcomes.

Like many real estate operators, we may be involved in lawsuits involving premises liability claims and alleged violations of landlord-tenant laws, which may give rise to class action litigation or governmental investigations. Any material litigation not covered by insurance, such as a class action, could result in us incurring substantial costs and harm our financial condition, results of operations, cash flows and ability to pay distributions to you.

We may invest in properties with other entities, and our lack of sole decision-making authority or reliance on a joint-venturer's financial condition could make these joint venture investments risky and expose us to losses or impact our ability to maintain our qualification as a REIT.

We may co-invest in the future with third parties through partnerships, joint ventures or other entities. We may acquire non-controlling interests or share responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such events, we would not be in a position to exercise sole decision-making authority regarding the property or entity. Investments in entities may, under certain circumstances, involve risks not present were a third party not involved. These risks include the possibility that partners or joint-venturers:

- might become bankrupt or fail to fund their share of required capital contributions;

- may have economic or other 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 or exercise rights to buy or sell at an inopportune time for us.

Such investments may also have the potential risk of impasses on decisions, such as a sale or refinancing of the property, because neither we nor the partner or joint-venturer would have full control over the partnership or joint venture. Disputes between us and partners or joint-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business or result in costs to terminate the relationship. Actions of partners or joint-venturers may cause losses to our investments and adversely affect our ability to maintain our qualification as a REIT. In addition, we may in certain circumstances be liable for the actions of our third-party partners or joint-venturers if:

- we structure a joint venture or conduct business in a manner that is deemed to be a general partnership with a third party;
- third-party managers incur debt or other liabilities on behalf of a joint venture which the joint venture is unable to pay, and the joint venture agreement provides for capital calls, in which case we could be liable to make contributions as set forth in any such joint venture agreement or suffer adverse consequences for a failure to contribute; or
- we agree to cross default provisions or to cross-collateralize our properties with the properties in a joint venture, in which case we could face liability if there is a default relating to those properties in the joint venture or the obligations relating to those properties.

Compliance with the Americans with Disabilities Act and similar laws may require us to make significant unanticipated expenditures.

All of our properties and any future properties that we acquire are and will be required to comply with the ADA. The ADA requires that all public accommodations must meet federal requirements related to access and use by disabled persons. For those projects receiving federal funds, the Rehabilitation Act of 1973 (the “RA”) also has requirements regarding disabled access. Although we believe that our properties are substantially in compliance with the present requirements, we may incur unanticipated expenses to comply with the ADA, the RA and other applicable legislation in connection with the ongoing operation or redevelopment of our properties. These and other federal, state and local laws may require modifications to our properties, or affect renovations of our properties. Non-compliance with these laws could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures.

Our property taxes could increase due to property tax rate changes or reassessment, which may adversely impact our cash flows.

Even as a REIT, we will be required to pay some state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. Therefore, the amount of property taxes that we pay in the future may increase substantially. In addition, the real property taxes on Cherry Creek are reduced due to having a government user as its largest tenant and loss of such tenant would increase the amount of property taxes. If the property taxes that we pay increase, our cash flow could be impacted, and our ability to pay expected distributions to our stockholders may be adversely affected.

It may be difficult to enforce civil liabilities against members of our board of directors or our executive officers.

Most of the members of our board of directors and our executive officers reside in Canada and substantially all of the assets of such persons are located in Canada. As a result, it may be difficult for you to effect service of

process within the United States or in any other jurisdiction outside of Canada upon these persons or to enforce against them in any jurisdiction outside of Canada judgments predicated upon the laws of any such jurisdiction, including any judgment predicated upon the federal and state securities laws of the United States.

Our commitment to Second City Real Estate II Corporation and its affiliates (“Second City”) following our internalization transactions may give rise to various conflicts of interest.

We are subject to conflicts of interest arising out of our relationship with Second City. As a result of the internalization of our former external advisor on February 1, 2016, we agreed to allow our management to continue to provide services to Second City under the terms of an administrative services agreement. In addition, the terms of the administrative services agreement and the employment agreements we have entered into with each of our executive officers permit, under certain circumstances and subject to the oversight of our Board of Directors, our executive officers to advise or oversee new or additional funds in the future. These arrangements may create potential conflicts of interests, including competition for the time and services of personnel that work for us and our affiliates.

Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting that may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, or otherwise adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Risks Related to Our Status as a REIT

Our failure to maintain our qualification as a REIT would result in significant adverse tax consequences to us and would adversely affect our business and the value of our stock.

We have elected and intend to continue to operate in a manner that will allow us to qualify to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2014. Qualification as a REIT involves the application of highly technical and complex tax rules, for which there are only limited judicial and administrative interpretations. The fact that we hold substantially all of our assets through our Operating Partnership further complicates the application of the REIT requirements. Even a seemingly minor technical or inadvertent mistake could jeopardize our REIT status. Our REIT status depends upon various factual matters and circumstances that may not be entirely within our control. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, such as rents from real property, and we must satisfy a number of requirements regarding the composition of our assets. Also, we must make distributions to stockholders aggregating annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. In addition, new legislation, regulations, administrative interpretations or court decisions, each of which could have retroactive effect, may make it more difficult or impossible for us to maintain our qualification as a REIT, or could reduce the desirability of an investment in a REIT relative to other investments. We have not requested and do not plan to request a ruling from the Internal Revenue Service (the “IRS”) that we qualify as a REIT, and the statements in this annual report are not binding on the IRS or any court. Accordingly, we cannot be certain that we will be successful in maintaining our qualification as a REIT.

If we fail to maintain our qualification as a REIT in any taxable year, we will face serious adverse U.S. federal income tax consequences that would substantially reduce the funds available to distribute to you. If we fail to maintain our qualification as a REIT:

- we would not be allowed to deduct distributions to stockholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates (a maximum rate of 35% applies through 2017 and a 21% rate applies for subsequent years);
- we could also be subject to the U.S. federal alternative minimum tax for taxable years prior to 2018 and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year in which we were disqualified.

In addition, if we fail to maintain our qualification as a REIT, we will not be required to make distributions to stockholders. As a result of all these factors, our failure to maintain our qualification as a REIT could impair our ability to expand our business and raise capital and would adversely affect the value of our capital stock.

Even if we qualify as a REIT, we may be subject to some U.S. federal, state and local income, property and excise taxes on our income or property and, in certain cases, a 100% penalty tax, in the event we sell property that we hold primarily for sale to customers in the ordinary course of business. In addition, our taxable REIT subsidiaries (“TRSs”) are subject to tax as regular corporations in the jurisdictions in which they operate.

To maintain our qualification as a REIT, we may be forced to borrow funds during unfavorable market conditions to make distributions to our stockholders.

To maintain our qualification as a REIT, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, determined without regard to the deduction for dividends paid and excluding any net capital gain, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our REIT taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. To maintain our qualification as a REIT and avoid the payment of income and excise taxes, we may need to borrow funds to meet the REIT distribution requirements. These borrowing needs could result from:

- differences in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes;
- the effect of nondeductible capital expenditures;
- the creation of reserves; or
- required debt or amortization payments.

We may need to borrow funds at times when the then-prevailing market conditions are not favorable for borrowing. These borrowings could increase our costs or reduce our equity and adversely affect the value of our common stock.

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

The maximum U.S. federal income tax rate applicable to qualified dividend income payable to certain non-corporate U.S. stockholders, including individuals, trusts and estates, is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced qualified dividend rates. For taxable years beginning after December 31, 2017 and before January 1, 2026, under the recently enacted law informally known as the Tax Cuts and Jobs Act (“TCJA”), non-corporate taxpayers may deduct up to 20% of certain pass-through business

income, including “qualified REIT dividends” (generally, dividends received by a REIT shareholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduced corporate tax rate (currently 21%) could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the market price of our capital stock.

The tax imposed on REITs engaging in “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% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held in inventory primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as inventory held for sale to customers in the ordinary course of our business, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

To maintain our qualification as a REIT, we may be forced to forego otherwise attractive opportunities.

To maintain our qualification as a REIT, we must satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities of any qualified REIT subsidiary or TRS of ours and securities that are qualified real estate assets) generally may not include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities of any qualified REIT subsidiary or TRS of ours and securities that are qualified real estate assets) may consist of the securities of any one issuer. No more than 20% (25% for taxable years beginning prior to January 1, 2018) of the value of our total assets can be represented by securities of one or more TRSs, and no more than 25% of our assets can be represented by debt of “publicly offered” REITs (i.e., REITs that are required to file annual and periodic reports with the SEC under the Exchange Act) that is not secured by real property or interests in real property. If we fail to comply with these requirements at the end of any calendar quarter, we must remedy the failure within 30 days or qualify for certain limited statutory relief provisions to avoid losing status as a REIT. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the market price of our shares of capital stock.

At any time, the U.S. federal income tax laws governing REITs may be amended or the administrative and judicial interpretations of those laws may be changed. We cannot predict when or if any new U.S. federal income tax law, regulation, or administrative and judicial interpretation, or any amendment to any existing U.S. federal

income tax law, regulation or administrative or judicial interpretation, will be adopted, promulgated or become effective, and any such law, regulation, or interpretation may be effective retroactively. The TCJA significantly changed the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or any future changes on REITs and their stockholders. We and our stockholders could be adversely affected by any change in, or any new, U.S. federal income tax law, regulation or administrative and judicial interpretation.

Risks Related to Our Organizational Structure

Conflicts of interest exist or could arise in the future between the interests of our stockholders and the interests of holders of units in our Operating Partnership, which may impede business decisions that could benefit our stockholders.

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

Additionally, the partnership agreement provides that we and our officers, directors and employees, will not be liable or accountable to our Operating Partnership for losses sustained, liabilities incurred or benefits not derived if we, or such officer, director or employee acted in good faith. The partnership agreement also provides that we will not be liable to our Operating Partnership or any partner for monetary damages for losses sustained, liabilities incurred or benefits not derived by our Operating Partnership or any limited partner, except for liability for our intentional harm or gross negligence. Moreover, the partnership agreement provides that our Operating Partnership is required to indemnify us and our officers, directors, employees, agents and designees from and against any and all claims that relate to the operations of our Operating Partnership, except (1) if the act or omission of the person was material to the matter giving rise to the action and either was committed in bad faith or was the result of active and deliberate dishonesty, (2) for any transaction for which the indemnified party received an improper personal benefit, in money, property or services or otherwise in violation or breach of any provision of the partnership agreement or (3) in the case of a criminal proceeding, if the indemnified person had reasonable cause to believe that the act or omission was unlawful. We are not aware of any reported decision of a Maryland appellate court that has interpreted provisions similar to the provisions of the partnership agreement of our Operating Partnership that modify and reduce our fiduciary duties or obligations as the general partner or reduce or eliminate our liability for money damages to our Operating Partnership and its partners, and we have not obtained an opinion of counsel as to the enforceability of the provisions set forth in the partnership agreement that purport to modify or reduce the fiduciary duties that would be in effect were it not for the partnership agreement.

The consideration that we pay for the properties and assets we own may exceed their aggregate fair market value.

The amount of consideration that we pay for properties is based on management's estimate of fair market value, including an analysis of market sales comparables, market capitalization rates for other properties and assets and general market conditions for such properties and assets. In certain instances, management's estimate of fair market value may exceed the fair market value of these properties and assets.

We are a holding company with no direct operations and, as such, we rely on funds received from our Operating Partnership to pay liabilities, and the interests of our stockholders are structurally subordinated to all liabilities and obligations of our Operating Partnership and its subsidiaries.

We are a holding company and conduct substantially all of our operations through our Operating Partnership. We do not have, apart from an interest in our Operating Partnership, any independent operations. As a result, we rely on distributions from our Operating Partnership to pay any dividends that we may declare on shares of our capital stock. We also rely on distributions from our Operating Partnership to meet any of our obligations, including any tax liability on taxable income allocated to us from our Operating Partnership. In addition, because we are a holding company, your claims as stockholders are structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our Operating Partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our Operating Partnership and its subsidiaries will be available to satisfy the claims of our stockholders only after all of our Operating Partnership's and its subsidiaries' liabilities and obligations have been paid in full.

We may have assumed unknown liabilities in connection with our acquisition of properties and any properties we may acquire in the future may expose us to unknown liabilities.

We may have acquired entities and assets that may be subject to existing liabilities, some of which may be unknown or unquantifiable. These assumed liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims by tenants, vendors, tax liabilities and accrued but unpaid liabilities incurred in the ordinary course of business or other potential claims or liabilities. While in some instances we may have the right to seek reimbursement against an insurer, any recourse against third parties, including the contributors of our assets, for these liabilities are limited. There can be no assurance that we are entitled to any such reimbursements or that ultimately we will be able to recover in respect of such rights for any of these historical liabilities.

In addition, there can be no assurance that our current title insurance policies will adequately protect us against any losses resulting from such title defects or adverse developments.

We may acquire properties subject to liabilities and without any recourse, or with only limited recourse, against the prior owners or other third parties with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flow. Unknown liabilities with respect to acquired properties might include:

- liabilities for clean-up of undisclosed or undiscovered environmental contamination
- claims by tenants, vendors or other persons against the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We may be unable to renew expiring leases or re-lease vacant space on a timely basis or on attractive terms, which could have a material adverse effect on our results of operations and cash flow.

At December 31, 2017, approximately 12.6%, 10.0% and 8.9% of our annualized base rent is scheduled to expire in 2018, 2019 and 2020, respectively, excluding month-to-month leases. Current tenants may not renew their leases upon the expiration of their terms and may attempt to terminate their leases prior to the expiration of their current terms. If non-renewals or terminations occur, we may not be able to locate qualified replacement tenants and, as a result, we could lose a significant source of revenue while remaining responsible for the payment of our financial obligations. Moreover, the terms of a renewal or new lease, including the amount of rent, may be less favorable to us

than the current lease terms, or we may be forced to provide tenant improvements at our expense or provide other concessions or additional services to maintain or attract tenants. Any of these factors could cause a decline in lease revenue or an increase in operating expenses, which would have a material adverse effect on our results of operations and cash flow.

Our business and operations would suffer in the event of system failures.

Despite system redundancy and the implementation of security measures for our IT networks and related systems, our systems are vulnerable to damages from any number of sources, including computer viruses, energy blackouts, natural disasters, terrorism, war, and telecommunication failures. We rely on our IT networks and related 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 keeping 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. Any failure to maintain proper function, security and availability of our IT networks and related systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our operations. As such, any of the foregoing events could have a material adverse effect on our results of operations.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems), and, in some cases, may be critical to the operations of certain of our tenants. There can be no assurance that our efforts to maintain the security and integrity of these types of IT networks and related systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. A security breach or other significant disruption involving our IT networks and related systems could, among other things:

- result in unauthorized access to, destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, including personally identifiable and account information that could be used to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes;
- result in unauthorized access to or changes to our financial accounting and reporting systems and related data;
- result in our inability to maintain building systems relied on by our tenants;
- require significant management attention and resources to remedy any damage that results;
- subject us to regulatory penalties or claims for breach of contract, damages, credits, penalties or terminations of leases or other agreements; or
- damage our reputation among our tenants and investors.

These events could have an adverse impact on our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We face risks associated with our tenants being designated “Prohibited Persons” by the Office of Foreign Assets Control.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the U.S. Department of the Treasury, or OFAC, maintains a list of persons designated as terrorists or who are otherwise blocked or banned, or Prohibited Persons. OFAC regulations and other laws prohibit conducting business or engaging in transactions with Prohibited Persons. Certain of our loan and other agreements may require us to comply with these OFAC requirements. If a tenant or other party with whom we contract is placed on the OFAC list, we may be required by the OFAC requirements to terminate the lease or other agreement. Any such termination could result in a loss of revenue or a damage claim by the other party that the termination was wrongful.

Tax protection agreements may limit our ability to sell or otherwise dispose of certain properties and may require our Operating Partnership to maintain certain debt levels that otherwise would not be required to operate our business.

In connection with contributions of properties to our Operating Partnership, our Operating Partnership has entered and may in the future enter into tax protection agreements under which it agrees to minimize the tax consequences to the contributing partners resulting from the sale or other disposition of the contributed properties. Tax protection agreements may make it economically prohibitive to sell any properties that are subject to such agreements even though it may otherwise be in our stockholders’ best interests to do so. In addition, we may be required to maintain a minimum level of indebtedness throughout the term of any tax protection agreement regardless of whether such debt levels are otherwise required to operate our business. Nevertheless, we have entered and may in the future enter into tax protection agreements to assist contributors of properties to our Operating Partnership in deferring the recognition of taxable gain as a result of and after any such contribution.

Our charter, our amended and restated bylaws and Maryland law contain provisions that may delay, defer or prevent a change of control transaction and may prevent our stockholders from receiving a premium for their shares.

Our charter contains ownership limits that may delay, defer or prevent a change of control transaction. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to qualify as a REIT. Unless exempted by our board of directors, our charter provides that no person may own more than 9.8% of the value of our outstanding shares of capital stock or more than 9.8% in value or number (whichever is more restrictive) of the outstanding shares of our common stock. Our board of directors may not grant such an exemption to any proposed transferee whose ownership in excess of 9.8% of the foregoing ownership limits would result in the termination of our status as a REIT. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

We could authorize and issue stock without stockholder approval that may delay, defer or prevent a change of control transaction. Our charter authorizes us to issue additional authorized but unissued shares of our common stock or preferred stock. In addition, our board of directors may classify or reclassify any unissued shares of our common stock or preferred stock and may set the preferences, rights and other terms of the classified or reclassified shares. Our board of directors may also, without stockholder approval, amend our charter to increase the authorized number of shares of our common stock or our preferred stock that we may issue. Our board of directors could establish a class or series of common stock or preferred stock that could, depending on the terms of such class or series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

Certain provisions of Maryland law could delay, defer or prevent a change of control transaction. Certain provisions of the Maryland General Corporation Law (“MGCL”) may have the effect of inhibiting a third party

from making a proposal to acquire us or of impeding a change of control. In some cases, such an acquisition or change of control could provide you with the opportunity to realize a premium over the then-prevailing market price of your shares. These MGCL provisions include:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” for certain periods. An “interested stockholder” is generally any person who beneficially owns 10% or more of the voting power of our shares or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then-outstanding voting stock. A person is not an interested stockholder under the statute if our board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. Business combinations with an interested stockholder are prohibited for five years after the most recent date on which the stockholder becomes an interested stockholder. After that period, the MGCL imposes two super-majority voting requirements on such combinations; and
- “control share” provisions that provide that holders of “control shares” of our Company acquired in a “control share acquisition” have no voting rights with respect to the control shares unless holders of two-thirds of our voting stock (excluding interested shares) consent. “Control shares” are shares that, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors. A “control share acquisition” is the direct or indirect acquisition of ownership or control of “control shares” from a party other than the issuer.

