



2019 ANNUAL REPORT



Park Tower, Tampa, FL

LETTER TO OUR SHAREHOLDERS

Dear Fellow Shareholders,

2019 was an exceptional year for City Office REIT. The total return for our common stock in 2019 was 42.6%, significantly outperforming all of our peer benchmarks. This continues the trend since our IPO, in which we have delivered an 11.1% average annual total return. Of particular note this year, we also gained entry into the MSCI US REIT Index (RMZ).

These results are driven by the performance of our well-located properties in 18-hour cities in the southern and western US. Our markets continue to be national leaders in employment and population growth. Combined with our prudent and opportunistic growth of the company, we are well positioned to continue to deliver strong results for our shareholders.

Investments & Dispositions

We continued our expansion in key cities in 2019, adding Seattle as a new market and deepening our presence in Portland and Denver. These \$144 million of acquisitions averaged a 7.3% year-one cap rate.

As we grow, we will also continue to evaluate opportunities to enhance our portfolio through selectively disposing of assets and redeploying that capital. In 2019, we completed the sale of three assets and entered into an agreement to sell a land parcel. Our six dispositions since inception have generated a weighted average IRR of 17% and \$72 million of gains.

Operations

Entering 2019, one of our key focuses was leasing up larger available blocks of space. At our five lowest occupied properties, we signed new leases for 147,000 SF of vacant space, including a major lease signed in January 2020. Our portfolio occupancy improved 1.5% to 91.9% at year end. Overall, we completed 692,000 SF of new and renewal leasing, with the average gross rental rate of our portfolio increasing from \$26.28 per SF to \$27.54 per SF.

Between shares issued through our ATM program and a follow-on offering of common stock, we raised over \$200 million of equity at our highest average issuance price to date. Separately, we also took advantage of favorable interest rates to re-negotiate loan agreements on four of our properties, generating substantial interest savings.

2020 & Beyond

With our capitalization on strong equity and debt capital market conditions at the end of 2019, we have positioned ourselves for long term success. These activities not only secured capital for future portfolio growth and diversification, but also will allow us to reduce our fully deployed leverage levels.

On behalf of the Board of Directors, our entire management team and myself, we appreciate your support of City Office and look forward to advancing our collective goals throughout 2020.

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.