In the case of the business combination provisions of the MGCL, we opted out by resolution of our board of directors. In the case of the control share provisions of the MGCL, we opted out pursuant to a provision in our amended and restated bylaws. However, our board of directors may by resolution elect to opt in to the business combination provisions of the MGCL. Further, we may opt in to the control share provisions of the MGCL in the future by amending our bylaws, which our board of directors can do without stockholder approval.

Maryland law, and our charter and amended and restated bylaws, also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

The ability of our board of directors to revoke our REIT status without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on our total return to our stockholders.

Our board of directors may amend our investing and financing guidelines without stockholder approval, and, accordingly, you would have limited control over changes in our policies that could increase the risk that we default under our debt obligations or that could harm our business, results of operations and share price.

Although we are not required to maintain any particular leverage ratio, we intend, when appropriate, to employ prudent amounts of leverage and to use debt as a means of providing additional funds for the acquisition of our target assets and the diversification of our portfolio. Our organizational documents do not limit the amount or percentage of debt that we may incur, nor do they limit the types of properties that we may acquire or develop. The amount of leverage we will deploy for particular investments in our target assets will depend upon our management team’s assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the target assets in our investment portfolio, the potential for losses, the availability and cost of

financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and commercial mortgage markets, our outlook for the level, slope and volatility of interest rates, the credit quality of our target assets and the collateral underlying our target assets. Our board of directors may alter or eliminate our current guidelines on investing and financing at any time without stockholder approval. Changes in our strategy or in our investing and financing guidelines could expose us to greater credit risk and interest rate risk and could also result in a more leveraged balance sheet. These factors could result in an increase in our debt service and could adversely affect our cash flow and our ability to make expected distributions to you. Higher leverage also increases the risk that we would default on our debt.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer generally has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. As permitted by the MGCL, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

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

In addition, our charter authorizes us to obligate our Company, and our amended and restated bylaws require us, to indemnify and pay or reimburse our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our Company, your ability to recover damages from such director or officer will be limited.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2017, we owned 22 office complexes comprised of 48 office buildings with a total of approximately 5.2 million square feet of NRA in the metropolitan areas of Boise, Dallas, Denver, Orlando, Phoenix, Portland, San Diego and Tampa. The following table presents an overview of our portfolio as of December 31, 2017.

<u>Metropolitan Area</u>	<u>Property</u>	<u>Economic Interest</u>	<u>NRA (000s Square Feet)</u>	<u>In Place Occupancy</u>	<u>Annualized Base Rent per Square Foot</u>	<u>Annualized Gross Rent per Square Foot⁽¹⁾</u>	<u>Annualized Base Rent⁽²⁾</u>
Tampa, FL (20.0% of NRA)	Park Tower	94.8%	473	83.4%	\$23.90	\$23.90	\$ 9,423
	City Center	95.0%	241	94.2%	\$24.56	\$24.56	\$ 5,576
	Intellicenter	100.0%	204	100.0%	\$22.90	\$22.90	\$ 4,661
	Carillon Point	100.0%	124	100.0%	\$26.83	\$26.83	\$ 3,332
Denver, CO (18.5%)	Cherry Creek	100.0%	356	100.0%	\$18.10	\$18.10	\$ 6,438
	Plaza 25	100.0%	196	53.3%	\$20.44	\$20.44	\$ 2,130
	DTC Crossroads	100.0%	189	71.7%	\$25.28	\$25.28	\$ 3,428
	Superior Pointe	100.0%	149	84.8%	\$16.44	\$28.44	\$ 2,079
San Diego, CA (12.9%)	Logan Tower	100.0%	71	82.7%	\$20.13	\$20.13	\$ 1,176
	Sorrento Mesa	100.0%	385	87.5%	\$23.04	\$28.04	\$ 7,754
Phoenix, AZ (11.6%)	Mission City	100.0%	286	87.0%	\$34.03	\$34.03	\$ 8,460
	SanTan	100.0%	267	99.0%	\$26.66	\$26.66	\$ 7,034
Dallas, TX (11.1%)	5090 N 40th St	100.0%	176	87.5%	\$28.03	\$28.03	\$ 4,312
	Papago Tech	100.0%	163	98.0%	\$20.12	\$20.12	\$ 3,210
	190 Office Center	100.0%	303	92.1%	\$24.02	\$24.02	\$ 6,709
Orlando, FL (10.8%)	Lake Vista Pointe	100.0%	163	100.0%	\$15.00	\$23.00	\$ 2,450
	2525 McKinnon	100.0%	111	97.2%	\$26.54	\$37.72	\$ 2,871
	FRP Collection	95.0%	272	66.6%	\$25.30	\$26.40	\$ 4,579
Portland, OR (3.9%)	Central Fairwinds	90.0%	168	88.5%	\$24.13	\$24.13	\$ 3,593
	FRP Ingenuity Drive	100.0%	125	100.0%	\$21.00	\$29.00	\$ 2,615
	AmberGlen	76.0%	201	96.0%	\$19.47	\$21.98	\$ 3,760
Total / Weighted Average—Excluding Assets Held for Sale⁽³⁾			4,623	88.5%	\$23.37	\$25.19	\$ 95,590
Boise, ID (11.2%)	Washington Group Plaza	100.0%	581	81.3%	\$17.67	\$17.67	\$ 8,341
Total / Weighted Average—December 31, 2017⁽³⁾			5,204	87.7%	\$22.78	\$24.41	\$103,931

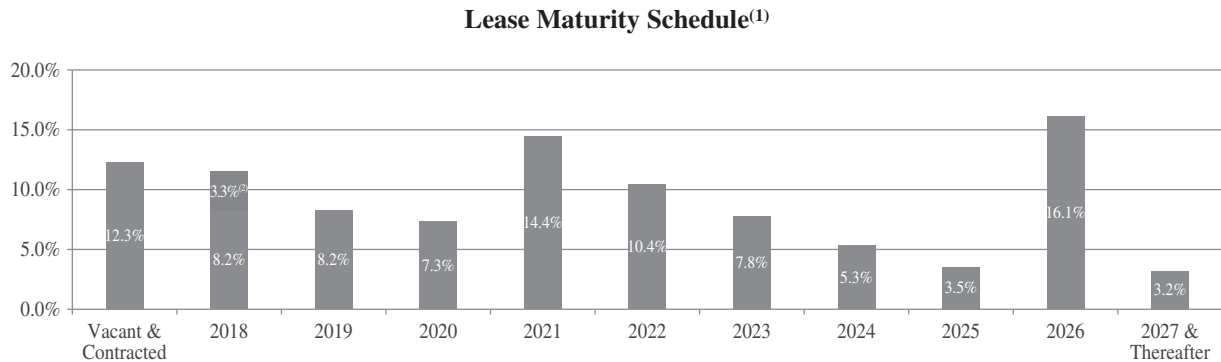
(1) For Superior Pointe, FRP Ingenuity Drive, Lake Vista Pointe, and Sorrento Mesa the annualized base rent per square foot on a triple net basis was increased by \$12, \$8, \$8, and \$5 respectively, to estimate a gross equivalent base rent. AmberGlen has a net lease for one tenant which has been grossed-up by \$7 on a pro rata basis. FRP Collection has net leases for three tenants which have been grossed up by \$8 on a pro-rata basis. 2525 McKinnon has net leases for seven tenants which have been grossed up by \$16 on a pro-rata basis.

(2) Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month ended December 31, 2017 by (ii) 12.

(3) Averages weighted based on the property's NRA, adjusted for occupancy.

Lease Maturity Profile

The chart below sets out the percentage of NRA of our properties subject to lease expiration during the periods shown without regard to renewal options.



(1) Percentage represents the NRA of the leases divided by the total NRA of the portfolio, as of December 31, 2017

(2) 3.3% represents Washington Group Plaza which was under contract for sale at December 31, 2017

The following table sets forth the lease expirations for leases in place in our properties as of December 31, 2017, plus available space, for each of the calendar years ending December 31, 2018 to December 31, 2027, and thereafter. The information set forth in the table assumes that tenants exercise no renewal options and do not exercise early termination rights. Leases in place have a weighted average term to maturity of 4.7 years.

Year of Lease Expiration	Number of Leases Expiring	NRA of Expiring Leases (000s)	Percentage of Properties NRA	Annualized Base Rent ⁽¹⁾	Percentage of Properties Annualized Rent	Annualized Rent per Leased Square Foot Expiring ⁽²⁾	Annualized Base Rent (including Rent Abatement)	Annualized Rent per Leased Square Foot Expiring (Including Rate Abatement)
Vacant and Contracted ⁽³⁾	—	639	12.3%	—	0.0%	—	—	—
2018	52	597	11.5%	13,144	12.6%	22.04	13,008	21.82
2019	56	429	8.2%	10,376	10.0%	24.20	10,376	24.20
2020	40	378	7.3%	9,230	8.9%	24.44	9,146	24.21
2021	46	747	14.4%	17,260	16.6%	23.11	17,052	22.83
2022	38	542	10.4%	12,802	12.3%	23.64	12,639	23.34
2023	14	404	7.8%	9,413	9.1%	23.31	8,234	20.39
2024	12	278	5.3%	6,863	6.6%	24.75	6,863	24.75
2025	9	183	3.5%	3,972	3.8%	21.78	3,972	21.78
2026	13	843	16.1%	17,157	16.5%	20.36	16,902	20.05
2027 & Thereafter	2	164	3.2%	3,714	3.6%	22.61	3,650	22.22
Total	282	5,204	100.0%	\$103,931	100.0%	\$22.78	\$101,842	\$22.32

(1) Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month ended December 31, 2017, by (ii) 12.

(2) Annualized rent per leased square foot expiring reflects rental payments for the month ended December 31, 2017, multiplied by 12 and divided by the NRA of expiring leases.

(3) 77,591 square feet of contracted NRA related to fourteen tenants collectively at City Center, Central Fairwinds, Plaza 25, Superior Pointe, FRP Collection, Park Tower, San Tan, and 2525 McKinnon.

ITEM 3. LEGAL PROCEEDINGS

We and our subsidiaries are, from time to time, parties to litigation arising from the ordinary course of their business. We are not presently subject to any material litigation nor, to our knowledge, is any other litigation threatened against us, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on our liquidity, results of operations or business or financial condition.

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

Market Information

Our common stock has been listed on the NYSE under the symbol "CIO" since April 15, 2014. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the high, low and last sale prices of our common stock and the cash dividends per share of our common stock that we declared with respect to the periods indicated.

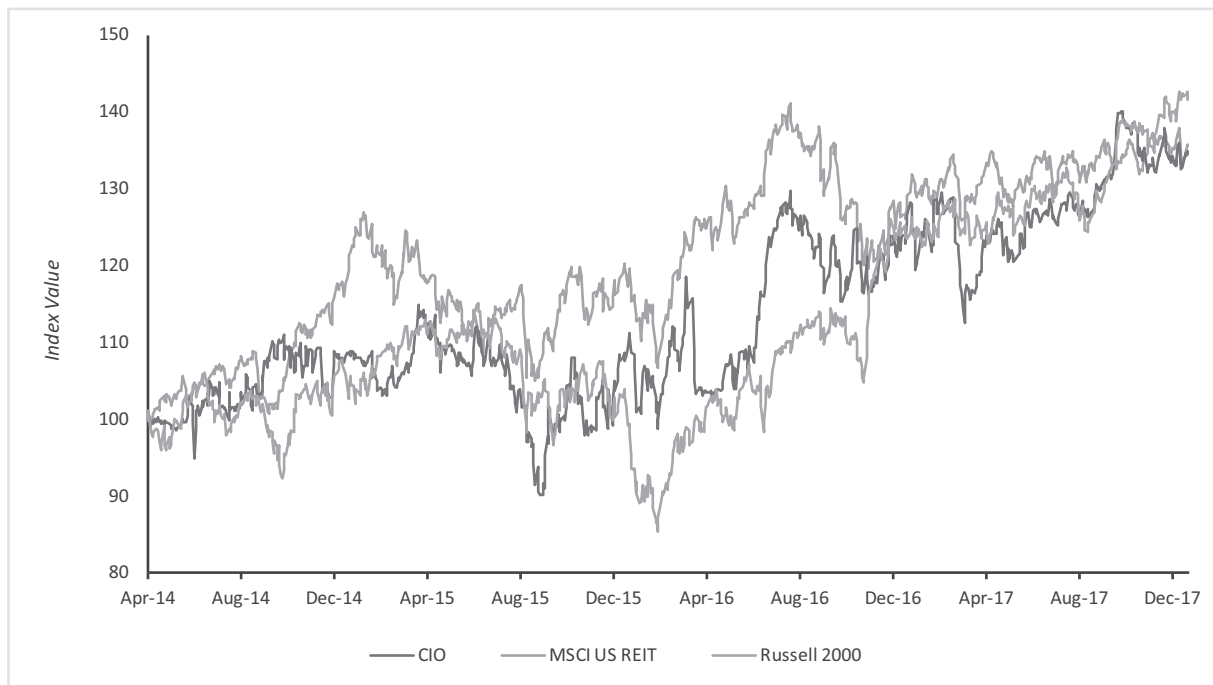
	<u>High</u>	<u>Low</u>	<u>Last</u>	<u>Distributions</u>
<u>2016</u>				
First quarter	\$13.08	\$10.65	\$11.40	\$0.235
Second quarter	\$13.00	\$11.01	\$12.98	\$0.235
Third quarter	\$13.93	\$12.30	\$12.73	\$0.235
Fourth quarter	\$13.25	\$11.87	\$13.17	\$0.235
<u>2017</u>				
First quarter	\$13.55	\$11.43	\$12.15	\$0.235
Second quarter	\$12.81	\$11.98	\$12.70	\$0.235
Third quarter	\$13.81	\$12.17	\$13.77	\$0.235
Fourth quarter	\$13.93	\$12.41	\$13.01	\$0.235

On February 23, 2018, the closing sale price of our common stock on the NYSE was \$10.57. American Stock Transfer & Trust Company, LLC is the transfer agent and registrar for our common stock. On February 23, 2018, we had 51 holders of record of our common stock. This figure does not represent the actual number of beneficial owners of our common stock because shares of our common stock are frequently held in "street name" by securities dealers and others for the benefit of beneficial owners who may vote the shares.

We intend to continue to declare quarterly distributions on our common stock. The actual amount and timing of distributions, however, will be at the discretion of our board of directors and will depend upon our financial condition in addition to the requirements of the Code, and no assurance can be given as to the amounts or timing of future distributions. See "Distribution Policy."

Stock Performance Graph

The following graph sets forth the cumulative stockholder return (assuming reinvestment of dividends) to our stockholders during the period April 21, 2014, the date our common stock began trading on the NYSE, through December 31, 2017, as well as the corresponding returns on an overall stock market index (Russell 2000 Index) and a peer group index (MSCI US REIT Index). The stock performance graph assumes that \$100 was invested on April 21, 2014. Historical total stockholder return is not necessarily indicative of future results. The MSCI US REIT Index consists of equity REITs that are included in the MSCI US Investible Market 2500 Index, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. We have included the MSCI US REIT Index because we believe that it is representative of the industry in which we compete and, therefore, is relevant to an assessment of our performance.



ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the audited historical consolidated and combined financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K.

The following table sets forth summary financial and operating data on a consolidated combined and historical basis for our Company.

We had no business operations prior to completion of our initial public offering, or IPO, which closed on April 21, 2014, and the related formation transactions. As a result, the summary historical consolidated and combined financial and operating data as of December 31, 2017, 2016, 2015, 2014 and 2013 have been derived from our audited financial statements subsequent to our IPO and our audited historical financial statements of our accounting predecessor prior to our IPO. In 2016, we adopted ASU 2015-3, Simplifying the Presentation of Debt Insurance Costs, and retrospectively reclassified debt issuance costs from deferred financing costs, net, to long term debt.

Our accounting predecessor was not a legal entity, but rather a combination of certain real estate entities. The historical financial data of our accounting predecessor is not necessarily indicative of our results of operations, cash flows or financial position following the completion of the initial public offering.

City Office REIT, Inc. and Predecessor
(In thousands, except per share data)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Statement of Operations Data					
Revenues:					
Rental income	\$ 92,357	\$ 63,702	\$ 48,009	\$ 33,236	\$18,428
Expense reimbursement	11,164	7,140	5,808	2,869	1,316
Other	2,966	1,619	1,235	791	747
Total Revenues	<u>106,487</u>	<u>72,461</u>	<u>55,052</u>	<u>36,896</u>	<u>20,491</u>
Operating Expenses:					
Property operating expenses	42,886	28,305	20,420	14,332	8,465
General and administrative	6,792	6,429	3,728	2,405	—
Base management fee	—	109	1,302	682	—
External advisor acquisition	—	7,045	492	—	—
Acquisition costs	—	692	2,959	2,133	1,480
Depreciation and amortization	41,594	30,178	21,624	14,729	7,775
Total Operating Expenses	<u>91,272</u>	<u>72,758</u>	<u>50,525</u>	<u>34,281</u>	<u>17,720</u>
Operating income/(loss)	15,215	(297)	4,527	2,615	2,771
Interest expense, net	(20,173)	(14,761)	(11,353)	(10,952)	(5,368)
Change in fair value of earn-out	—	(500)	(841)	(1,048)	—
Change in fair value of contingent consideration	2,000	—	—	—	—
Gain on equity investment	—	—	—	4,475	—
Net gain on sale of real estate property	12,116	15,934	—	—	—
Equity in income of unconsolidated entity	—	—	—	—	403
Canadian offering costs	—	—	—	—	(1,983)
Net income/(loss)	<u>9,158</u>	<u>376</u>	<u>(7,667)</u>	<u>(4,910)</u>	<u>(4,177)</u>
Less:					
Net (income)/loss attributable to non-controlling interests in properties	(3,402)	(354)	(500)	(82)	44
Net income attributable to Predecessor	—	—	—	(1,973)	—
Net loss attributable to Predecessor	—	—	—	—	<u>\$ (4,133)</u>
Net (income)/loss attributable to Operating Partnership unitholders' non-controlling interests	—	(865)	1,576	1,955	—
Net income/(loss) attributable to the Company	5,756	(843)	(6,591)	(5,010)	—
Preferred stock distributions	(7,411)	(1,781)	—	—	—
Net loss attributable to common stockholders	<u>\$ (1,655)</u>	<u>\$ (2,624)</u>	<u>\$ (6,591)</u>	<u>\$ (5,010)</u>	—
Net loss per common share	\$ (0.05)	\$ (0.13)	\$ (0.53)	\$ (0.59)	—
Dividend distributions declared per common share	\$ (0.94)	\$ (0.94)	\$ (0.94)	\$ (0.65)	—

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data (as of end of period):					
Real estate properties, net of accumulated depreciation	\$ 728,067	\$ 550,324	\$ 354,880	\$211,828	\$100,126
Total assets	896,489	661,494	440,207	298,605	142,472
Debt	489,509	370,057	341,278	187,039	108,749
Total liabilities	536,657	405,435	366,487	207,370	114,764
Stockholders' and predecessor equity	359,624	254,202	66,845	80,111	26,624
Operating Partnership unitholders' non-controlling interests	—	108	8,550	11,878	—
Non-controlling interest in properties	208	1,749	(675)	(745)	1,084
Total equity	359,832	256,059	73,720	91,235	27,708
Other Data					
Cash flows from/(to)					
Operating activities	\$ 36,553	\$ 19,147	\$ 14,163	\$ 7,787	\$ 1,460
Investing activities	(244,784)	(216,776)	(175,471)	(94,580)	(75,106)
Financing activities	206,829	203,194	134,584	114,527	77,667

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

The following discussion and analysis is based on, and should be read in conjunction with, the consolidated financial statements and the related notes thereto of the City Office REIT, Inc. for the years ended December 31, 2017, December 31, 2016 and December 31, 2015.

As used in this section, unless the context otherwise requires, references to “we,” “our,” “us,” and “our company” refer to City Office REIT, Inc., a Maryland corporation, together with our consolidated subsidiaries, including City Office REIT Operating Partnership L.P., a Maryland limited partnership of which we are the sole general partner and which we refer to in this section as our Operating Partnership, except where it is clear from the context that the term only means City Office REIT, Inc.

This management’s discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. See “Cautionary Statement Regarding Forward-Looking Statements” for a discussion of the risks, uncertainties and assumptions associated with those statements. Our actual results may differ materially from those expressed or implied in the forward-looking statements as a result of various factors, including, but not limited to, those in “Risk Factors” and included in other portions of this document.

Overview

Company

We were formed as a Maryland corporation on November 26, 2013. On April 21, 2014, we completed our initial public offering (“IPO”) of shares of common stock. We contributed the net proceeds of the IPO to our Operating Partnership in exchange for common units in our Operating Partnership. Both we and our Operating Partnership commenced operations upon completion of the IPO and certain related formation transactions.

The Company’s interest in the Operating Partnership entitles the Company to share in distributions from, and allocations of profits and losses of, the Operating Partnership in proportion to the Company’s percentage ownership of common units. As the sole general partner of the Operating Partnership, the Company has the exclusive power under the Operating Partnership’s partnership agreement to manage and conduct the Operating Partnership’s business, subject to limited approval and voting rights of the limited partners.

The Company has elected to be taxed and will continue to operate in a manner that will allow it to qualify as a REIT under the Code. Subject to qualification as a REIT, the Company will be permitted to deduct dividend distributions paid to its stockholders, eliminating the U.S. federal taxation of income represented by such distributions at the Company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and any applicable alternative minimum tax.

On February 1, 2016, the Company closed on the previously announced management internalization (“the Internalization”). The Company had previously entered into a Stock Purchase Agreement (“Stock Purchase Agreement”) with certain stockholders of the Company’s former external advisor, City Office Real Estate Management Inc. (the “Former Advisor”), pursuant to which the Company acquired all of the outstanding stock of the Former Advisor. Pursuant to this Stock Purchase Agreement, at closing, the Company issued 297,321 shares of its common stock with a fair market value of \$3.5 million to the stockholders of the Former Advisor (the “Sellers”). The Company paid an additional \$3.5 million in cash in the first quarter of 2016 representing payments to be made to the Sellers upon reaching certain fully diluted market capitalization thresholds prior to December 31, 2016, which, together with the initial payment, resulted in a total cost of \$7.0 million in the year ended December 31, 2016. The amount was recorded as an expense in the accompanying condensed consolidated

statements of operations as it represented the cost of terminating the relationship. In connection with the closing of the Internalization, the Company entered into an amendment to the Advisory Agreement between the Company, the Operating Partnership and the Former Advisor (“Advisory Agreement”) that eliminates the payment of acquisition fees by the Company to the Former Advisor. In addition, each of the Company’s executive officers entered into an employment agreement with the Company and became employees of the Company, and, at the same time, approximately eleven additional former employees of the Former Advisor and its affiliates became employees of the Company.

In connection with the closing of the transactions under the Stock Purchase Agreement, a subsidiary of the Company entered into an Administrative Services Agreement (the “Administrative Services Agreement”) with Second City Capital II Corporation and Second City Real Estate II Corporation. The Administrative Services Agreement has a three year term and pursuant to the agreement, the Company will provide various administrative services and support to the related entities managing the Second City funds. The Company’s subsidiary will receive annual payments for these services under the Administrative Services Agreement as follows: first 12 months—\$1.5 million, second 12 months—\$1.15 million and third 12 months—\$0.625 million, for a total of \$3.275 million over the three-year term.

On January 12, 2017, the Company, through a wholly-owned subsidiary of the Operating Partnership closed on the acquisition of 2525 McKinnon, a 111,334 square foot tower located in Dallas, Texas, for \$46.8 million, exclusive of closing costs.

On January 13, 2017, the Company completed a public offering pursuant to which the Company sold 5,750,000 shares of its common stock to the public at a price of \$12.40 per share, inclusive of the overallotment option. The Company raised \$71.3 million in gross proceeds, resulting in net proceeds to us of approximately \$68.0 million after deducting \$3.3 million in underwriting discounts and other expenses related to the offering.

On June 16, 2017, the Company and the Operating Partnership entered into separate equity distribution agreements (the “Sales Agreements”) with each of KeyBanc Capital Markets Inc., Raymond James & Associates, Inc. and BMO Capital Markets Corp. (collectively, the “Sales Agents”), pursuant to which the Company may issue and sell from time to time up to 6,000,000 shares of its common stock, \$0.01 par value per share, and up to 1,000,000 shares of its 6.625% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share (collectively, the “Shares”), through the Sales Agents, acting as agents or principals (the “ATM Program”). In connection with the ATM Program, the Company filed Articles Supplementary pursuant to which the Company increased the authorized number of shares of 6.625% Series A Cumulative Redeemable Preferred Stock to 5,600,000.

On September 29, 2017, the Company, through a wholly-owned subsidiary of the Operating Partnership closed on the acquisition of the San Diego Portfolio comprised of Mission City Corporate Center and the Sorrento Mesa portfolio, an approximately 669,653 square foot portfolio located in San Diego, California, for \$174.5 million, exclusive of closing costs.

On October 19, 2017, the Company, through a wholly-owned subsidiary of the Operating Partnership closed on the acquisition of Papago Tech, a 162,748 square foot two-building complex located in Phoenix, Arizona, for \$33.3 million, exclusive of closing costs.

On December 21, 2017, the Company completed a public offering pursuant to which the Company sold 5,750,000 shares of its common stock to the public at a price of \$12.60 per share, inclusive of the overallotment option. The Company raised \$72.5 million in gross proceeds, resulting in net proceeds to us of approximately \$69.0 million after deducting \$3.5 million in underwriting discounts and other expenses related to the offering.

Indebtedness

On January 4, 2017, the Company closed on a \$22.0 million loan secured by a first mortgage lien on the 5090 N 40th St property in Phoenix, Arizona. The loan matures in January 2027. Interest is payable at a fixed rate of 3.92% per annum.

On February 9, 2017, the Company closed on a \$35.1 million loan secured by a first mortgage lien on the SanTan property in Phoenix, Arizona. The loan matures in March 2027. Interest is payable at a fixed rate of 4.56% per annum.

On March 10, 2017, the Company closed on a \$27.0 million loan secured by a first mortgage lien on the 2525 McKinnon property in Dallas, Texas. The loan matures in April 2027. Interest is payable at a fixed rate of 4.24% per annum.

On May 2, 2017, in conjunction with the sale of the 1400 and 1600 buildings at the AmberGlen property in Portland, Oregon, the Company repaid the outstanding debt secured on the property of \$24.1 million plus closing costs and subsequently closed on a \$20 million loan secured by a first mortgage lien on the remaining buildings. The loan matures in May 2027. Interest is payable at a fixed rate of 3.69% per annum.

On September 1, 2017, the Company exercised its option under its Amended and Restated Credit Agreement (the "Secured Credit Facility") to utilize the accordion feature to increase the authorized borrowing capacity under the Secured Credit Facility from \$100 million to \$150 million.

On October 5, 2017, the Company closed on a \$47 million loan secured by a first mortgage lien on the Mission City property in San Diego, California. The loan was used to pay down the Secured Credit Facility drawn to initially acquire the property. The loan matures in November 2027. Interest is payable at a fixed rate of 3.78% per annum.

For additional information regarding these mortgage loans and the Secured Credit Facility, please refer to "Liquidity and Capital Resources" below.

Revenue Base

As of December 31, 2017, we owned 22 properties comprised of 48 office buildings with a total of approximately 5.2 million square feet of net rentable area ("NRA"). As of December 31, 2017, our properties were approximately 87.7% leased.

Office Leases

Historically, most leases for our properties were on a full-service gross or net lease basis, and we expect to continue to use such leases in the future. A full-service gross lease generally has a base year expense "stop", whereby we pay a stated amount of expenses as part of the rent payment while future increases (above the base year stop) in property operating expenses are billed to the tenant based on such tenant's proportionate square footage in the property. The property operating expenses are reflected in operating expenses; however, only the increased property operating expenses above the base year stop recovered from tenants are reflected as tenant recoveries in our statements of operations. In a triple net lease, the tenant is typically responsible for all property taxes and operating expenses. As such, the base rent payment does not include any operating expenses, but rather all such expenses are billed to or paid by the tenant. The full amount of the expenses for this lease type is reflected in operating expenses, and the reimbursement is reflected in tenant recoveries. All tenants in the Lake Vista Pointe, FRP Ingenuity Drive, Sorrento Mesa and Superior Pointe properties have triple net leases. Certain tenants at AmberGlen, FRP Collection, and 2525 McKinnon have leases on a triple net basis. We are also a lessor for a fee simple ground lease at the AmberGlen property. All of our remaining leases are full-service gross leases.

Factors That May Influence Our Operating Results and Financial Condition

Business and Strategy

We focus on owning and acquiring office properties in our target markets. Our target markets generally possess what we believe are favorable economic growth trends, growing populations with above-average

employment growth forecasts, a large number of government offices, large international, national and regional employers across diversified industries, are generally low-cost centers for business operations, and exhibit favorable occupancy trends. We utilize our management's market-specific knowledge and relationships as well as the expertise of local real estate operators and our investment partners to identify acquisition opportunities that we believe will offer cash flow stability and long-term value appreciation. Our target markets are attractive, among other reasons, because we believe that ownership is often concentrated among local real estate operators that typically do not benefit from the same access to capital as public REITs and there is a relatively low level of participation of large institutional investors. We believe that these factors result in attractive pricing levels and risk-adjusted returns.

Rental Revenue and Tenant Recoveries

The amount of net rental revenue generated by our properties will depend principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space that becomes available from lease terminations. The amount of rental revenue generated also depends on our ability to maintain or increase rental rates at our properties. We believe that the average rental rates for our portfolio of properties are generally in-line or slightly below the current average quoted market rates. Negative trends in one or more of these factors could adversely affect our rental revenue in future periods. Future economic downturns or regional downturns affecting our markets or submarkets or downturns in our tenants' industries that impair our ability to renew or re-let space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties. In addition, growth in rental revenue will also partially depend on our ability to acquire additional properties that meet our investment criteria.

Operating Expenses

Our operating expenses generally consist of utilities, property and ad valorem taxes, insurance and site maintenance costs. Increases in these expenses over tenants' base years (until the base year is reset at expiration) are generally passed along to tenants in our full-service gross leased properties and are generally paid in full by tenants in our net leased properties.

Conditions in Our Markets

Positive or negative changes in economic or other conditions in the markets we operate in, including state budgetary shortfalls, employment rates, natural hazards and other factors, may impact our overall performance. While we generally expect a trend of positive economic growth and increasing interest rates to continue, there is no way for us to predict whether these trends will continue, especially in light of the potential changes in tax policy, fiscal policy and monetary policy.

Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include the financial position and results of operations of the Company, the Operating Partnership and its subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

Use of Estimates

The Company has made a number of significant estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses

to prepare these consolidated financial statements in conformity with GAAP. Significant estimates made include the recoverability of accounts receivable, allocation of property purchase price to tangible and intangible assets acquired and liabilities assumed, the determination of impairment of long-lived assets and the useful lives of long-lived assets. These estimates and assumptions are based on our best estimates and judgment. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Management adjusts such estimates when facts and circumstances dictate. Actual results could differ materially from those estimates.

Business Combinations

The fair value of the real estate acquired, which includes the impact of fair value adjustments for assumed mortgage debt related to property acquisitions, is allocated to the acquired tangible assets, consisting of land, building and improvements and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and value of tenant relationships, based in each case on their fair values. For acquisitions that do not meet the business combination accounting criteria, these are accounted for as asset acquisitions. The Company allocates the cost of the acquisition, which includes any associated acquisition costs to individual assets and liabilities assumed on a relative fair value basis. Also, non-controlling interests acquired are recorded at estimated fair market value.

The fair value of the tangible assets of an acquired property (which includes land, building and improvements and fixtures and equipment) is determined by valuing the property as if it were vacant. The “as-if-vacant” value is then allocated to land and building and improvements based on our determination of relative fair values of these assets. Factors considered by us in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. We also estimate costs to execute similar leases including leasing commissions.

The fair value of above-market and below-market lease values are recorded based on the difference between the current in place lease rent and our estimate of current market rents. Below-market lease intangibles are recorded as part lease intangibles liability and amortized into rental revenue over the non-cancelable periods and bargain renewal periods of the respective leases. Above-market leases are recorded as part of intangible assets and amortized as a direct charge against rental revenue over the non-cancelable portion of the respective leases.

The fair value of acquired in place leases are recorded based on the costs we estimate we would have incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the fair value of leasing commissions and legal costs that would be incurred to lease the property to this occupancy level. Additionally, we evaluate the time period over such occupancy level would be achieved and include an estimate of the net operating costs incurred during the lease-up period.

Revenue Recognition

We recognize lease revenue on a straight-line basis over the term of the lease. Certain leases allow for the tenant to terminate the lease, but the tenant must make a termination payment as stipulated in the lease. If the termination payment is in such an amount that continuation of the lease appears, at the time of lease inception, to be reasonably assured, then we recognize revenue over the term of the lease. We have determined that for these leases, the termination payment is in such an amount that continuation of the lease appears, at the time of inception, to be reasonably assured. We recognize lease termination fees as other revenue in the period received and write off unamortized lease-related intangible and other lease-related account balances, provided there are no further obligations by us under the lease. Otherwise, such fees and balances are recognized on a straight-line basis over the remaining obligation period with the termination payments being recorded as a component of rent receivable-deferred or deferred revenue on the consolidated balance sheets.

If we fund tenant improvements and the improvements are deemed to be owned by us, revenue recognition will commence when the improvements are substantially completed and possession or control of the space is turned over to the tenant. If we determine that the tenant allowances are lease incentives, we commence revenue recognition when possession or control of the space is turned over to the tenant for tenant work to begin. The lease incentive is recorded as a deferred expense and amortized as a reduction of revenue on a straight-line basis over the respective lease term.

Recoveries from tenants for real estate taxes, insurance and other operating expenses are recognized as revenues in the period that the applicable costs are incurred. We recognize differences between estimated recoveries and the final billed amounts in the subsequent year. Final billings to tenants for real estate taxes, insurance and other operating expenses did not vary significantly as compared to the estimated receivable balances.

Impairment of Real Estate Properties

Long-lived assets currently in use are reviewed periodically for possible impairment and will be written down to fair value if considered impaired. Long-lived assets to be disposed of are written down to the lower of cost or fair value less the estimated cost to sell. We review our real estate properties for impairment when there is an event or a change in circumstances that indicates that the carrying amount may not be recoverable. We measure and record impairment losses and reduce the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases in which we do not expect to recover our carrying costs on properties held for use, we reduce our carrying costs to fair value. We do not believe that the values of our properties are impaired as of December 31, 2017.

Variable Interest Entities

The Company consolidates variable interest entities (“VIE”) if the Company determines that it is the primary beneficiary of the entity. When evaluating the accounting for a VIE, the Company considers the purpose for which the VIE was created, the importance of each of the activities in which it is engaged and our decision-making role, if any, in those activities that significantly determine the entity’s economic performance relative to other economic interest holders. The Company determines the rights, if any, to receive benefits or the obligation to absorb losses that could potentially be significant to the VIE by considering the economic interest in the entity, regardless of form, which may include debt, equity, management and servicing fees, or other contractual arrangements. The Company considers other relevant factors including each entity’s capital structure, contractual rights to earnings (losses), subordination of the Company’s interests relative to those of other investors, contingent payments, and other contractual arrangements that may be economically significant.

Recently Issued or Adopted Accounting Standards

Adopted in the Current Year

In January of 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new standard provides an initial screening test to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within those periods with early adoption permitted. The Company adopted the guidance on the issuance date effective January 1, 2017. The Company expects that most of its real estate acquisitions will be considered asset acquisitions under the new guidance and the transaction costs will be capitalized to the investment basis which is then subject to a purchase price allocation based on relative fair value.