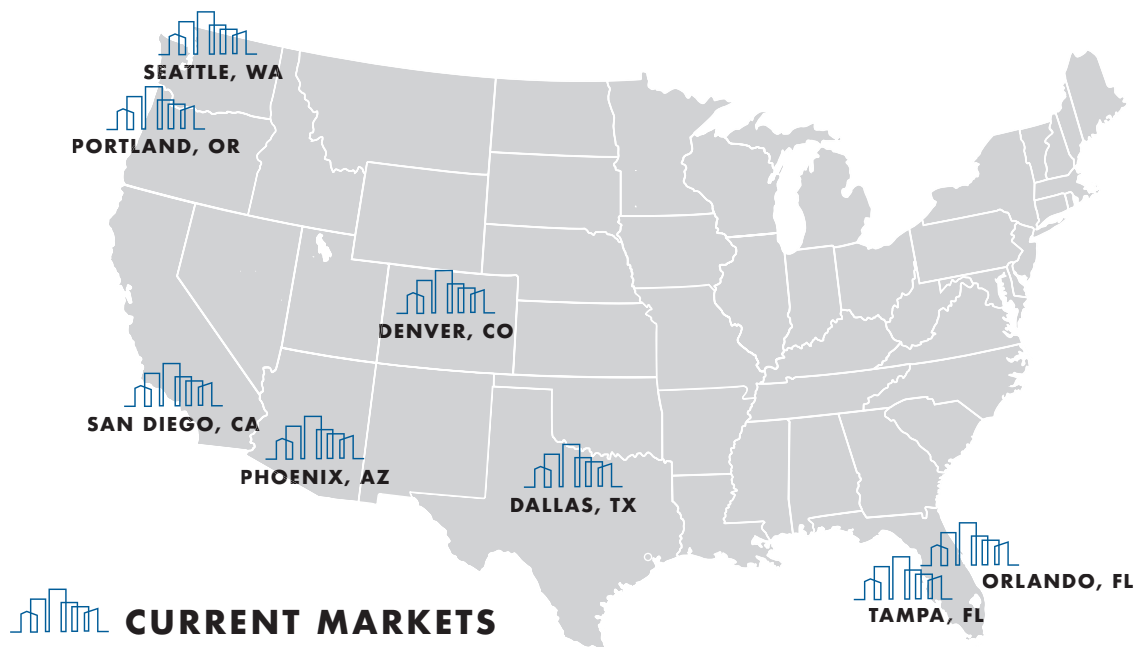
The Quad, Phoenix, AZ

CITY OFFICE REIT (NYSE: CIO)

Corporate Overview

City Office REIT owns quality office properties in high growth 18-hour cities 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 5.8 million square feet of office properties as of December 31, 2019. Our properties are generally:
 - › Located in vibrant, growing markets with strong leasing fundamentals
 - › Occupied by a diversified and high-quality tenant base
 - › 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 18-hour cities with leading economic fundamentals
 - › Well located office properties in both CBD and key amenity-rich, transit-oriented suburban locations
 - › Acquisition prices generally between \$25 - \$100 million
 - › Stable, long-term tenancy profile



MARKET CHARACTERISTICS

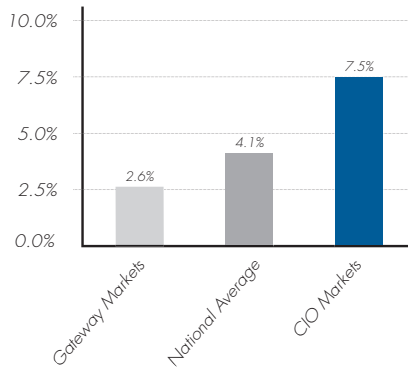
Focused on 18-hour Cities with Desirable Attributes for Office Real Estate

- › Strong economic fundamentals and demographics
- › Vibrant amenity bases; live-work-play environments
- › 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

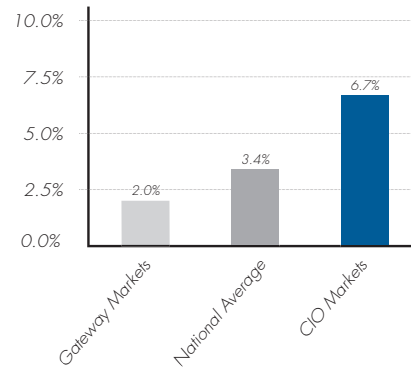
NATION LEADING OFFICE DEMAND DRIVERS

SOURCE: SNL Financial

Projected Employment Growth 2020–2025 (%)



Projected Population Growth 2020–2025 (%)



Mission City, San Diego

INVEST WHERE WE HAVE AN ADVANTAGE

18-Hour Cities Provide Attractive Opportunities for City Office

- › Less competition from larger institutional investors; local real estate operators often lack the capital to compete for acquisitions
- › Deep relationships in target markets provide enhanced pipeline
- › Outsized population and employment growth catalysts create conditions for strong operating performance
- › Average announced post - IPO cap rate of 7.3%