To Be Adopted in Future Years

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which creates a new Topic Accounting Standards Codification (ASC 606). The standard is principle-based and provides a five-step

model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. ASC 606 is effective for the first interim period within annual reporting periods beginning after December 15, 2017. The Company will adopt this standard effective January 1, 2018 and will utilize the modified retrospective approach method of transition. The Company has evaluated the impact of this new guidance and has determined that the impact of the adoption is not material to its financial results. Upon reviewing the Company's revenue streams, the revenue stream impacted by ASU 2014-09 is net gain on sale of real estate. Based on our review of the guidance criteria, the timing of recognition will not differ significantly.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for the annual periods beginning after December 31, 2017 and for annual periods and interim periods within those years. The Company expects the impact of the adoption will not be material to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The update amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. In January 2018, the FASB released an exposure draft to ASU 2016-02 that would allow lessors to elect, as a practical expedient, to combine non-lease components with the related lease components as a single lease component if (i) the timing and pattern of revenue recognition for the non-lease components and related lease components are the same, and (ii) the combined single lease component would be classified as an operating lease. The Company is in the process of evaluating whether it will elect to apply the practical expedient. If the Company elects to apply the practical expedient we expect expense reimbursement that qualify as non-lease components will be presented under a single lease component. If the Company does not elect to apply the practical expedient we expect that certain non-lease components of expense reimbursement may be subject to ASC 606.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides clarified guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company will adopt this standard effective January 1, 2018 and will update the classification of debt prepayment costs, contingent consideration payments and proceeds from the settlement of insurance claims and policies.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standard requires that the statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This standard is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The Company will adopt this standard effective January 1, 2018 and will present the change in restricted cash with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows.

JOBS Act

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an emerging grown company ("EGC") can take advantage of the extended transition period provided in Section 7(a)(2)(b) of the Securities Act, for complying with new or revised financial accounting standards. An EGC can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have determined to opt out of such extended transition period and, as a result, we will comply with new or revised financial accounting standards on the relevant dates on which adoption of such standards is required for non-EGCs.

Results of Operations

Comparison of Year Ended December 31, 2017 to Year Ended December 31, 2016

Revenue

Total Revenue. Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Total revenues increased \$34.0 million, or 47%, to \$106.5 million for the year ended December 31, 2017 compared to \$72.5 million in the corresponding period in 2016. \$1.8 million of this increase was attributed to the acquisition of Carillon Point in June 2016, \$2.8 million from the acquisition of FRP Collection in July 2016, \$9.4 million from the acquisition of Park Tower in November 2016, \$4.3 million from the acquisition of 5090 N 40th St in November 2016, \$7.4 million from the acquisition of SanTan in December 2016, \$5.1 million from the acquisition of 2525 McKinnon in January 2017, \$2.3 million from the acquisition of Mission City in September 2017, \$3.4 million from the acquisition of Sorrento Mesa in September 2017, and \$0.7 million from the acquisition of Papago Tech in October 2017. Further contributing to the increase, Washington Group Plaza increased by \$1.6 million due to the downtime in the prior year associated with tenant improvement work for new tenants at the property replacing a tenant who departed on December 31, 2015. Offsetting these increases, Corporate Parkway decreased by \$1.3 million due to the sale of the property in June 2016 and AmberGlen decreased by \$0.6 million due to the sale of two of the buildings in May 2017. Plaza 25, 190 Office Center and DTC Crossroads decreased \$1.9 million, \$0.7 million, and \$0.7 million respectively, as a result of lower occupancy. The remaining properties' revenues were relatively unchanged, increased a combined total of \$0.4 million in comparison to the prior year.

Rental Income. Rental income includes net rental income and income from a ground lease. Total rental income increased \$28.7 million, or 45%, to \$92.4 million for the year ended December 31, 2017 compared to \$63.7 million for the year ended December 31, 2016. The increase in rental income was primarily due to the acquisitions described above. The acquisitions of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan, 2525 McKinnon, Mission City, Sorrento Mesa and Papago Tech contributed an additional \$1.7 million, \$2.0 million, \$8.1 million, \$4.0 million, \$7.1 million, \$3.4 million, \$2.0 million, \$3.0 million and \$0.7 million in rental income, respectively, to the 2017 period rental income. Washington Group Plaza also increased by \$1.4 million due to the increased occupancy described above. Corporate Parkway decreased by \$1.3 million due to the sale of the property in June 2016 and AmberGlen decreased by \$0.7 million due to the sale of 2 of the buildings in May 2017. Plaza 25, 190 Office Center and DTC Crossroads decreased \$1.6 million, \$0.7 million and \$0.6 million as result of lower occupancy.

Expense Reimbursement. Total expense reimbursement increased \$4.1 million, or 56%, to \$11.2 million for the year ended December 31, 2017 compared to \$7.1 million for the same period in 2016, primarily due to the acquisitions of the FRP Collection, Park Tower, 5090 N 40th St, SanTan, 2525 McKinnon, Mission City, Sorrento Mesa and Papago Tech properties described above.

Other. Other revenue includes parking, signage and other miscellaneous income. Total other revenues increased \$1.4 million, or 83%, to \$3.0 million compared to \$1.6 million for the same period in 2016. The increase was attributed to the acquisitions of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon during the year ended December 31, 2017.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, as well as acquisition costs, base management fees, external advisor acquisition costs, general and administrative expenses and depreciation and amortization. Total operating expenses increased by \$18.5 million, or 26%, to \$91.3 million for the year ended December 31, 2017, from \$72.8 million for the same period in 2016, primarily due to the property acquisitions described above offset by the external advisor acquisition costs of \$7.0 million which occurred on February 1, 2016. Total operating expenses increased by \$1.4 million, \$3.2 million, \$7.9 million,

\$3.1 million, \$6.0 million, \$3.5 million, \$2.2 million, \$2.4 million and \$0.5 million, respectively, from the acquisitions of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan, 2525 McKinnon, Mission City, Sorrento Mesa and Papago Tech properties. These increases were offset by the sales of Corporate Parkway which saw a decrease in operating expenses by \$1.1 million due to the sale of the property in June 2016 and Amberglen which saw a decrease in operating expenses of \$0.7 million related to the sale of AmberGlen 1400 and 1600 buildings in May 2017. Plaza 25 operating expenses decreased by \$1.2 million due to a 14.8% reduction in occupancy, and Washington Group Plaza operating expenses decreased by \$2.2 million due to a reduction in depreciation and amortization expenses as a result of the classification of held for sale. The remaining property operating expenses were relatively unchanged in comparison to the prior year.

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and re-leasing costs. Property operating expenses increased \$14.6 million, or 52%, to \$42.9 million for the year ended December 31, 2017 from \$28.3 million for the same period in 2016. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisitions of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan, 2525 McKinnon, Mission City, Sorrento Mesa and Papago Tech properties contributed an additional \$0.7 million, \$1.3 million, \$4.7 million, \$1.5 million, \$2.5 million, \$1.8 million, \$1.0 million, \$0.5 million and \$0.2 million in additional property operating expenses, respectively. Washington Group Plaza also increased property operating expenses by \$0.7 million due to higher occupancy over prior year, offset by Amberglen whose operating expenses decreased by \$0.5 million as a result of the sale of two buildings in May 2017.

Acquisition Costs. There were no acquisition costs for the year ended December 31, 2017 compared to \$0.7 million in the prior year. The company early adopted ASU 2017-01 on January 1, 2017 and therefore costs associated with acquisitions were capitalized for the year ended December 31, 2017 as part of the purchase price of the assets as required under the accounting for an asset acquisition.

Base Management Fee. There was no base management fee for the year ended December 31, 2017 compared to \$0.1 million for the year ended December 31, 2016 representing the fee paid to our former external advisor. Effective February 1, 2016, with the acquisition of the external advisor, no base management fees will be paid going forward.

General and Administrative. General and administrative expenses increased \$0.4 million, or 6%, to \$6.8 million for the year ended December 31, 2017 from \$6.4 million for the same period in 2016. The increase is primarily attributable to payroll and other costs which the external advisor paid prior to February 1, 2016 and which the Company will pay going forward following the Internalization. Included in general and administrative expense for the year ended December 31, 2017 was \$1.7 million of non-cash stock-based compensation expense.

Depreciation and Amortization. Depreciation and amortization increased \$11.4 million, or 38%, to \$41.6 million for the year ended December 31, 2017 compared to \$30.2 million for the same period in 2016. This increase is primarily due to the addition of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan, 2525 McKinnon, Mission City, Sorrento Mesa and Papago Tech properties. This increase is offset by a decrease at Washington Group Plaza which ceased depreciation in April 2017 due to the classification as held for sale and Corporate Parkway which sold in June 2016 and the two Amberglen buildings which sold in May 2017.

Other Expense (Income)

Interest Expense, Net. Interest expense increased \$5.4 million, or 37%, to \$20.2 million for the year ended December 31, 2017, compared to \$14.8 million for the corresponding period in 2016. The increase was primarily due to interest expense related to acquisitions. Interest expense for the Carillon Point, FRP Collection, 5090 N 40th St, SanTan, 2525 McKinnon and Mission City property level debt increased by \$0.5 million, \$0.8 million,

\$0.9 million, \$1.5 million, \$1.0 million and \$0.4 million respectively in 2017. The mortgages placed on Central Fairwinds and DTC Crossroads also increased interest expense by a further \$0.4 million and \$0.3 million, respectively, over the prior year. Offsetting these increases, Corporate Parkway interest expense decreased \$0.4 million due to the sale of the property in June 2016.

Net Gain on the Sale of Real Estate Property. Net gain on the sale of real estate property relates to the sale of 2 buildings in our AmberGlen complex in May 2017. In the prior year, amounts relate to the sale of Corporate Parkway in June 2016.

Change in Fair Value of Contingent Consideration. On June 28, 2017 we received a \$2 million refund from a third party escrow account related to the Park Tower acquisition when certain leasing thresholds were not achieved as a condition to that purchase in the prior year. No similar arrangements were in place in the prior year.

Cash Flows

Comparison of Period Ended December 31, 2017 to Period Ended December 31, 2016

Cash and cash equivalents were \$12.3 million and \$13.7 million as of December 31, 2017 and December 31, 2016, respectively.

Cash flow from operating activities. Net cash provided by operating activities increased by \$17.4 million to \$36.6 million for the year ended December 31, 2017 compared to \$19.1 million for the same period in 2016. The increase was primarily attributable to an increase in operating cash flows from new acquisitions.

Cash flow to investing activities. Net cash used in investing activities increased by \$28.0 million to \$244.8 million used for the year ended December 31, 2017 compared to \$216.8 million used for the same period in 2016. The increase was primarily due to the purchase of 2525 McKinnon, Mission City, Sorrento Mesa and Papago Tech offset by the sale of the 1400 and 1600 buildings at AmberGlen in June 2017. The \$216.8 million incurred in 2016 primarily related to the purchase of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St and SanTan properties.

Cash flow from financing activities. Net cash provided by financing activities increased by \$3.6 million to \$206.8 million for the year ended December 31, 2017 compared to \$203.2 million for the same period in 2016. Cash flow from financing activities increased primarily due to proceeds from public offerings of common stock in January and December 2017 and increased mortgage loan proceeds which were partially offset by the repayment of borrowings from the Secured Credit Facility and increased dividend distributions in 2017 resulting from greater dividends paid on shares of our Series A Preferred Stock.

Results of Operations

Comparison of Year Ended December 31, 2016 to Year Ended December 31, 2015

Revenue

Total Revenue. Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Total revenues increased \$17.5 million, or 32%, to \$72.5 million for the year ended December 31, 2016 compared to \$55.0 million in the corresponding period in 2015. \$1.8 million of this increase was attributed to the acquisition of Carillon Point in June 2016, \$2.9 million from the acquisition of FRP Collection in July 2016, \$1.8 million from the acquisition of Park Tower in November 2016, \$0.4 million from the acquisition of 5090 N 40th St in November 2016 and \$0.3 million from the acquisition of SanTan in December 2016. Revenue in 2016 increased by \$0.2 million from the acquisition of Logan Tower in February 2015, \$1.6 million from the acquisition of Superior Pointe in June 2015, \$2.4 million from the acquisition of DTC Crossroads in June 2015, \$5.1 million from the acquisition of 190 Office Center in

September 2015 and \$3.7 million from the acquisition of Intellicenter in September 2015. Central Fairwinds increased by \$0.5 million due to increased occupancy at the property over the prior year. Offsetting these increases, Washington Group Plaza and AmberGlen decreased by \$1.2 million and \$0.7 million, respectively, due to the downtime associated with tenant improvement work for new tenants at each property replacing tenants who departed on December 31, 2015. Corporate Parkway decreased by \$1.7 million due to the sale of the property in June 2016. The remaining properties revenues were relatively unchanged, increased \$0.4 million in comparison to the prior year.

Rental Income. Rental income includes net rental income and income from a ground lease. Total rental income increased \$15.7 million, or 33%, to \$63.7 million for the year ended December 31, 2016 compared to \$48.0 million for the year ended December 31, 2015. The increase in rental income was primarily due to the acquisitions described above. The acquisitions of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St and SanTan properties contributed an additional \$1.8 million, \$2.7 million, \$1.6 million, \$0.4 million and \$0.3 million in rental income, respectively, to the 2016 period rental income. Rental Income in 2016 increased by \$0.2 million from the acquisition of Logan Tower in February 2015, \$1.0 million from the acquisition of Superior Pointe in June 2015, \$2.1 million from the acquisition of DTC Crossroads in June 2015, \$4.8 million from the acquisition of 190 Office Center in September 2015 and \$3.3 million from the acquisition of Intellicenter in September 2015. Plaza 25 increased \$0.3 million due to early termination fees received from tenants who departed the property early. Central Fairwinds increased by \$0.4 million due to increased occupancy at the property over the prior year. Offsetting these increases, Washington Group Plaza and AmberGlen decreased by \$1.1 million and \$0.4 million, respectively, due to the tenant departures described above. Corporate Parkway decreased by \$1.7 million due to the sale of the property in June 2016.

Expense Reimbursement. Total expense reimbursement increased \$1.3 million, or 23%, to \$7.1 million for the year ended December 31, 2016 compared to \$5.8 million for the same period in 2015, primarily due to the acquisition of the FRP Collection, Park Tower, 5090 N 40th St and SanTan properties described above. Offsetting these increases is a decrease in Plaza 25 expense reimbursement income due to reduced occupancy over the prior year.

Other. Other revenue includes parking, signage and other miscellaneous income. Total other revenues increased \$0.4 million, or 31%, to \$1.6 million for the year ended December 31, 2016 compared to \$1.2 million for the same period in 2015. Other income was generated by City Center, Central Fairwinds, Plaza 25, Logan Tower, DTC Crossroads and Park Tower with the largest contribution from City Center parking income.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, as well as acquisition costs, base management fees, stock-based compensation, external advisor acquisition costs, general and administrative expenses and depreciation and amortization. Total operating expenses increased by \$22.3 million, or 44%, to \$72.8 million for the year ended December 31, 2016, from \$50.5 million for the same period in 2015, primarily due to the increase of external advisor acquisition costs of \$6.6 million and the property acquisitions described above. Total operating expenses increased by \$1.5 million, \$3.1 million, \$1.9 million, \$0.4 million, and \$0.5 million, respectively, from the acquisition of Carillon Point in June 2016, the acquisition of FRP Collection in July 2016, the acquisition of Park Tower and 5090 N 40th St in November 2016 and the acquisition of the SanTan in December 2016. Operating expenses in 2016 increased by \$1.4 million from the acquisition of Superior Pointe in June 2015, \$1.9 million from the acquisition of DTC Crossroads in June 2015, \$3.5 million from the acquisition of 190 Office Center in September 2015 and \$2.1 million from the acquisition of Intellicenter in September 2015. Corporate Parkway decreased operating expenses by \$1.3 million due to the sale of the property in June 2016. Plaza 25 and Washington Group Plaza increased operating expenses by \$0.6 million and \$0.3 million, respectively, compared to the prior year. The remaining property operating expenses were relatively unchanged, decreased by \$0.1 million, in comparison to the prior year. The remaining \$0.1 million decrease relates to a decrease in base management fees, offset by increases in general and administrative expenses including stock-based compensation and acquisition costs related to our growth over the prior year.

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and re-leasing costs. Property operating expenses increased \$7.9 million, or 39%, to \$28.3 million for the year ended December 31, 2016 from \$20.4 million for the same period in 2015. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisition of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St and SanTan properties contributed an additional \$0.6 million, \$0.9 million, \$0.7 million, \$0.1 million and \$0.1 million in additional property operating expenses, respectively.

Acquisition Costs. Acquisition costs were \$0.7 million for the year ended December 31, 2016 compared to \$2.9 million in the prior year. The acquisition costs in the current year related to the Carillon Point acquisition which occurred in June 2016, FRP Collection acquisition which occurred in July 2016, Park Tower and 5090 N 40th St acquisitions which occurred in November 2016 and SanTan in December 2016. The 2015 costs are related to the Logan Tower, Superior Pointe, DTC Crossroads, Intellicenter and 190 Office Center acquisitions in the prior year. The acquisitions in 2015 were all subject to an additional acquisition fee payable to the former external manager whereas, following the Internalization, no acquisition fees were paid in 2016.

Base Management Fee. Base Management Fee decreased \$1.2 million, or 92%, to \$0.1 million for the year ended December 31, 2016 compared to \$1.3 million for the year ended December 31, 2015 representing the fee paid to our former external advisor. Effective February 1, 2016, following the Internalization, no base management fees will be paid going forward.

General and Administrative. General and administrative expenses comprise of normal public company reporting costs and the compensation of our management team and board of directors as well as non-cash stock-based compensation expenses. General and administrative expenses increased \$2.7 million, or 72%, to \$6.4 million for the year ended December 31, 2016 compared to \$3.7 million for the same period in 2015. The increase is primarily attributable to payroll and other costs which the external advisor paid prior to February 1, 2016 and which the Company now pays following the closing of the Internalization on February 1, 2016. Included in general and administrative expense for the year ended December 31, 2016 was \$2.4 million of non-cash stock-based compensation expense. Certain prior year amounts related to stock-based compensation expenses have been reclassified to General and Administrative expenses to conform to current period presentation.

Depreciation and Amortization. Depreciation and amortization increased \$8.6 million, or 40%, to \$30.2 million for the year ended December 31, 2016 compared to \$21.6 million for the same period in 2015, primarily due to the addition of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St and SanTan properties.

Internalization Fee. Internalization fee increased \$6.5 million, or 1,300% to \$7.0 million for the year ended December 31, 2016 compared to \$0.5 million for the corresponding period in 2015. The increase was primarily due to the internalization of management which occurred in February 2016.

Other Expense (Income)

Interest Expense, Net. Interest expense increased \$3.4 million, or 30%, to \$14.8 million for the year ended December 31, 2016, compared to \$11.4 million for the corresponding period in 2015. The increase was primarily due to interest expense related to acquisitions. Interest expense for the Carillon Point and FRP Collection property level debt increased by \$0.1 million and \$0.4 million respectively in 2016, and the interest expense on the secured line of credit increased by \$0.2 million in 2016. Interest expenses in 2016 increased by \$0.4 million from the acquisition of DTC Crossroads in June 2015, \$1.4 million from the acquisition of 190 Office Center in September 2015 and \$1.1 million

from the acquisition of Intellicenter in September 2015. Also in June 2015, property level debt was placed on Plaza 25 which contributed a \$0.3 million increase in 2016. Corporate Parkway interest expense decreased \$0.5 million due to the sale of the property in June 2016.

Change in Fair Value of Earn-Out. The estimated fair value of the earn-out liability decreased from \$5.7 million at December 31, 2015 to \$2.4 million at December 31, 2016 primarily due to a \$3.8 million payment in March 2016, satisfied through the issuance of common stock, partially offset by an increase in the fair value of the remaining liability at December 31, 2016 of approximately \$0.5 million.

Net Gain on the Sale of Real Estate Property. Net gain on the sale of real estate property relates to the sale of Corporate Parkway in June 2016. No sales were made in the prior year.

Cash Flows

Comparison of Period Ended December 31, 2016 to Period Ended December 31, 2015

Cash and cash equivalents were \$13.7 million and \$8.1 million as of December 31, 2016 and December 31, 2015, respectively.

Cash flow from operating activities. Net cash provided by operating activities increased by \$4.7 million to \$18.9 million for the year ended December 31, 2016 compared to \$14.2 million for the same period in 2015. The slight increase was primarily attributable to an increase in operating cash flows from new acquisitions.

Cash flow to investing activities. Net cash used in investing activities increased by \$41.3 million to \$216.8 million used for the year ended December 31, 2016 compared to \$175.5 million used for the same period in 2015. The increase was primarily due to the purchase of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St and SanTan offset by the sale of Corporate Parkway in June 2016. The \$175.5 million incurred in 2015 primarily related to the purchase of Logan Tower, Superior Pointe, DTC Crossroads, 190 Office Center and Intellicenter properties.

Cash flow from financing activities. Net cash provided by financing activities increased by \$68.9 million to \$203.4 million for the year ended December 31, 2016 compared to \$134.6 million for the same period in 2015. Cash flow from financing activities increased primarily due to proceeds from public offerings of common and preferred stock that closed in April and October 2016, respectively, which were partially offset by the repayment of borrowings from the Secured Credit Facility and decreased loan proceeds in 2016.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

We had approximately \$12.3 million of cash and cash equivalents and \$22.7 million of restricted cash as of December 31, 2017.

Our short-term liquidity requirements primarily consist of operating expenses and other expenditures associated with our properties, distributions to our limited partners and distributions to our stockholders required to qualify for REIT status, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash, proceeds from our public offerings, including under our ATM program, and borrowings under our mortgage loans and Secured Credit Facility.

Our long-term liquidity needs consist primarily of funds necessary for the repayment of debt at maturity, property acquisitions and non-recurring capital improvements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property acquisitions and non-recurring capital improvements using our Secured Credit Facility pending longer term financing.

We believe we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity securities. However, we cannot assure you that this is or will continue to be the case. Our ability to incur additional debt is dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets is dependent on a number of factors as well, including general market conditions for REITs and market perceptions about us.

Consolidated Indebtedness as of December 31, 2017

As of December 31, 2017, we had approximately \$494.5 million of outstanding consolidated principal indebtedness, 93.2% of which is fixed rate debt. The following table sets forth information as of December 31, 2017 with respect to our outstanding indebtedness (in thousands).

<u>Debt</u>	<u>December 31, 2017</u>	<u>Interest Rate as of December 31, 2017</u>	<u>Maturity Date</u>
Secured Credit Facility ⁽¹⁾	\$ 33,500	LIBOR ⁽²⁾ +2.25%	June 2018
Midland Life Insurance ⁽³⁾	88,582	4.34	May 2021
Mission City	47,000	3.78	November 2027
190 Office Center ⁽⁴⁾	41,250	4.79	October 2025
SanTan ⁽⁴⁾	35,100	4.56	March 2027
Intellicenter ⁽⁴⁾	33,563	4.65	October 2025
Washington Group Plaza ⁽⁵⁾	32,290	3.85	July 2018
FRP Collection ⁽⁴⁾	30,174	3.85	September 2023
2525 McKinnon	27,000	4.24	April 2027
5090 N 40th St	22,000	3.92	January 2027
AmberGlen ⁽⁴⁾	20,000	3.69	May 2027
Lake Vista Pointe ⁽⁵⁾	18,358	4.28	August 2024
FRP Ingenuity Drive ⁽⁵⁾⁽⁶⁾	17,000	4.44	December 2024
Plaza 25 ⁽⁴⁾⁽⁵⁾	16,882	4.10	July 2025
Carillon Point ⁽⁴⁾	16,671	3.50	October 2023
Central Fairwinds ⁽⁴⁾	15,107	4.00	June 2024
Total	<u><u>\$494,477</u></u>		

- (1) At December 31, 2017 the Secured Credit Facility had \$150 million authorized and \$33.5 million drawn. The Credit Agreement has a maturity date of June 26, 2018, which may be extended to June 26, 2019 at the Company's option upon meeting certain conditions. The Secured Credit Facility requires the Company to maintain a fixed charge coverage ratio of no less than 1.60x. At December 31, 2017, the Secured Credit Facility was cross-collateralized by Logan Tower, Superior Pointe, Park Tower and Sorrento Mesa. On September 1, 2017, the Company exercised its option under the Secured Credit Facility to utilize the accordion feature to increase the authorized borrowing capacity under the Secured Credit Facility from \$100 million to \$150 million. During 2016 the authorized borrowing capacity was increased from \$75 million to \$100 million.
- (2) As of December 31, 2017, the one month LIBOR rate was 1.56%.
- (3) The mortgage loan is cross-collateralized by DTC Crossroads, Cherry Creek and City Center. Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization. The loan bears a fixed interest rate of 4.34% and matures on May 6, 2021. Upon the sale of Corporate Parkway on June 15, 2016, \$4 million of the loan was paid down and DTC Crossroads was substituted as collateral property.
- (4) Our loans have various covenants including debt service coverage ratios that under certain conditions must be maintained no less than 1.15x, 1.20x, 1.20x, 1.40x, 1.15x, 1.45x, 1.35x and 1.35x respectively for each of 190 Office Center, SanTan, Intellicenter, FRP Collection, AmberGlen, Plaza 25, Carillon Point and Central Fairwinds. The debt service coverage ratio covenants contained in the loan agreements for Plaza 25, which have not been met at December 31, 2017, allow for temporary relief from the debt service coverage ratio test if certain conditions are met or prepayment of debt service occurs according to a specified schedule.
- (5) Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization.
- (6) We are required to maintain a minimum net worth of \$17 million, minimum liquidity of \$1.7 million and a debt service coverage ratio of no less than 1.15x.

Contractual Obligations and Other Long-Term Liabilities

The following table provides information with respect to our commitments as of December 31, 2017, including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extension options.

<u>Contractual Obligations</u>	<u>Payments Due by Period</u> (in thousands)				
	<u>Total</u>	<u>2018</u>	<u>2019-2020</u>	<u>2021-2022</u>	<u>More than 5 years</u>
Principal payments on mortgage loans	\$494,477	\$69,705	\$11,135	\$ 92,882	\$320,755
Interest payments ⁽¹⁾	135,888	19,605	35,591	26,275	54,417
Tenant-related commitments	10,397	5,695	4,702	—	—
Total	<u>\$640,762</u>	<u>\$95,005</u>	<u>\$51,428</u>	<u>\$119,157</u>	<u>\$375,172</u>

(1) Contracted interest on the floating rate debt was calculated based on the Secured Credit Facility balance and interest rate at December 31, 2017.

Off-Balance Sheet Arrangements

As of December 31, 2017, we did not have any off-balance sheet arrangements.

Inflation

Substantially all of our office leases provide for separate real estate tax and operating expense escalations. In addition, most of the leases provide for fixed rent increases. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense reimbursements described above.

We believe that we are less susceptible to the negative economic effects that inflation may have on our industry than many of our competitors because 93.2% of our outstanding consolidated indebtedness had a fixed contractual interest rate at December 31, 2017.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We have used, and will use, derivative financial instruments to manage or hedge interest rate risks related to borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. We have entered, and we will only enter into, contracts with major financial institutions based on their credit rating and other factors. As of December 31, 2017, our Company did not have any outstanding derivatives.

The primary market risk to which we are exposed is interest rate risk. Our primary interest rate exposure is LIBOR. We primarily use fixed interest rate financing to manage our exposure to fluctuations in interest rates. We consider our interest rate exposure to be minimal because as of December 31, 2017, approximately \$461.0 million, or 93.2%, of our debt had fixed interest rates and approximately \$33.5 million, or 6.8%, had variable interest rates. A 10% increase in LIBOR would increase our interest costs by approximately \$0.1 million on debt outstanding as of December 31, 2017, and would decrease the fair value of our outstanding debt, as well as increase interest costs associated with future debt issuances or borrowings under our Secured Credit Facility. A 10% decrease in LIBOR would decrease our interest costs by approximately \$0.1 million on debt outstanding as of December 31, 2017, and would increase the fair value of our outstanding debt, as well as decrease interest costs associated with future debt issuances or borrowings under our Secured Credit Facility.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and supplementary data required by this Item 8 are included as a separate section of this Annual Report on Form 10-K commencing on page 55 and are incorporated herein by reference.

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

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the rules and regulations of the SEC and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of December 31, 2017, the end of the period covered by this Annual Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded, as of December 31, 2017, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (i) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of Company assets are made in accordance with management authorization; and

providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to our definitive Proxy Statement for our 2018 annual stockholders' meeting.

ITEM 11. EXECUTIVE AND DIRECTOR COMPENSATION

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement for our 2018 annual stockholders' meeting.

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 for our 2018 annual stockholders' meeting.

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 for our 2018 annual stockholders' meeting.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Registered Public Accounting Firm

The information required by Item 14 is incorporated by reference to our definitive Proxy Statement for our 2018 annual stockholders' meeting.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

CITY OFFICE REIT, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of City Office REIT, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of City Office REIT, Inc. (the “Company”) as of December 31, 2017, and 2016, the related consolidated statements of operations, changes in equity and cash flows for each of the years in the three year period ended December 31, 2017, and the related notes, and financial statement schedule III (collectively the “consolidated financial statements”).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and 2016, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

Without qualifying our opinion on the consolidated financial statements, we draw attention to Note 2 to the consolidated financial statements, which indicates the Company has prospectively changed its method of accounting for real estate acquisitions in its year ended December 31, 2017 due to the adoption of Accounting Standards Update 2017-01, Business Combinations.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“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 consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

Chartered Professional Accountants

We have served as the Company’s auditor since 2013.

Vancouver, Canada
March 1, 2018

City Office REIT, Inc.
Consolidated Balance Sheets

(In thousands, except par value and share data)

	December 31,	
	2017	2016
Assets		
Real estate properties		
Land	\$188,110	\$115,634
Building and improvement	534,473	423,707
Tenant improvement	53,427	49,813
Furniture, fixtures and equipment	291	222
	776,301	589,376
Accumulated depreciation	(48,234)	(39,052)
	728,067	550,324
Cash and cash equivalents	12,301	13,703
Restricted cash	22,713	15,948
Rents receivable, net	20,087	17,257
Deferred leasing costs, net	7,793	5,422
Acquired lease intangible assets, net	65,088	56,214
Prepaid expenses and other assets	2,013	2,626
Assets held for sale	38,427	—
Total Assets	\$896,489	\$661,494
Liabilities and Equity		
Liabilities:		
Debt	\$489,509	\$370,057
Accounts payable and accrued liabilities	17,605	12,976
Deferred rent	4,223	5,558
Tenant rent deposits	3,523	2,621
Acquired lease intangible liabilities, net	8,649	4,302
Dividend distributions payable	10,318	7,521
Earn-out liability	—	2,400
Liabilities related to assets held for sale	2,830	—
Total Liabilities	536,657	405,435
Commitments and Contingencies (Note 10)		
Equity:		
6.625% Series A Preferred stock, \$0.01 par value per share, 5,600,000 and 4,600,000 shares authorized as of December 31, 2017 and 2016, respectively, 4,480,000 issued and outstanding	112,000	112,000
Common stock, \$0.01 par value, 100,000,000 shares authorized, 36,012,086 and 24,382,226 shares issued and outstanding as of December 31, 2017 and December 31, 2016 respectively	360	244
Additional paid-in capital	334,241	195,566
Accumulated deficit	(86,977)	(53,608)
Total Stockholders' Equity	359,624	254,202
Operating Partnership unitholders' non-controlling interests	—	108
Non-controlling interests in properties	208	1,749
Total Equity	359,832	256,059
Total Liabilities and Equity	\$896,489	\$661,494

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

City Office REIT, Inc.
Consolidated Statements of Operations

(In thousands, except per share data)

	Years Ended December 31,		
	2017	2016	2015
Revenues:			
Rental income	\$ 92,357	\$ 63,702	\$ 48,009
Expense reimbursement	11,164	7,140	5,808
Other	2,966	1,619	1,235
Total Revenues	106,487	72,461	55,052
Operating Expenses:			
Property operating expenses	42,886	28,305	20,420
General and administrative	6,792	6,429	3,728
Base management fee	—	109	1,302
External advisor acquisition	—	7,045	492
Acquisition costs	—	692	2,959
Depreciation and amortization	41,594	30,178	21,624
Total Operating Expenses	91,272	72,758	50,525
Operating income/(loss)	15,215	(297)	4,527
Interest Expense:			
Contractual interest expense	(18,721)	(13,804)	(10,607)
Amortization of deferred financing costs	(1,452)	(957)	(746)
	(20,173)	(14,761)	(11,353)
Change in fair value of earn-out	—	(500)	(841)
Change in fair value of contingent consideration	2,000	—	—
Net gain on sale of real estate property	12,116	15,934	—
Net income/(loss)	9,158	376	(7,667)
Less:			
Net income attributable to non-controlling interests in properties	(3,402)	(354)	(500)
Net (income)/loss attributable to Operating Partnership unitholders' non-controlling interests	—	(865)	1,576
Net income/(loss) attributable to the Company	5,756	(843)	(6,591)
Preferred stock distributions	(7,411)	(1,781)	—
Net loss attributable to common stockholders	\$ (1,655)	\$ (2,624)	\$ (6,591)
Net loss per common share and unit:			
Basic and diluted	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>	<u>\$ (0.53)</u>
Weighted average common shares outstanding:			
Basic and diluted	<u>30,198</u>	<u>20,460</u>	<u>12,409</u>
Dividend distributions declared per common share and unit	<u>\$ 0.940</u>	<u>\$ 0.940</u>	<u>\$ 0.940</u>

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

City Office REIT, Inc.
Consolidated Statements of Changes in Equity

(In thousands)

	Number of shares of preferred stock	Preferred stock	Number of shares of common stock	Common stock	Additional paid-in capital	Accumulated deficit	Total stockholders' equity	Operating Partnership unitholders' non-controlling interests	Non-controlling interests in properties	Total equity
Balance—January 1, 2015	—	\$ —	12,279	\$123	\$ 91,308	\$(11,320)	\$ 80,111	\$ 11,878	\$ (754)	\$ 91,235
Conversion of OP units to shares	—	—	12	—	47	—	47	(47)	—	—
Restricted stock award grants	—	—	137	1	1,906	—	1,907	—	—	1,907
Earn out payment in shares	—	—	90	1	2,057	—	2,058	1,105	—	3,163
Dividend distributions declared	—	—	—	—	—	(11,687)	(11,687)	(2,810)	—	(14,497)
Distributions	—	—	—	—	—	—	—	—	(421)	(421)
Net loss	—	—	—	—	—	(6,591)	(6,591)	(1,576)	500	(7,667)
Balance—December 31, 2015	—	—	12,518	125	95,318	(29,598)	65,845	8,550	(675)	73,720
Conversion of OP units to shares	—	—	3,206	32	10,754	—	10,786	(10,786)	—	—
Restricted stock award grants and vesting	—	—	164	2	2,434	—	2,436	—	—	2,436
Internalization payment in shares	—	—	297	3	3,461	—	3,464	—	—	3,464
Earn out payment in shares	—	—	147	2	767	—	769	3,009	—	3,778
Net proceeds from sale of common stock	—	—	8,050	80	86,705	—	86,785	—	—	86,785
Net proceeds from sale of preferred stock	4,480	112,000	—	—	(3,873)	—	108,127	—	—	108,127
Common stock dividend distributions declared	—	—	—	—	—	(21,386)	(21,386)	(1,530)	—	(22,916)
Preferred stock dividend distributions declared	—	—	—	—	—	(1,781)	(1,781)	—	—	(1,781)
Contributions	—	—	—	—	—	—	—	—	2,525	2,525
Distributions	—	—	—	—	—	—	—	—	(455)	(455)
Net (loss)/income	—	—	—	—	—	(843)	(843)	865	354	376
Balance—December 31, 2016	4,480	112,000	24,382	244	195,566	(53,608)	254,202	108	1,749	256,059
Conversion of OP units to shares	—	—	40	—	108	—	108	(108)	—	—
Restricted stock award grants and vesting	—	—	90	1	1,741	(71)	1,671	—	—	1,671
Net proceeds from sale of common stock	—	—	11,500	115	136,826	—	136,941	—	—	136,941
Common stock dividend distributions declared	—	—	—	—	—	(31,148)	(31,148)	—	—	(31,148)
Preferred stock dividend distributions declared	—	—	—	—	—	(7,906)	(7,906)	—	—	(7,906)
Distributions	—	—	—	—	—	—	—	—	(4,943)	(4,943)
Net income	—	—	—	—	—	5,756	5,756	—	3,402	9,158
Balance—December 31, 2017	<u>4,480</u>	<u>\$112,000</u>	<u>36,012</u>	<u>\$360</u>	<u>\$334,241</u>	<u>\$(86,977)</u>	<u>\$359,624</u>	<u>\$ —</u>	<u>\$ 208</u>	<u>\$359,832</u>

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

City Office REIT, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31,		
	2017	2016	2015
Cash Flows from Operating Activities:			
Net income/(loss)	\$ 9,158	\$ 376	\$ (7,667)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation and amortization	41,594	30,178	21,624
Amortization of deferred financing costs	1,452	957	746
Amortization of above/below market leases	(337)	299	349
Increase in straight-line rent	(2,820)	(3,751)	(1,895)
Non-cash stock compensation	1,671	2,436	1,907
Earn-out termination payment	(2,400)	500	841
Internalization shares issued	—	3,464	—
Net gain on sale of real estate property	(12,116)	(15,934)	—
Changes in non-cash working capital:			
Rents receivable, net	(1,647)	(4,331)	(4,506)
Prepaid expenses and other assets	349	(587)	(648)
Accounts payable and accrued liabilities	670	3,135	2,988
Deferred rent	324	2,743	440
Tenant rent deposits	655	(338)	(16)
Net Cash Provided By Operating Activities	36,553	19,147	14,163
Cash Flows to Investing Activities:			
Additions to real estate properties	(8,189)	(8,729)	(5,466)
Acquisition of real estate	(249,299)	(248,957)	(166,788)
Net proceeds from sale of real estate	16,993	42,984	—
Deferred leasing costs	(4,289)	(2,074)	(3,217)
Net Cash Used In Investing Activities	(244,784)	(216,776)	(175,471)
Cash Flows from Financing Activities:			
Net proceeds from sale of preferred stock	—	108,127	—
Net proceeds from sale of common stock	136,941	86,785	—
Debt issuance and extinguishment costs	(1,716)	(2,414)	(1,239)
Proceeds from mortgage loans payable	166,340	47,938	105,813
Repayment of mortgage loans payable	(27,772)	(20,199)	(1,082)
Proceeds from Secured Credit Facility	226,000	95,500	51,600
Repayment of Secured Credit Facility	(245,000)	(93,000)	(1,600)
Contributions from non-controlling interests in properties	—	2,525	—
Distributions to non-controlling interests in properties	(4,943)	(455)	(421)
Dividend distributions paid to stockholders and Operating Partnership unitholders	(36,256)	(20,841)	(14,404)
Change in restricted cash	(6,765)	(772)	(4,083)
Net Cash Provided By Financing Activities	206,829	203,194	134,584

	Years Ended December 31,		
	2017	2016	2015
Net (Decrease)/Increase in Cash and Cash Equivalents	(1,402)	5,565	(26,724)
Cash and Cash Equivalents, Beginning of Year	13,703	8,138	34,862
Cash and Cash Equivalents, End of Year	\$ 12,301	\$ 13,703	\$ 8,138
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	\$ 18,408	\$ 13,621	\$ 10,030
Earn-out payment in common stock	\$ —	\$ 3,778	\$ 3,163
Purchases of additions in real estate properties included in accounts payable	\$ 2,616	\$ 1,565	\$ 1,289
Purchases of deferred leasing costs included in accounts payable	\$ 815	\$ 19	\$ —

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

City Office REIT, Inc.
Notes to Consolidated Financial Statements

1. Organization and Description of Business

City Office REIT, Inc. (the “Company”) was organized in the state of Maryland on November 26, 2013. On April 21, 2014, the Company completed its initial public offering (“IPO”) of shares of the Company’s common stock. The Company contributed the net proceeds of the IPO to City Office REIT Operating Partnership, L.P., a Maryland limited partnership (the “Operating Partnership”), in exchange for common units of limited partnership interest in the Operating Partnership (“common units”).