CIO ACQUIRED SIX BUILDINGS FOR \$144 MILLION IN 2019



Canyon Park, Seattle



Cascade Station, Portland



7601 Tech, Denver

PROVEN GROWTH STRATEGY

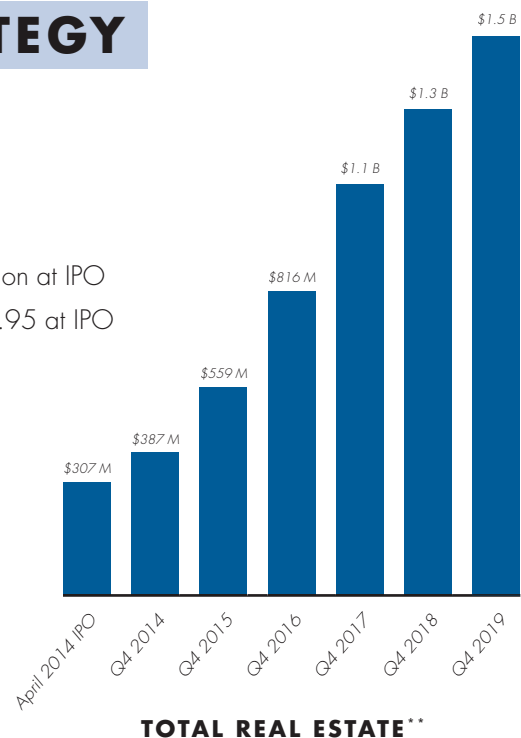
Over \$1.5 Billion in Total Real Estate Acquired

- › Expansion into leading submarkets
- › Growing economies of scale
- › Increased net leasable square footage to 5.8 million from 1.9 million at IPO
- › Increased average annualized base rent/SF to \$24.60 from \$17.95 at IPO

Efficient Access to Capital

- › \$533 million in common stock follow-on and ATM offerings
- › \$112 million Series A preferred stock offering
- › \$591 million in property-level debt financings*

* Financings subsequent to IPO, as of December 31, 2019
 ** Represents implied asset value at IPO plus acquisitions at cost



DEMONSTRATING VALUE CREATION



Logan Tower, Denver

Selectively Recycling Capital

- › Six dispositions to date, including three in 2019
- › Generated a combined IRR of approximately 17% and \$72 million of gains
- › Continue to evaluate opportunities to selectively harvest value and redeploy proceeds

CONTINUING VALUE-ADD SUCCESSES

Value-Enhancing Projects Delivering Strong Leasing Outcomes



Tenant Lounge at 7595 Tech, Denver



Courtyard Renovation at Camelback Square, Phoenix



Lobby Remodel at Pima Center, Phoenix



New Fitness Center at Mission City, San Diego

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 over \$2.5 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 \$3.0 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 over 15 years of experience in senior financial and operational roles
- › Former Chief Operating Officer and Chief Financial Officer of Earls Restaurants Ltd., a multinational hospitality company
- › Held financial management positions with Bentall Kennedy and a senior living real estate company

BOARD OF DIRECTORS

John McLernon, Chairman

Jamie Farrar, CEO and Director

William Flatt, Director

Sabah Mirza, Director

Mark Murski, Director

John Sweet, 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, 2019

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 or organization)

98-1141883
(IRS Employer
Identification No.)

666 Burrard Street
Suite 3210
Vancouver, BC
V6C 2X8

(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:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each Exchange on Which Registered</u>
Common Stock, \$0.01 par value	"CIO"	New York Stock Exchange
6.625% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share	"CIO.PrA"	New York Stock Exchange

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

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, 2019, 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 \$465.7 million, based on the closing sales price of \$11.99 per share as reported on the New York Stock Exchange.

As of February 24, 2020, the registrant had 54,591,047 shares of common stock outstanding.

Documents incorporated by reference: Portions of the registrant's Definitive Proxy Statement for the 2020 Annual Meeting of Shareholders (to be filed with the United States 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, 2019

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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 in “18-hour cities” 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. Within our target markets, we focus primarily on Class A and B properties with a purchase price between \$25 million and \$100 million. We believe that we have a competitive advantage in acquiring these properties in our target markets because of our local relationships, prior transaction experience and reduced competition from large institutional investors in our typical transaction size.

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, 2019, we owned 65 office buildings with a total of approximately 5.8 million square feet of net rentable area (“NRA”) in the metropolitan areas of Dallas, Denver, Orlando, Phoenix, Portland, San Diego, Seattle 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, 2019, our portfolio was approximately 91.9% occupied. Our properties also have a stable, long-term tenancy profile and our occupied leases have staggered expirations and a weighted average remaining lease term to maturity of 4.4 years at December 31, 2019. 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, 2019, we had 20 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:

Drive Cash Flow Increases through Rent Growth: 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. In circumstances where in-place rental rates are below market rental rates, we will aim to capture increases in cash flow by increasing rents to market.

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.

Acquire Properties in Our Target Markets: We seek to expand our portfolio through acquisitions of office properties primarily located in our target 18-hour cities. We believe that current economic conditions and relatively low levels of competition from institutional buyers in our typical transaction size have created attractive investment opportunities for the acquisition of office properties in our target 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.

Lease Currently Vacant Space: As of December 31, 2019, our portfolio was approximately 91.9% occupied, and we believe that there is potential to generate additional rental income by leasing space in these properties that is currently unoccupied. We have been successful in enhancing the appeal of vacant spaces by completing improvements to vacancies, creating or improving building amenities and renovating common areas.

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.

2019 Highlights

- Acquired \$144 million of high-quality office properties, including expanding our geographic footprint into Seattle and deepening our presence in Portland and Denver;
- Disposed of three assets for an aggregate sale price of \$47 million, selectively enhancing our portfolio;
- Completed 692,000 square feet of new and renewal leasing, increasing portfolio occupancy from 90.4% to 91.9%;
- Issued an aggregate 14,900,000 shares of common stock pursuant to the Company's at-the-market offering program and a follow-on public offering, generating aggregate gross proceeds of approximately \$202.1 million;
- Upsized our unsecured credit facility (the "Unsecured Credit Facility") from \$250 million to \$300 million;
- Modified loan agreements at four of our properties, generating significant interest savings;
- Achieved inclusion to the MSCI US REIT Index (RMZ); and
- Declared and paid an aggregate of \$0.94 of dividends per share of common stock.

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 2019, 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 United States Securities and Exchange Commission (the "SEC"). Our Governance Guidelines and Code of Business Conduct and Ethics and the charters of the Audit, Compensation, Investment, 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 3210-666 Burrard Street, Vancouver, British Columbia, V6C 2X8. The Company may, from time to time, amend these charters and policies, and such amended charters and policies will be posted on the Company's website. 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, 2019, approximately 27.8% of the base rental revenue of our properties was derived from our ten largest tenants. 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 the Credit Agreement governing our Unsecured Credit Facility 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 the credit agreement governing our Unsecured Credit Facility (the "Credit Agreement"), we are subject to various financial covenants that may inhibit our ability to make distributions to our stockholders. If we are unable to make distributions to our stockholders, we will not be able to make sufficient distributions to maintain our REIT status.

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, 2019, was approximately \$612.3 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 and 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, 2019, our principal indebtedness represented approximately 49.8% 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.

In September 2019, in connection with the increase in authorized borrowings under our Unsecured Credit Facility from \$250.0 million to \$300.0 million, we entered into the five-year interest rate swap for a notional amount of \$50.0 million (the “Interest Rate Swap”). Pursuant to the Interest Rate Swap, the Company will pay a fixed rate of approximately 1.27% of the notional amount annually, payable monthly, and receive floating rate 30-day LIBOR payments.

The Interest Rate Swap has been designated and qualifies as a cash flow hedge and has been recognized on the consolidated balance sheets at fair value. Gains and losses resulting from changes in the fair value of derivatives that are designated and qualify as cash flow hedges are reported as a component of other comprehensive income (loss) and reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings.

As of December 31, 2019, the Interest Rate Swap was reported as an asset at its fair value of approximately \$0.7 million, which is included in other assets on the Company’s consolidated balance sheet. For the year ended December 31, 2019 the amount of realized gains reclassified to interest expense due to payments received by the swap counterparty was \$0.1 million. Accordingly, the fair value of the Interest Rate Swap has been classified as a Level 2 fair value measurement. See Note 7 to our consolidated financial statements in this report.