The Company’s interest in the Operating Partnership entitles the Company to share in distributions from, and allocations of profits and losses of, the Operating Partnership in proportion to the Company’s percentage ownership of common units. As the sole general partner of the Operating Partnership, the Company has the exclusive power under the Operating Partnership’s partnership agreement to manage and conduct the Operating Partnership’s business, subject to limited approval and voting rights of the limited partners.

The Company has elected to be taxed and will continue to operate in a manner that will allow it to continue to qualify as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). Subject to qualification as a REIT, the Company will be permitted to deduct dividend distributions paid to its stockholders, eliminating the U.S. federal taxation of income represented by such distributions at the Company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and any applicable alternative minimum tax.

On February 1, 2016, the Company closed on the previously announced management internalization (“the Internalization”). The Company had previously entered into a Stock Purchase Agreement (“Stock Purchase Agreement”) with certain stockholders of the Company’s former external advisor, City Office Real Estate Management Inc. (the “Former Advisor”), pursuant to which the Company acquired all of the outstanding stock of the Former Advisor. Pursuant to this Stock Purchase Agreement, at closing, the Company issued 297,321 shares of its common stock with a fair market value of \$3.5 million to the stockholders of the Former Advisor (the “Sellers”). The Company paid an additional \$3.5 million in cash in the first quarter of 2016 representing payments to be made to the Sellers upon reaching certain fully diluted market capitalization thresholds prior to December 31, 2016, which, together with the initial payment, resulted in a total cost of \$7.0 million in the year ended December 31, 2016. The amount was recorded as an expense in the consolidated statements of operations as it represented the cost of terminating the relationship. In connection with the closing of the Internalization, the Company entered into an amendment to the Advisory Agreement between the Company, the Operating Partnership and the Former Advisor (“Advisory Agreement”) that eliminates the payment of acquisition fees by the Company to the Former Advisor. In addition, each of the Company’s executive officers entered into an employment agreement with the Company and became employees of the Company, and, at the same time, approximately eleven additional former employees of the Former Advisor and its affiliates became employees of the Company.

In connection with the closing of the transactions under the Stock Purchase Agreement, a subsidiary of the Company entered into an Administrative Services Agreement (the “Administrative Services Agreement”) with Second City Capital II Corporation and Second City Real Estate II Corporation (“Second City”). The Administrative Services Agreement has a three year term and pursuant to the agreement, the Company will provide various administrative services and support to the related entities managing the Second City funds. The Company’s subsidiary will receive annual payments for these services under the Administrative Services Agreement as follows: first 12 months—\$1.5 million, second 12 months—\$1.15 million and third 12 months—\$0.625 million, for a total of \$3.275 million over the three-year term.

2. Summary of Significant Accounting Policies

Basis of Preparation and Summary of Significant Accounting Policies

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include the financial position and results of operations of the Company, the Operating Partnership and its subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

Use of Estimates

The Company has made a number of significant estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses to prepare these consolidated financial statements in conformity with GAAP. Significant estimates made include the recoverability of accounts receivable, allocation of property purchase price to tangible and intangible assets acquired and liabilities assumed, the determination of impairment of long-lived assets and the useful lives of long-lived assets. These estimates and assumptions are based on our best estimates and judgment. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Management adjusts such estimates when facts and circumstances dictate. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include unrestricted cash and short-term investments with a maturity date of less than three months when acquired.

Restricted Cash

Restricted cash consists of cash held in escrow by lenders pursuant to certain lender agreements and cash received from contracted building sales.

Rent Receivable, Net

The Company continuously monitors collections from tenants and makes a provision for estimated losses based upon historical experience and any specific tenant collection issues that the Company has identified.

Business Combinations

When a property is acquired, management considers the substance of the agreement in determining whether the acquisition represents an asset acquisition or a business combination. Upon acquisitions of properties that constitutes a business, the fair value of the real estate acquired, which includes the impact of fair value adjustments for assumed mortgage debt related to property acquisitions, is allocated to the acquired tangible assets, consisting of land, buildings and improvements and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and value of tenant relationships, based in each case on their fair values. For acquisitions that do not meet the business combination accounting criteria, these are accounted for as asset acquisitions. The Company allocates the cost of the acquisition, which includes any associated acquisition costs to individual assets and liabilities assumed on a relative fair value basis. Also, non-controlling interests acquired are recorded at estimated fair market value.

The fair value of the tangible assets of an acquired property (which includes land, buildings and improvements and fixtures and equipment) is determined by valuing the property as if it were vacant. The “as-if-vacant” value is then allocated to land and buildings and improvements based on management’s determination of relative fair values of these assets. Factors considered by management in performing these analyses include an estimate of carrying

costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions.

The fair value of above-market and below-market lease values are recorded based on the difference between the current in-place lease rent and management's estimate of current market rents. Below-market lease intangibles are recorded as part of acquired lease intangibles liability and amortized into rental revenue over the non-cancelable periods and bargain renewal periods of the respective leases. Above-market leases are recorded as part of intangible assets and amortized as a direct charge against rental revenue over the non-cancelable portion of the respective leases.

The fair value of acquired in-place leases are recorded based on the costs management estimates the Company would have incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the fair value of leasing commissions and legal costs that would be incurred to lease the property to this occupancy level. Additionally, management evaluates the time period over which such occupancy level would be achieved and includes an estimate of the net operating costs incurred during the lease-up period. Acquired in-place leases are amortized on a straight-line basis over the term of the individual leases.

Revenue Recognition

The Company recognizes lease revenue on a straight-line basis over the term of the lease. Certain leases allow for the tenant to terminate the lease, but the tenant must make a termination payment as stipulated in the lease. If the termination payment is in such an amount that continuation of the lease appears, at the time of lease inception, to be reasonably assured, then the Company recognizes revenue over the term of the lease. The Company has determined that for these leases, the termination payment is in such an amount that continuation of the lease appears, at the time of inception, to be reasonably assured. The Company recognizes lease termination fees as revenue in the period received and writes off unamortized lease-related intangible and other lease-related account balances, provided there are no further Company obligations under the lease. Otherwise, such fees and balances are recognized on a straight-line basis over the remaining obligation period with the termination payments being recorded as a component of rent receivable-deferred or deferred revenue on the consolidated balance sheets.

If the Company funds tenant improvements and the improvements are deemed to be owned by the Company, revenue recognition will commence when the improvements are substantially completed and possession or control of the space is turned over to the tenant. If the Company determines that the tenant allowances are lease incentives, the Company commences revenue recognition when possession or control of the space is turned over to the tenant for tenant work to begin. The lease incentive is recorded as a deferred expense and amortized as a reduction of revenue on a straight-line basis over the respective lease term.

Recoveries from tenants for real estate taxes, insurance and other operating expenses are recognized as revenues in the period that the applicable costs are incurred. The Company recognizes differences between estimated recoveries and the final billed amounts in the subsequent year. Final billings to tenants for real estate taxes, insurance and other operating expenses did not vary significantly as compared to the estimated receivable balances.

Real Estate Properties

Real estate properties are stated at cost less accumulated depreciation, except land. Depreciation is computed on the straight-line basis over estimated useful lives of:

	<u>Years</u>
Buildings and improvement	29-50
Site improvement	4-23
Furniture, fixtures and equipment	4-7

Expenditures for maintenance and repairs are charged to operations as incurred.

Impairment of Real Estate Properties

Long-lived assets currently in use are reviewed periodically for possible impairment and will be written down to fair value if considered impaired. Long-lived assets, to be disposed of, are written down to the lower of cost or fair value less the estimated cost to sell. The Company reviews its real estate properties for impairment when there is an event or a change in circumstances that indicates that the carrying amount may not be recoverable. The Company measures and records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying costs to fair value.

Variable Interest Entities

The Company consolidates variable interest entities (“VIE”) if the Company determines that it is the primary beneficiary of the entity. When evaluating the accounting for a VIE, the Company considers the purpose for which the VIE was created, the importance of each of the activities in which it is engaged and our decision-making role, if any, in those activities that significantly determine the entity’s economic performance relative to other economic interest holders. The Company determines the rights, if any, to receive benefits or the obligation to absorb losses that could potentially be significant to the VIE by considering the economic interest in the entity, regardless of form, which may include debt, equity, management and servicing fees, or other contractual arrangements. The Company considers other relevant factors including each entity’s capital structure, contractual rights to earnings (losses), subordination of the Company’s interests relative to those of other investors, contingent payments, and other contractual arrangements that may be economically significant.

Concentration of Credit Risk

The Company places its temporary cash investments in high credit financial institutions. However, a portion of temporary cash investments may exceed FDIC insured levels from time to time. The Company has never experienced any losses related to these balances.

Income Taxes

The Company has elected to be taxed, and intends to continue to operate in a manner that will allow it to continue to qualify, as a REIT. To qualify as a REIT, the Company is required to distribute dividends equal to at least 90% of its REIT taxable income (computed without regard to the deduction for dividends paid and excluding net capital gains) to its stockholders, and meet the various other requirements imposed by the Code relating to matters such as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided the Company qualifies for taxation as a REIT, it is generally not subject to U.S. federal corporate-level income tax on the earnings distributed currently to its stockholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and any applicable alternative minimum tax. In addition, the Company may not be able to re-elect as a REIT for the four subsequent taxable years.

Non-controlling Interests

The Company follows the provisions pertaining to non-controlling interests of ASC Topic 810. A non-controlling interest is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Among other matters, the non-controlling interest standards require that non-controlling interests be reported as part of equity in the consolidated balance sheet (separately from the controlling interest’s equity).

As of December 31, 2017, and 2016, the Company held a 100% and 99.8% interest, respectively, in the Operating Partnership. As the sole general partner and the majority interest holder, the Company consolidates the financial position and results of operations of the Operating Partnership.

Equity-Based Compensation

The Company accounts for equity-based compensation, including shares of restricted stock units, in accordance with ASC Topic 718 Compensation – Stock Compensation, which requires the Company to recognize an expense for the fair value of equity-based awards. The estimated fair value of restricted stock units is amortized over their respective vesting periods.

Earnings per Common Share

The Company calculates net income per common share based upon the weighted average shares outstanding for the years ended December 31, 2017, December 31, 2016 and December 31, 2015. Diluted earnings per share is calculated after giving effect to all potential dilutive shares outstanding during the period. There were 0, 40,001, and 3,070,405 potentially dilutive shares outstanding related to the issuance of common units held by non-controlling interests at December 31, 2017, 2016 and 2015 respectively; however, the shares were excluded from the computation of diluted shares as their impact would have been anti-dilutive. As a result, the number of diluted outstanding common shares was equal to the number of basic outstanding common shares.

Derivative Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. The Company has not elected to designate any instruments as a hedge.

Fair Value of Financial Instruments

ASC 820-10, Fair Value Measurements and Disclosures (“ASC 820-10”) establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity’s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Deferred Leasing Costs

Fees and costs paid in the successful negotiation of leases are deferred and amortized on a straight-line basis over the terms of the respective leases.

Segment Reporting

The Company operates in one industry segment, commercial real estate.

New Accounting Pronouncements

Adopted in the Current Year

In January of 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new standard provides an initial screening test to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within those periods with early adoption permitted. The Company adopted the guidance on the issuance date effective January 1, 2017. The Company expects that most of its real estate acquisitions will be considered asset acquisitions under the new guidance and the transaction costs will be capitalized to the investment basis which is then subject to a purchase price allocation based on relative fair value.

To Be Adopted in Future Years

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which creates a new Topic Accounting Standards Codification (ASC 606). The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. ASC 606 is effective for the first interim period within annual reporting periods beginning after December 15, 2017. The Company will adopt this standard effective January 1, 2018 and will utilize the modified retrospective approach method of transition. The Company has evaluated the impact of this new guidance and has determined that the impact of the adoption is not material to its financial results. Upon reviewing the Company's revenue streams, the revenue stream impacted by ASU 2014-09 is net gain on sale of real estate. Based on our review of the guidance criteria, the timing of recognition will not differ significantly.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for the annual periods beginning after December 31, 2017 and for annual periods and interim periods within those years. The Company expects the impact of the adoption will not be material to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The update amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. In January 2018, the FASB released an exposure draft to ASU 2016-02 that would allow lessors to elect, as a practical expedient, to combine non-lease components with the related lease components as a single lease component if (i) the timing and pattern of revenue recognition for the non-lease components and related lease components are the same, and (ii) the combined single lease component would be classified as an operating lease. The Company is in the process of evaluating whether it will elect to apply the practical expedient. If the Company elects to apply the practical expedient we expect expense reimbursement that qualify as non-lease components will be presented under a single lease component. If the Company does not elect to apply the practical expedient we expect that certain non-lease components of expense reimbursement may be subject to ASC 606.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides clarified guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company will adopt this standard effective January 1, 2018 and will update the classification of debt prepayment costs, contingent consideration payments and proceeds from the settlement of insurance claims and policies.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standard requires that the statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This standard is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The Company will adopt this standard effective January 1, 2018 and will present the change in restricted cash with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows.

3. Rents Receivable, Net

The Company's rents receivable is comprised of the following components (in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Billed receivables	\$ 1,905	\$ 2,024
Straight-line receivables	18,182	15,233
Total rents receivable	<u>\$20,087</u>	<u>\$17,257</u>

As of December 31, 2017, and 2016, the Company's allowance for doubtful accounts was not significant.

4. Real Estate Investments

Acquisitions

During the years ended December 31, 2017, December 31, 2016 and December 31, 2015 the Company acquired the following properties:

<u>Property</u>	<u>Date Acquired</u>	<u>Percentage Owned</u>
Papago Tech	October 2017	100%
Mission City and Sorrento Mesa	September 2017	100%
2525 McKinnon	January 2017	100%
SanTan	December 2016	100%
5090 N 40th St	November 2016	100%
Park Tower	November 2016	95%
FRP Collection	July 2016	95%
Carillon Point	June 2016	100%
Intellicenter	September 2015	100%
190 Office Center	September 2015	100%
DTC Crossroads	June 2015	100%
Superior Pointe	June 2015	100%
Logan Tower	February 2015	100%

Papago Tech, Mission City, Sorrento Mesa, and 2525 McKinnon have been accounted for as asset acquisitions. SanTan, 5090 N 40th St, Park Tower, FRP Collection, Carillon Point, Intellicenter, 190 Office Center, DTC Crossroads, Superior Pointe and Logan Tower were accounted for as business combinations.

The following table summarizes the Company's allocations of the purchase price of assets acquired and liabilities assumed during the year ended December 31, 2017 (in thousands):

	2525 McKinnon	Mission City and Sorrento Mesa	Papago Tech	Total December 31, 2017
Land	\$10,629	\$ 66,097	\$10,746	\$ 87,472
Buildings and improvements	33,357	78,072	17,469	128,898
Tenant improvements	1,158	8,393	2,293	11,844
Acquired intangible assets	3,267	22,846	2,816	28,929
Prepaid expenses and other assets	—	140	10	150
Accounts payable and other liabilities	(190)	(1,507)	(246)	(1,943)
Lease intangible liabilities	(2,186)	(3,766)	(99)	(6,051)
Total Consideration	\$46,035	\$170,275	\$32,989	\$249,299

Consideration paid on acquisitions was in the form of cash and debt.