Changes in the method pursuant to which reference rates are determined and 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 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. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial

institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate (“SOFR”), a new index calculated by short-term repurchase agreements, backed by Treasury securities. The Federal Reserve Bank of New York began publishing SOFR rates in April 2018. The market transition away from LIBOR and towards SOFR is expected to be gradual and complicated. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate and SOFR a secured lending rate, and SOFR is an overnight rate and LIBOR reflects term rates at different maturities. Although there have been some issuances utilizing SOFR, it is unknown whether this alternative reference rate will attain market acceptance as a replacement for LIBOR. These and other differences create the potential for basis risk between the two rates. The impact of any basis risk between LIBOR and SOFR may negatively affect our operating results. In addition, there is currently no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. Any of these alternative methods may result in interest rates that are higher than if LIBOR were available in its current form, which could have a material adverse effect on results. As such, the potential effect on us cannot yet be determined.

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 reference rates are determined may result in a sudden or prolonged increase or decrease in the reported reference 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 possibility of any pandemic, 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, 2019, we owned seven 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 12.0% of the base rental revenue from our properties as

of December 31, 2019, 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 commitments to Second City Real Estate II Corporation (“Second City”), Clarity Real Estate III GP, Limited Partnership (“Clarity RE”), Clarity Real Estate Ventures GP, Limited Partnership (together with Clarity RE, “Clarity”), and their respective affiliates may give rise to various conflicts of interest.

We are subject to conflicts of interest arising out of our relationship with Second City and Clarity. 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 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. On July 31, 2019, we, through an indirect, wholly-owned subsidiary, entered into a separate administrative services agreement with Clarity to provide administrative services to Clarity similar to those provided to Second City. These arrangements with Second City and Clarity 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;
- 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 before January 1, 2026, 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 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.

We may face risks in connection with like-kind exchanges pursuant to section 1031 of the Code (“Section 1031 Exchanges”).

From time to time, we dispose of properties in transactions that are intended to qualify as Section 1031 Exchanges. It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable or that we may be unable to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange. In such case, our taxable income and earnings and profits would increase. This could increase the dividend income to our stockholders by reducing any return of capital they received. In some circumstances, we may be required to pay additional dividends or, in lieu of that, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow funds in order to pay additional dividends or taxes and the payment of such taxes could cause us to have less cash available to distribute to our stockholders. In addition, if a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports we sent our stockholders, and we may be required to make a special dividend payment to our shareholders if we are unable to mitigate the taxable gains realized. Moreover, for exchanges completed after December 31, 2017, unless the property was disposed of or received in the exchange on or before such date, section 1031 of the Code permits exchanges of real property only. It is possible that additional legislation could be enacted that could further modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

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% 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. We cannot predict the long-term effect of any recent changes 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, 2019, approximately 8.1%, 15.3% and 14.4% of our annualized base rent is scheduled to expire in 2020, 2021, and 2022, 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, 2019, we owned 25 office complexes comprised of 65 office buildings with a total of approximately 5.8 million square feet of NRA in the metropolitan areas of Dallas, Denver, Orlando, Phoenix, Portland, San Diego, Seattle and Tampa. The following table presents an overview of our portfolio as of December 31, 2019.

Metropolitan Area	Property	Economic Interest	NRA (000s Square Feet)	In Place Occupancy	Annualized Base Rent per Square Foot	Annualized Gross Rent per Square Foot ⁽¹⁾	Annualized Base Rent ⁽²⁾ (\$000s)
Phoenix, AZ (20.8% of NRA)	Pima Center	100.0%	272	87.0%	\$27.19	\$27.19	\$ 6,431
	SanTan	100.0%	267	91.7%	\$28.05	\$28.05	\$ 6,855
	5090 N 40 th St	100.0%	174	100.0%	\$29.28	\$29.28	\$ 5,108
	Camelback Square	100.0%	174	78.8%	\$30.92	\$30.92	\$ 4,237
	The Quad	100.0%	163	100.0%	\$28.85	\$29.17	\$ 4,703
Denver, CO (19.9%)	Papago Tech	100.0%	163	86.7%	\$21.88	\$21.88	\$ 3,087
	Cherry Creek	100.0%	356	100.0%	\$18.59	\$19.31	\$ 6,612
	Circle Point	100.0%	272	94.3%	\$17.84	\$31.72	\$ 4,573
	Denver Tech ⁽⁴⁾	100.0%	381	62.7%	\$22.98	\$27.80	\$ 5,264
	Superior Pointe	100.0%	151	96.5%	\$17.81	\$30.29	\$ 2,602
Tampa, FL (17.9%)	Park Tower	94.8%	471	92.4%	\$24.66	\$24.66	\$ 10,732
	City Center	95.0%	242	93.1%	\$25.66	\$25.66	\$ 5,774
	Intellicenter	100.0%	204	100.0%	\$23.99	\$23.99	\$ 4,881
	Carillon Point	100.0%	124	100.0%	\$28.23	\$28.23	\$ 3,505
Orlando, FL (12.4%)	Florida Research Park ⁽⁵⁾	96.6%	397	92.9%	\$23.97	\$27.51	\$ 8,794
	Central Fairwinds	97.0%	168	93.7%	\$25.50	\$25.50	\$ 4,019
	Greenwood Blvd	100.0%	155	100.0%	\$22.75	\$22.75	\$ 3,527
San Diego, CA (10.0%)	Sorrento Mesa	100.0%	296	85.3%	\$25.36	\$33.36	\$ 6,402
	Mission City	100.0%	286	96.9%	\$35.53	\$35.53	\$ 9,845
Dallas, TX (9.9%)	190 Office Center	100.0%	303	89.5%	\$25.67	\$25.67	\$ 6,970
	Lake Vista Pointe	100.0%	163	100.0%	\$16.00	\$25.00	\$ 2,613
	2525 McKinnon	100.0%	111	92.5%	\$28.15	\$45.15	\$ 2,899
Portland, OR (5.6%)	AmberGlen	76.0%	201	96.9%	\$21.69	\$24.28	\$ 4,227
	Cascade Station	100.0%	128	100.0%	\$26.61	\$27.98	\$ 3,393
Seattle, WA (3.5%)	Canyon Park	100.0%	207	100.0%	\$21.20	\$29.20	\$ 4,384
Total / Weighted Average—December 31, 2019⁽³⁾			5,829	91.9%	\$24.60	\$27.54	\$131,437

(1) Annualized gross rent per square foot includes adjustment for estimated expense reimbursements of triple net leases for the year ended December 31, 2019.

(2) Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month ended December 31, 2019 by (ii) 12.

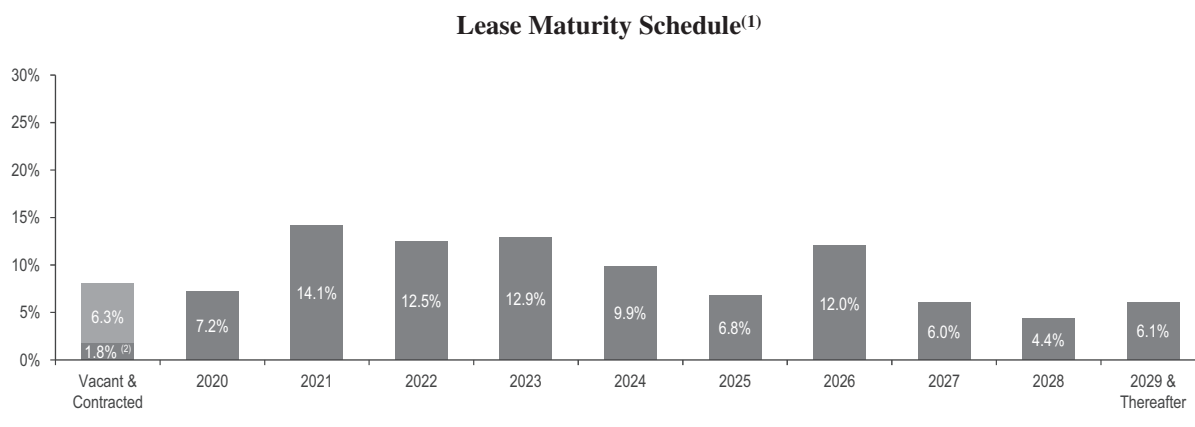
(3) Averages weighted based on the property's NRA, adjusted for occupancy.