The following table summarizes the Company's allocations of the purchase price of assets acquired and liabilities assumed during the year ended December 31, 2016 (in thousands):

	Carillon Point	FRP Collection	Park Tower	5090 N 40th St	SanTan	Total December 31, 2016
Land	\$ 5,172	\$ 7,031	\$ 3,484	\$ 6,696	\$ 6,803	\$ 29,186
Buildings and improvements	14,500	36,480	66,967	31,465	35,202	184,614
Tenant improvements	2,816	2,219	1,689	658	1,984	9,366
Acquired intangible assets	3,851	3,932	8,324	3,616	10,284	30,007
Prepaid expenses and other assets	73	101	307	—	—	481
Accounts payable and other liabilities	(217)	(532)	(296)	(448)	(544)	(2,037)
Lease intangible liabilities	(353)	—	(773)	(604)	(930)	(2,660)
Total Consideration	\$25,842	\$49,231	\$79,702	\$41,383	\$52,799	\$248,957

The following table summarizes the Company's allocations of the purchase price of assets acquired and liabilities assumed during the year ended December 31, 2015 (in thousands):

	Logan Tower	Superior Pointe	DTC Crossroads	190 Office Center	Intellicenter	Total December 31, 2015
Land	\$ 1,306	\$ 3,153	\$ 7,137	\$ 7,162	\$ 5,244	\$ 24,002
Buildings and improvements	7,844	19,250	22,545	39,367	31,359	120,365
Tenant improvements	353	584	638	323	2,919	4,817
Acquired intangible assets	1,274	2,866	4,152	5,673	7,742	21,707
Prepaid expenses and other assets	—	24	—	64	—	88
Accounts payable and other liabilities	(48)	(316)	(605)	(720)	(321)	(2,010)
Lease intangible liabilities	(306)	(53)	(353)	(805)	(664)	(2,181)
Total Consideration	\$10,423	\$25,508	\$33,514	\$51,064	\$46,279	\$166,788

The operating results of acquired properties meeting the definition of a business, during the years ended December 31, 2016 and December 31, 2015, since the date of acquisition have been included in the Company's consolidated financial statements. Properties acquired in 2017 were accounted for as asset acquisitions pursuant to ASU 2017-01. The following table represents the results of the properties' operations from the date of acquisition for properties acquired during the year that is presented (in thousands):

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
Operating revenues	\$ 7,215	\$10,047
Operating expenses	(7,433)	(9,957)
Interest	(589)	(1,192)
	<u>\$ (807)</u>	<u>\$ (1,102)</u>

Sale of Real Estate Property

On May 2, 2017, the Company sold the 1400 and 1600 buildings at the AmberGlen property in Portland, Oregon, and its related assets and liabilities, for a sales price of \$18.9 million, resulting in an aggregate net gain of \$12.1 million, net of \$2.0 million in costs, which has been classified as net gain on sale of real estate property in the consolidated statements of operations. In connection with the sale of the property, certain debt repayments were made. In accordance with ASU 2014-08, the sale was not considered a discontinued operation.

On June 15, 2016, the Company sold the Corporate Parkway property in Allentown, Pennsylvania, and its related assets and liabilities, for a sales price of \$44.9 million, resulting in an aggregate net gain of \$15.9 million, net of \$2.0 million in costs, which has been classified as net gain on sale of real estate property in the consolidated statements of operations. In connection with the sale of the property, certain debt repayments were made. In accordance with ASU 2014-08, the sale was not considered a discontinued operation. Proceeds from the sale were applied subsequently in a like-kind exchange so as to qualify for tax-deferred treatment under Section 1031 of the Code.

Assets Held for Sale

On September 21, 2016, we entered into a Purchase and Sale agreement to sell the Washington Group Plaza property for \$86.5 million. The transaction is anticipated to close in March 2018, subject to customary closing conditions. In accordance with ASU 2014-08, the sale will not be considered a discontinued operation. A \$10.0 million non-refundable deposit has been received as of December 31, 2017, \$0.25 million in the form of earnest money deposit and \$9.75 million as an irrevocable letter of credit.

The property has been classified as held for sale as of December 31, 2017 (in thousands):

<u>December 31, 2017</u>	<u>Washington Group Plaza</u>
Real estate properties, net	\$34,543
Deferred leasing costs, net	1,295
Acquired lease intangible assets, net	817
Rents receivable, prepaid expenses and other assets	1,772
Assets held for sale	<u>\$38,427</u>
Acquired lease intangibles liabilities, net	(2)
Accounts payable, accrued expenses, deferred rent and tenant rent deposits	(2,828)
Liabilities related to assets held for sale	<u>\$ (2,830)</u>

Variable Interest Entities

As of December 31, 2017, the Company had entered into a purchase and sale transaction in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended, for the exchange of like-kind property to defer taxable gains on the sale of properties (“1031 Exchange”). For reverse transactions under a 1031 Exchange in which the Company purchases new properties prior to selling the property to be matched in the like-kind exchange, legal title to the new properties is held by a Qualified Intermediary engaged to execute the 1031 Exchange until the sale transaction and the 1031 Exchange is completed. The Company retains essentially all of the legal and economic benefits and obligations related to Mission City, Sorrento Mesa and Papago Tech prior to completion of the 1031 Exchanges. As such, Mission City, Sorrento Mesa and Papago Tech is included in our Consolidated Balance Sheets and Consolidated Statements of Operations as a VIE until legal title is transferred to us upon completion of the 1031 Exchange.

5. Lease Intangibles

Lease intangibles and the value of assumed lease obligations as of December 31, 2017 and December 31, 2016 were comprised as follows (in thousands):

	Lease Intangible Assets				Lease Intangible Liabilities		
	Above Market Leases	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease	Total
December 31, 2017							
Cost	\$ 9,082	\$ 71,426	\$27,706	\$108,214	\$(11,608)	\$(138)	\$(11,746)
Accumulated amortization	(3,215)	(30,613)	(9,298)	(43,126)	3,065	32	3,097
	<u>\$ 5,867</u>	<u>\$ 40,813</u>	<u>\$18,408</u>	<u>\$ 65,088</u>	<u>\$ (8,543)</u>	<u>\$(106)</u>	<u>\$ (8,649)</u>
December 31, 2016							
Cost	\$ 7,796	\$ 59,370	\$25,693	\$ 92,859	\$ (5,587)	\$(138)	\$ (5,725)
Accumulated amortization	(3,779)	(24,384)	(8,482)	(36,645)	1,395	28	1,423
	<u>\$ 4,017</u>	<u>\$ 34,986</u>	<u>\$17,211</u>	<u>\$ 56,214</u>	<u>\$ (4,192)</u>	<u>\$(110)</u>	<u>\$ (4,302)</u>

The estimated aggregate amortization expense for lease intangibles for the five succeeding years and in the aggregate are as follows (in thousands):

2018	\$15,984
2019	13,505
2020	11,585
2021	9,478
2022	3,187
Thereafter	2,700
	<u>\$56,439</u>

6. Debt

The following table summarizes the secured indebtedness as of December 31, 2017 and 2016 (in thousands):

<u>Property</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Interest Rate as of December 31, 2017</u>	<u>Maturity</u>
Secured Credit Facility ⁽¹⁾	\$ 33,500	\$ 52,500	LIBOR +2.25% ⁽²⁾	June 2018
Midland Life Insurance ⁽³⁾	88,582	90,124	4.34	May 2021
Mission City	47,000	—	3.78	November 2027
190 Office Center ⁽⁴⁾	41,250	41,250	4.79	October 2025
SanTan ⁽⁴⁾	35,100	—	4.56	March 2027
Intellicenter ⁽⁴⁾	33,563	33,563	4.65	October 2025
Washington Group Plaza ⁽⁵⁾	32,290	32,995	3.85	July 2018
FRP Collection ⁽⁴⁾	30,174	30,737	3.85	September 2023
2525 McKinnon	27,000	—	4.24	April 2027
5090 N 40 th St	22,000	—	3.92	January 2027
AmberGlen ⁽⁴⁾	20,000	—	3.69	May 2027
Lake Vista Pointe ⁽⁵⁾	18,358	18,460	4.28	August 2024
FRP Ingenuity Drive ⁽⁵⁾⁽⁶⁾	17,000	17,000	4.44	December 2024
Plaza 25 ⁽⁴⁾⁽⁵⁾	16,882	17,000	4.10	July 2025
Carillon Point ⁽⁴⁾	16,671	17,000	3.50	October 2023
Central Fairwinds ⁽⁴⁾	15,107	—	4.00	June 2024
AmberGlen Mortgage Loan ⁽⁷⁾	—	24,280	—	—
Total Principal	494,477	374,909		
Deferred financing costs, net	(4,968)	(4,852)		
Total	<u>\$489,509</u>	<u>\$370,057</u>		

All interest rates are fixed interest rates with the exception of the secured credit facility (“Secured Credit Facility”) as explained in footnote 1 below.

- (1) At December 31, 2017 the Secured Credit Facility had \$150 million authorized and \$33.5 million drawn. The Credit Agreement has a maturity date of June 26, 2018, which may be extended to June 26, 2019 at the Company’s option upon meeting certain conditions. The Secured Credit Facility requires the Company to maintain a fixed charge coverage ratio of no less than 1.60x. At December 31, 2017, the Secured Credit Facility was cross-collateralized by Logan Tower, Superior Pointe, Park Tower and Sorrento Mesa. On September 1, 2017, the Company exercised its option under the Secured Credit Facility to utilize the accordion feature to increase the authorized borrowing capacity under the Secured Credit Facility from \$100 million to \$150 million. During 2016 the authorized borrowing capacity was increased from \$75 million to \$100 million.
- (2) As of December 31, 2017, the one month LIBOR rate was 1.56%.
- (3) The mortgage loan is cross-collateralized by DTC Crossroads, Cherry Creek and City Center. Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization. The loan bears a fixed interest rate of 4.34% and matures on May 6, 2021. Upon the sale of Corporate Parkway on June 15, 2016, \$4 million of the loan was paid down and DTC Crossroads was substituted in as collateral property.
- (4) The Company has various covenants including debt service coverage ratios that under certain conditions must be maintained no less than 1.15x, 1.20x, 1.20x, 1.40x, 1.15x, 1.45x, 1.35x and 1.35x respectively for each of 190 Office Center, SanTan, Intellicenter, FRP Collection, AmberGlen, Plaza 25, Carillon Point and Central Fairwinds. The debt service coverage ratio covenants contained in the loan agreements for Plaza 25, which have not been met at December 31, 2017, allow for temporary relief from the debt service coverage ratio test if certain conditions are met or prepayment of debt service occurs according to a specified schedule.
- (5) Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization.
- (6) The Company is required to maintain a minimum net worth of \$17 million, minimum liquidity of \$1.7 million and a debt service coverage ratio of no less than 1.15x.
- (7) On May 2, 2017, in conjunction with the sale of the 1400 and 1600 buildings at the AmberGlen property, the Company repaid the outstanding debt secured on the property of \$24.1 million plus closing costs and subsequently closed on a \$20 million loan secured by a first mortgage lien on the remaining buildings.

The scheduled principal repayments of mortgage payable as of December 31, 2017 are as follows (in thousands):

2018	\$ 69,705
2019	5,049
2020	6,086
2021	88,110
2022	4,772
Thereafter	<u>320,755</u>
Total	<u>\$494,477</u>

7. Fair Value of Financial Instruments

Fair value measurements are based on assumptions that market participants would use in pricing an asset or a liability. The hierarchy for inputs used in measuring fair value is as follows:

Level 1 Inputs – quoted prices in active markets for identical assets or liabilities

Level 2 Inputs – observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 Inputs – unobservable inputs

As of December 31, 2017 and 2016, the Company did not have any hedges or derivatives.

On February 15, 2017, the Company entered into a Termination and Mutual Release Agreement with Second City that terminated our obligation to make any future earn-out payments associated with the Central Fairwinds property in exchange for a cash payment of \$2.4 million, which was made to Second City on February 21, 2017. As a result of the agreement, the earn-out liability was settled (see Note 8).

Cash and Cash Equivalents, Restricted Cash, Rents Receivable, Accounts Payable and Accrued Liabilities

The Company estimates that the fair value approximates carrying value due to the relatively short-term nature of these instruments.

Fair Value of Financial Instruments Not Carried at Fair Value

With the exception of fixed rate mortgage loans payable, the carrying amounts of the Company's financial instruments approximate their fair value. The Company determines the fair value of its fixed rate mortgage loan payable based on a discounted cash flow analysis using a discount rate that approximates the current borrowing rates for instruments of similar maturities. Based on this, the Company has determined that the fair value of these instruments was \$462.3 million and \$323.7 million as of December 31, 2017 and December 31, 2016, respectively. Accordingly, the fair value of mortgage loans payable have been classified as Level 3 fair value measurements.

8. Related Party Transactions

Administrative Services Agreement

During the years ended December 31, 2017, 2016, and 2015, the Company earned \$1.2 million, \$1.4 million, and \$0, respectively, in administrative services performed for Second City.

Earn-Out Payment

During the years ended December 31, 2017 and 2016, payments of approximately \$2.4 million and \$3.8 million, respectively, were made to Second City under the Earn-Out provision described in Note 7.

Equity Transactions

On February 1, 2016, the Company closed on the previously announced Internalization. The Company had previously entered into a Stock Purchase Agreement with certain stockholders of the Company's Former Advisor pursuant to which the Company acquired all of the outstanding stock of the Former Advisor (see Note 1).

On July 15, 2016, the Company issued a total of 3,126,084 shares of its common stock to certain limited partners of the Operating Partnership. The shares of common stock were issued in connection with Second City's redemption of a total of 3,126,084 common units pursuant to the terms of the Operating Partnership's amended and restated limited partnership agreement, as amended.

Advisory and Transaction Fees

During the years ended December 31, 2017, 2016, and 2015, the Company incurred \$0, \$0.1 million, and \$3.0 million, respectively, in advisory and transaction fees payable to the Former Advisor for asset and property management services.

9. Future Minimum Rent Schedule

Future minimum lease payments to be received as of December 31, 2017 under noncancellable operating leases for the next five years and thereafter are as follows (in thousands):

2018	\$ 95,653
2019	85,981
2020	75,929
2021	66,196
2022	52,405
Thereafter	98,214
	<u>\$474,378</u>

The above minimum lease payments to be received do not include reimbursements from tenants for certain operating expenses and real estate taxes and do not include early termination payments provided for in certain leases.

Eleven state government tenants currently have the exercisable right to terminate their lease if the state does not appropriate rent in its annual budgets. The Company has determined that the occurrence of the government tenant not appropriating the rent in its annual budget is a remote contingency and accordingly recognizes lease revenue on a straight-line basis over the respective lease term. These tenants represent approximately 11.7% of the Company's total future minimum lease payments as of December 31, 2017.

10. Commitments and Contingencies

The Company is obligated under certain tenant leases to fund tenant improvements and the expansion of the underlying leased properties.

Under various federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for the cost of removal or remediation of certain

hazardous or toxic substances disposed, stored, generated, released, manufactured or discharged from, on, at, under, or in a property. As such, the Company may be potentially liable for costs associated with any potential environmental remediation at any of its formerly or currently owned properties.

The Company believes that it is in compliance in all material respects with all federal, state and local ordinances and regulations regarding hazardous or toxic substances. Management is not aware of any environmental liability that it believes would have a material adverse impact on the Company's financial position or results of operations. Management is unaware of any instances in which the Company would incur significant environmental costs if any or all properties were sold, disposed of or abandoned. However, there can be no assurance that any such non-compliance, liability, claim or expenditure will not arise in the future.

The Company is involved from time to time in lawsuits and other disputes which arise in the ordinary course of business. As of December 31, 2017 management believes that these matters will not have a material adverse effect, individually or in the aggregate, on the Company's financial position or results of operations.

11. Stockholder's Equity

On February 1, 2016, the Company closed on the Internalization. Upon closing of the Internalization, the Company and certain of its subsidiaries acquired all of the outstanding stock of the Former Advisor. Pursuant to the Stock Purchase Agreement, at closing, the Company issued 297,321 shares of its common stock to the sellers. In addition, the Company recorded \$3.5 million in the first quarter of 2016 in payments to the sellers upon reaching certain fully diluted market capitalization thresholds.

On April 5, 2016, the Company completed a follow-on public offering pursuant to which the Company sold 8,050,000 shares of its common stock to the public at a price of \$11.40 per share, inclusive of the overallotment option. The Company raised \$91.8 million in gross proceeds, resulting in net proceeds to us of approximately \$86.7 million after deducting \$5.1 million in underwriting discounts and other expenses related to the offering.

On October 4, 2016, the Company completed a public preferred stock offering pursuant to which the Company sold 4,000,000 shares of our 6.625% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), par value \$0.01 per share to the public at a price of \$25.00 per share. The Company raised \$100.0 million in gross proceeds, resulting in net proceeds to the Company of approximately \$96.5 million after deducting \$3.5 million in underwriting discounts and expenses related to the offering. On October 28, 2016, the Company issued an additional 480,000 shares of Series A Preferred Stock pursuant to the partial exercise of the underwriters' overallotment option, raising an additional \$12.0 million in gross proceeds before underwriting discounts and expenses. The preferred stock is perpetual and from October 4, 2021, the Company may at its option redeem the Preferred Stock in whole or in part at a redemption price equal to \$25.00 per share, plus any accrued and unpaid dividends (whether or not declared) to, but not including, the date of redemption. During the year ended December 31, 2016, a pro-rated dividend of \$1.8 million was declared and paid subsequently in January 2017.

On January 13, 2017, the Company completed a public offering pursuant to which the Company sold 5,750,000 shares of its common stock to the public at a price of \$12.40 per share, inclusive of the overallotment option. The Company raised \$71.3 million in gross proceeds, resulting in net proceeds to us of approximately \$68.0 million after deducting \$3.3 million in underwriting discounts and other expenses related to the offering.

On June 16, 2017, the Company and the Operating Partnership entered into separate equity distribution agreements (the "Sales Agreements") with each of KeyBanc Capital Markets Inc., Raymond James & Associates, Inc. and BMO Capital Markets Corp. (collectively, the "Sales Agents"), pursuant to which the Company may issue and sell from time to time up to 6,000,000 shares of its common stock, \$0.01 par value per share, and up to 1,000,000 shares of its 6.625% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share (collectively, the "Shares"), through the Sales Agents, acting as agents or principals (the "ATM Program").

Pursuant to the Sales Agreements, the Shares may be offered and sold through the Sales Agents in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange or, with the prior consent of the Company, in privately negotiated transactions. The Sales Agents will be entitled to compensation of up to 2.0% of the gross proceeds of Shares sold through the Sales Agents from time to time under the Sales Agreements. The Company has no obligation to sell any of the Shares under the Sales Agreements and may at any time suspend solicitations and offers under, or terminate, the Sales Agreements. During the year ended December 31, 2017, we did not sell any Shares under the ATM Program.