(4) Denver Tech is comprised of 7601 Tech, which was acquired during the third quarter of 2019, and 7595 Tech (formerly "DTC Crossroads").

(5) Florida Research Park is comprised of FRP Collection and FRP Ingenuity Drive.

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, 2019

(2) 1.8% represents the leases under contract but not yet in occupancy as of December 31, 2019

The following table sets forth the lease expirations for leases in place in our properties as of December 31, 2019, plus available space, for each of the calendar years ending December 31, 2020 to December 31, 2029, 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 4.4 years.

Year of Lease Expiration	Number of Leases Expiring	NRA of Expiring Leases (000s)	Percentage of NRA	Annualized Base Rent ⁽¹⁾ (000s)	Percentage of Total Properties Rent	Annualized Base Rent per Leased Square Foot Expiring ⁽²⁾	Annualized Base Rent (including Rent Abatement at Dec 31, 2019)	Annualized Base Rent per Leased Square Foot Expiring (Including Rent Abatement at Dec 31, 2019)
Vacant	—	367	6.3%	—	—	—	—	—
Contracted	—	102	1.8%	—	—	—	—	—
2020	51	420	7.2%	10,589	8.1%	25.21	10,540	25.10
2021	68	819	14.1%	20,051	15.3%	24.48	19,753	24.12
2022	54	730	12.5%	18,979	14.4%	26.00	18,877	25.86
2023	57	752	12.9%	20,155	15.3%	26.80	19,951	26.53
2024	51	575	9.9%	14,591	11.1%	25.38	14,371	24.99
2025	26	397	6.8%	10,118	7.7%	25.49	9,170	23.10
2026	13	700	12.0%	15,157	11.5%	21.65	15,157	21.65
2027	5	348	6.0%	7,778	5.9%	22.35	7,211	20.72
2028	11	259	4.4%	5,892	4.5%	22.75	5,745	22.18
2029 & Thereafter	5	360	6.1%	8,127	6.2%	22.58	5,782	16.06
Total/Weighted Average	341	5,829	100.0%	\$131,437	100.0%	\$24.60	\$126,557	\$23.61

(1) Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month of December 31, 2019, by (ii) 12.

(2) Annualized rent per leased square foot expiring reflects rental payments for the month of December 31, 2019, multiplied by 12 and divided by the NRA of expiring lease.

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.

On February 24, 2020, the closing sale price of our common stock on the NYSE was \$13.72. American Stock Transfer & Trust Company, LLC is the transfer agent and registrar for our common stock. On February 24, 2020, we had 55 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.