On December 21, 2017, the Company completed a public offering pursuant to which the Company sold 5,750,000 shares of its common stock to the public at a price of \$12.60 per share, inclusive of the overallotment option. The Company raised \$72.5 million in gross proceeds, resulting in net proceeds to us of approximately \$69.0 million after deducting \$3.5 million in underwriting discounts and other expenses related to the offering.

Non-controlling Interests

Non-controlling interests in the Company represent common units not held by the Company or its consolidated subsidiaries. There were no non-controlling interests in the Company as of December 31, 2017. Common units and shares of common stock have essentially the same economic characteristics, as they share equally in the total net income or loss distributions of the Operating Partnership. Beginning on or after the date which is 12 months after the date on which a person first became a holder of common units, each limited partner and assignees of limited partners will have the right, subject to the terms and conditions set forth in the partnership agreement, to require the Operating Partnership to redeem all or a portion of the common units held by such limited partner or assignee in exchange for a cash amount per common unit equal to the value of one share of common stock, determined in accordance with and subject to adjustment under the partnership agreement. The Company has the sole option at its discretion to redeem the tendered common units by issuing common stock on a one-for-one basis. The Operating Partnership unitholders are entitled to share in cash distributions from the Operating Partnership in proportion to its percentage ownership of common units.

During the year ended December 31, 2017, 40,000 common units were redeemed for shares of common stock.

The following table summarizes the non-controlling interests in properties as of December 31, 2017 and December 31, 2016 (in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
City Center	\$ (140)	\$ (65)
Central Fairwinds	(764)	571
AmberGlen	(1,375)	(1,240)
FRP Collection	842	995
Park Tower	<u>1,645</u>	<u>1,488</u>
	<u>\$ 208</u>	<u>\$ 1,749</u>

Common Stock and Common Unit Distributions

During the year ended December 31, 2017, the Company declared aggregate cash distributions to common stockholders and common unitholders of \$29.8 million. The Company paid aggregate cash distributions of \$28.4 million for the year-ended December 31, 2017 and \$8.5 million was payable as of December 31, 2017.

During the year ended December 31, 2017, the Company declared the following distributions per share and unit:

<u>Period</u>	<u>Distribution per Common Share/ Unit</u>	<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>
January 1, 2017 – March 31, 2017	\$0.235	March 21, 2017	April 11, 2017	April 25, 2017
April 1, 2017 – June 30, 2017	0.235	June 27, 2017	July 11, 2017	July 25, 2017
July 1, 2017 – September 30, 2017	0.235	September 15, 2017	October 11, 2017	October 25, 2017
October 1, 2017 – December 31, 2017	0.235	December 15, 2017	January 11, 2018	January 25, 2018
Total	<u>\$0.940</u>			

Preferred Stock Distributions

During the year ended December 31, 2017, the Company declared aggregate cash distributions to preferred stockholders of \$7.4 million. The Company paid aggregate cash distributions of \$7.8 million for the year-ended December 31, 2017 and \$1.9 million was payable as of December 31, 2017.

Restricted Stock Units

The Company has an equity incentive plan (“Equity Incentive Plan”) for certain officers, directors, advisors and personnel, and, with approval of the board of directors, for subsidiaries and their respective affiliates. The Equity Incentive Plan provides for grants of restricted common stock, restricted stock units, phantom shares, stock options, dividend equivalent rights and other equity-based awards (including LTIP Units), subject to the total number of shares available for issuance under the plan. The Equity Incentive Plan is administered by the compensation committee of the board of directors (the “plan administrator”).

The maximum number of shares of common stock that may be issued under the Equity Incentive Plan is 1,263,580 shares. To the extent an award granted under the Equity Incentive Plan expires or terminates, the shares subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards.

During the year ended December 31, 2017, 117,478 restricted stock units (“RSUs”) were granted to directors, executive officers and non-executive employees with a fair value of \$1.5 million. The awards will vest in three equal, annual installments on each of the first three anniversaries of the date of grant. For the year ended December 31, 2017, December 31, 2016 and December 31, 2015, the Company recognized net compensation expense of \$1.7 million, \$2.4 million and \$1.9 million respectively related to the RSUs.

A RSU award represents the right to receive shares of the Company’s common stock in the future, after the applicable vesting criteria, determined by the plan administrator, has been satisfied. The holder of an award of RSU has no rights as a stockholder until shares of common stock are issued in settlement of vested restricted stock units. The plan administrator may provide for a grant of dividend equivalent rights in connection with the grant of RSU; provided, however, that if the restricted stock units do not vest solely upon satisfaction of continued employment or service, any payment in respect to the related dividend equivalent rights will be held by the Company and paid when, and only to the extent that, the related RSU vest.

12. Quarterly Financial Information (unaudited):

The following tables summarize certain selected quarterly financial data for 2017 and 2016 (in thousands, except per share data):

	2017 Quarters			
	Fourth	Third	Second	First
Revenue	\$31,181	\$24,750	\$25,157	\$25,399
Net (loss)/income	(987)	(1,723)	13,167	(1,299)
Net (loss)/income attributable to common stockholders	(2,920)	(3,630)	8,208	(3,313)
Net (loss)/income per share	(0.09)	(0.12)	0.27	(0.11)

	2016 Quarters			
	Fourth	Third	Second	First
Revenue	\$21,304	\$18,791	\$16,092	\$16,274
Net (loss)/income	(3,193)	(1,882)	14,244	(8,793)
Net (loss)/income attributable to common stockholders	(5,080)	(1,945)	11,522	(7,121)
Net (loss)/income per share	(0.21)	(0.08)	0.56	(0.56)

City Office REIT, Inc.
SCHEDULE III – REAL ESTATE PROPERTIES AND ACCUMULATED DEPRECIATION
December 31, 2017
(In Thousands)

Description	Encumbrances ⁽²⁾	Initial Costs to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried as of December 31, 2017 ⁽¹⁾			Accumulated Amortization	Date of Construction	Date Acquired	Depreciation Life For Latest Income Statement
		Land	Buildings and Improvements	Improvements	Land	Building and Improvements	Total ⁽³⁾				
AmberGlen	20,000	\$ 6,546	\$ 3,490	\$ 1,793	\$ 6,546	\$ 5,283	\$ 11,829	\$ 2,272	1984-1998	December 2009	50 Years
City Center	23,850	3,123	10,656	8,190	3,123	18,846	21,969	6,032	1984	December 2010	40 Years
Central											
Fairwinds	15,107	1,747	9,751	5,352	1,747	15,103	16,850	2,929	1982	May 2012	40 Years
Cherry Creek	48,675	25,745	20,144	926	25,745	21,070	46,815	5,089	1962-1980	January 2014	36 Years
Plaza 25	16,882	1,764	20,563	1,085	1,764	21,648	23,412	3,470	1981	June 2014	30 Years
Lake Vista											
Pointe	18,358	4,115	20,600	55	4,115	20,655	24,770	3,272	2007	July 2014	45 Years
FRP Ingenuity											
Drive	17,000	4,415	17,775	35	4,415	17,810	22,225	2,142	1999	November 2014	40 Years
Logan Tower	—	1,306	8,197	384	1,306	8,581	9,887	1,000	1983	February 2015	33 Years
Superior											
Pointe	—	3,153	19,834	1,137	3,153	20,971	24,124	2,085	2000	June 2015	40 Years
DTC											
Crossroads	16,057	7,137	23,184	378	7,137	23,562	30,699	2,242	1999	June 2015	33 Years
190 Office											
Center	41,250	7,162	39,690	749	7,162	40,439	47,601	2,614	2001	September 2015	45 Years
Intellicenter	33,563	5,244	34,278	8	5,244	34,286	39,530	2,570	2008	September 2015	50 Years
Carillon Point	16,671	5,172	17,316	17	5,172	17,333	22,505	1,351	2007	June 2016	39 Years
FRP Collection	30,174	7,031	38,700	58	7,031	38,758	45,789	2,661	1986-1999	July 2016	40 Years
Park Tower	—	3,479	68,656	3,282	3,479	71,938	75,417	3,178	1973	November 2016	30 Years
5090 N 40th St	22,000	6,696	32,123	395	6,696	32,518	39,214	1,008	1988	November 2016	45 Years
SanTan	35,100	6,803	37,187	356	6,803	37,543	44,346	1,672	2000-2003	December 2016	41 Years
2525											
McKinnon	27,000	10,629	34,515	680	10,629	35,195	45,824	955	2003	January 2017	50 Years
Mission City	47,000	25,741	41,474	78	25,741	41,552	67,293	684	1990-2007	September 2017	29 Years
Sorrento Mesa	—	40,356	44,991	236	40,356	45,227	85,583	765	1985-2001	September 2017	33 Years
Papago Tech	—	10,746	19,762	—	10,746	19,762	30,508	203	1993-1995	October 2017	40 Years
Corporate	33,500	—	111	—	—	111	111	40			
Total	<u>\$462,187</u>	<u>\$188,110</u>	<u>\$562,997</u>	<u>\$25,194</u>	<u>\$188,110</u>	<u>\$588,191</u>	<u>\$776,301</u>	<u>\$48,234</u>			

- (1) The aggregate cost for federal tax purposes as of December 31, 2017 of our real estate assets was \$669,562.
- (2) Encumbrances exclude Washington Group Plaza for \$32,290 as the property was held for sale at December 31, 2017 and net deferred financing costs of \$4,968. The combined impact of these adjustments were \$27,322.
- (3) Properties identified as held for sale at December 31, 2017 are excluded.

A summary of activity for real estate and accumulated depreciation for the year ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Real Estate Properties		
Balance, beginning of year	\$589,376	\$381,789
Acquisitions	228,214	223,167
Dispositions	(11,683)	(24,309)
Capital improvements	10,804	8,729
Assets held for sale	(40,410)	—
Balance, end of year	<u>\$776,301</u>	<u>\$589,376</u>
Accumulated depreciation		
Balance, beginning of year	\$ 39,052	\$ 26,909
Depreciation	22,424	30,178
Depreciation on dispositions	(7,374)	(18,035)
Depreciation on assets held for sale	(5,868)	—
Balance, end of year	<u>\$ 48,234</u>	<u>\$ 39,052</u>

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Amendment and Restatement of the Company, as amended and supplemented.†
3.2	Second Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on March 14, 2017).
4.1	Certificate of Common Stock of City Office REIT, Inc. (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-11/A filed with the Commission on February 18, 2014).
4.2	Form of certificate representing the 6.625% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed with the Commission on September 30, 2016).
10.1	Form of Indemnification Agreement by and between City Office REIT, Inc. and its directors and officers (incorporated by reference to Exhibit 10.12 of the Company's Registration Statement on Form S-11/A filed with the Commission on March 25, 2014).
10.2	Amended and Restated Agreement of Limited Partnership of City Office REIT Operating Partnership, L.P., dated as of April 21, 2014 (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed with the Commission on May 23, 2014).
10.3	Equity Incentive Plan (incorporated by reference to Exhibit 10.7 of the Company's Quarterly Report on Form 10-Q filed with the Commission on May 23, 2014).
10.4	Joinder Agreement, dated as of February 4, 2015, by and between CIO Logan Tower, Limited Partnership and KeyBank National Association (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 10, 2015).
10.5	Amended and Restated Credit Agreement, dated as of June 26, 2015, by and between City Office REIT Operating Partnership, L.P., KeyBank National Association, as lender, KeyBank National Association, as agent, and KeyBanc Capital Markets, as sole lead arrange and sole book manager (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on June 29, 2015).
10.6	First Amendment and Joinder to Amended and Restated Credit Agreement, dated as of July 14, 2015, by and among City Office REIT Operating Partnership, L.P. and certain of its subsidiaries, City Office REIT, Inc., the Lenders named therein, and KeyBank National Association, as agent for the Lenders (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 17, 2015).
10.7	Promissory Note, dated July 14, 2015, by City Office REIT Operating Partnership, L.P. and certain of its subsidiaries, to BMO Harris Bank, N.A. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on July 17, 2015).
10.8	Promissory Note, dated July 14, 2015, by City Office REIT Operating Partnership, L.P. and certain of its subsidiaries, to the Royal Bank of Canada (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on July 17, 2015).
10.9	Second Amendment to Advisory Agreement, dated as of November 2, 2015, by and among City Office REIT, Inc., City Office REIT Operating Partnership, L.P. and City Office Real Estate Management, Inc. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Commission on November 2, 2015).
10.10	Administrative Services Agreement, dated as of February 1, 2016, by and among City Office Management Ltd., Second City Capital II Corporation and Second City Real Estate II Corporation (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on February 5, 2016).

<u>Exhibit Number</u>	<u>Description</u>
10.11	Third Amendment to Advisory Agreement, dated as of February 1, 2016, by and among the Company, City Office REIT Operating Partnership, L.P. and City Office Real Estate Management, Inc. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Commission on February 5, 2016).
10.12	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on March 9, 2016).
10.13	Purchase Agreement, dated September 29, 2016, by and between SCCP Boise, Limited Partnership and St. Luke's Health System, Ltd. (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed on November 7, 2016).
10.14	First Amendment to the Amended and Restated Agreement of Limited Partnership of City Office REIT Operating Partnership, L.P., dated September 30, 2016 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on September 30, 2016).
10.15	Second Amendment to the Amended and Restated Agreement of Limited Partnership of City Office REIT Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 14, 2017).
10.16	Third Amendment to the Amended and Restated Agreement of Limited Partnership of City Office REIT Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 20, 2017).
10.17	Equity Distribution Agreement, dated June 16, 2017, by and among City Office REIT, Inc., City Office Operating Partnership, L.P. and KeyBanc Capital Markets Inc. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on June 20, 2017).
10.18	Equity Distribution Agreement, dated June 16, 2017, by and among City Office REIT, Inc., City Office Operating Partnership, L.P. and Raymond James & Associates, Inc. (incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed on June 20, 2017).
10.19	Equity Distribution Agreement, dated June 16, 2017, by and among City Office REIT, Inc., City Office Operating Partnership, L.P. and BMO Capital Markets Corp. (incorporated by reference to Exhibit 1.3 to the Company's Current Report on Form 8-K filed on June 20, 2017).
10.20	Form of Agreement of Purchase and Sale and Joint Escrow Instructions, dated July 19, 2017 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2017).
10.21	Loan Agreement, dated October 5, 2017, between CIO Mission City Holdings, LLC and Metropolitan Life Insurance Company (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 7, 2017).
10.22	Executive Employment Agreement, dated as of February 1, 2018, by and between City Office Management Ltd. and James Farrar (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on February 2, 2018).
10.23	Executive Employment Agreement, dated as of February 1, 2018, by and between City Office Management Ltd. and Gregory Tylee (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Commission on February 2, 2018).
10.24	Executive Employment Agreement, dated as of February 1, 2018, by and between City Office Management Ltd. and Anthony Maretic (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the Commission on February 2, 2018).
12.1	Statement of Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Dividends†

<u>Exhibit Number</u>	<u>Description</u>
21.1	Subsidiaries of the Company†
23.1	Consent of KPMG LLP†
31.1	Certification of Annual Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002†
31.2	Certification of Annual Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002†
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†
101.INS	INSTANCE DOCUMENT
101.SCH	SCHEMA DOCUMENT
101.CAL	CALCULATION LINKBASE DOCUMENT*
101.LAB	LABELS LINKBASE DOCUMENT*
101.PRE	PRESENTATION LINKBASE DOCUMENT*
101.DEF	DEFINITION LINKBASE DOCUMENT*

† Filed herewith.

* Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements.

SIGNATURES

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

CITY OFFICE REIT, INC.

Date: March 1, 2018

By: /s/ James Farrar

James Farrar
Chief Executive Officer and Director

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James Farrar</u> James Farrar	Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2018
<u>/s/ Anthony Maretic</u> Anthony Maretic	Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 1, 2018
<u>/s/ John McLernon</u> John McLernon	Independent Director, Chairman of Board of Directors	March 1, 2018
<u>/s/ Mark Murski</u> Mark Murski	Independent Director	March 1, 2018
<u>/s/ Stephen Shraiberg</u> Stephen Shraiberg	Independent Director	March 1, 2018
<u>/s/ William Flatt</u> William Flatt	Independent Director	March 1, 2018
<u>/s/ Jeffrey Kohn</u> Jeffrey Kohn	Independent Director	March 1, 2018
<u>/s/ John Sweet</u> John Sweet	Independent Director	March 1, 2018

Certification

I, James Farrar, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2017 of City Office REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 1, 2018

Date

/s/ James Farrar

James Farrar
Chief Executive Officer and Director
(Principal Executive Officer)

Certification

I, Anthony Maretic, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2017 of City Office REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 1, 2018

Date

/s/ Anthony Maretic

Anthony Maretic

Chief Financial Officer, Secretary and Treasurer

(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Annual Report on Form 10-K for the fiscal year ended December 31, 2017 of City Office REIT, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James Farrar, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 1, 2018

Date

/s/ James Farrar

James Farrar
Chief Executive Officer and Director
(Principal Executive Officer)

This written report is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to City Office REIT, Inc. and will be retained by City Office REIT, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Annual Report on Form 10-K for the fiscal year ended December 31, 2017 of City Office REIT, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony Maretic, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 1, 2018

Date

/s/ Anthony Maretic

Anthony Maretic
Chief Financial Officer, Secretary and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

This written report is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to City Office REIT, Inc. and will be retained by City Office REIT, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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HIGHLIGHTS

High Quality Properties with Strong Tenants

- › Well-located office properties in amenity-rich and transit-oriented locations
- › Approximately 49.6% of CIO's base rental revenue is derived from tenants that are government agencies, investment grade companies or their subsidiaries⁽¹⁾
- › Staggered lease maturities with a 4.7 year weighted average remaining lease term⁽¹⁾

Proven Value Creation and Markets Positioned for Growth

- › Core markets are located in high growth areas within the Southern and Western US
- › National leaders in employment growth and population growth
- › Expected to lead to increasing rental revenue and capital appreciation over time
- › CIO's three dispositions have generated in excess of \$70 million of gains⁽²⁾

Strong Balance Sheet with Consistent Cash Flow Generation

- › Conservative leverage profile with Net Debt / Enterprise Value of 44.8% ⁽¹⁾
- › Primarily fixed rate debt with a weighted average interest rate of 4.2% ⁽¹⁾
- › 6.2 year average debt maturity⁽¹⁾
- › Predictable earnings model with built-in rental rate growth

Experienced and Committed Management

- › Management has an average of over 20 years of experience with approximately \$2.0 billion of real estate acquisitions since 2011
- › Internalized management team in February 2016

⁽¹⁾ As of December 31, 2017

⁽²⁾ Washington Group Plaza was sold in March 2018



CITY OFFICE REIT, INC.

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