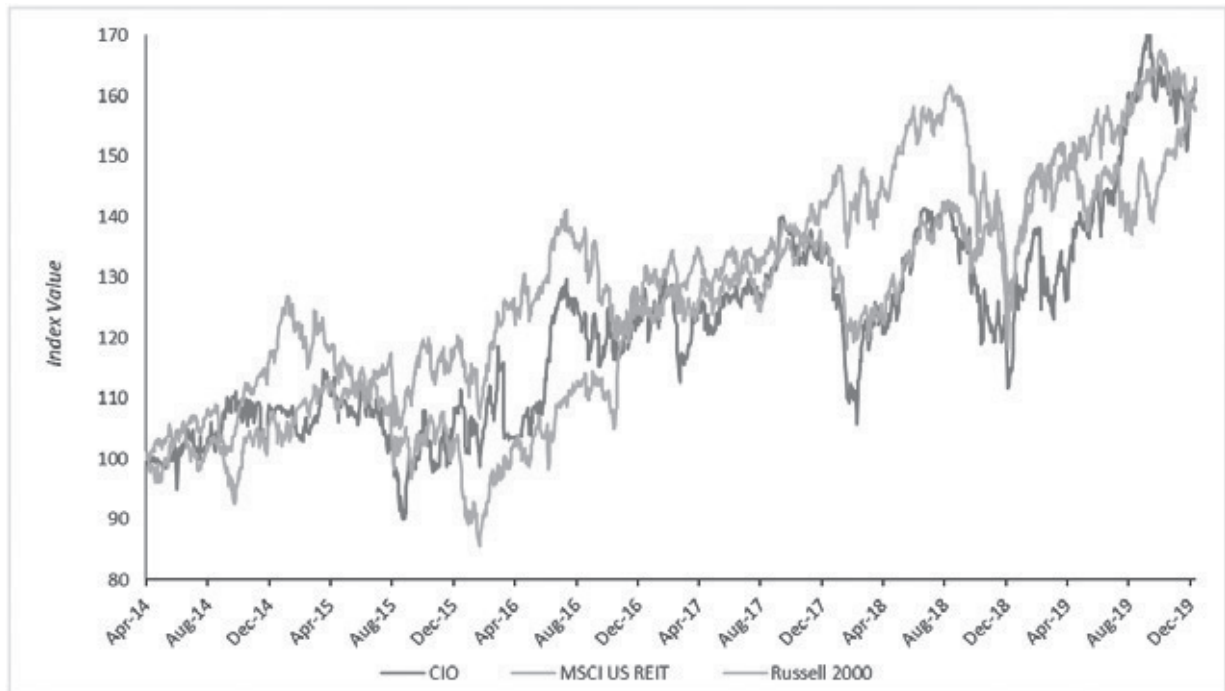
We intend to continue to declare quarterly distributions on our common stock. The actual amount and timing of distributions, however, will be at the discretion of our board of directors and will depend upon our financial condition in addition to the requirements of the Code, and no assurance can be given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

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by Item 5 is incorporated by reference to our definitive Proxy Statement for our 2020 annual stockholders' meeting.

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, 2019, 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 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 and historical basis for our Company.

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

	Years Ended December 31,				
	2019	2018	2017	2016	2015
Statement of Operations Data					
Rental and other revenues	\$ 156,297	\$ 129,484	\$ 106,487	\$ 72,461	\$ 55,052
Operating expenses:					
Property operating expenses	57,316	49,872	42,886	28,305	20,420
General and administrative	11,066	8,137	6,792	6,429	3,728
Depreciation and amortization	59,159	52,352	41,594	30,178	21,624
Impairment of real estate	—	3,497	—	—	—
Acquisition costs	—	—	—	692	2,959
Base management fee	—	—	—	109	1,302
External advisor acquisition	—	—	—	7,045	492
Total operating expenses	<u>127,541</u>	<u>113,858</u>	<u>91,272</u>	<u>72,758</u>	<u>50,525</u>
Operating income/(loss)	28,756	15,626	15,215	(297)	4,527
Interest expense, net	(29,726)	(23,937)	(20,173)	(14,761)	(11,353)
Net gain on sale of real estate property	3,412	46,980	12,116	15,934	—
Change in fair value of contingent consideration	—	—	2,000	—	—
Change in fair value of earn-out	—	—	—	(500)	(841)
Net income/(loss)	<u>2,442</u>	<u>38,669</u>	<u>9,158</u>	<u>376</u>	<u>(7,667)</u>
Less:					
Net income attributable to non-controlling interests in properties	(644)	(501)	(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	1,798	38,168	5,756	(843)	(6,591)
Preferred stock distributions	(7,420)	(7,420)	(7,411)	(1,781)	—
Net (loss)/income attributable to common stockholders	<u>\$ (5,622)</u>	<u>\$ 30,748</u>	<u>\$ (1,655)</u>	<u>\$ (2,624)</u>	<u>\$ (6,591)</u>
Net (loss)/income per common share—basic and diluted	\$ (0.13)	\$ 0.82	\$ (0.05)	\$ (0.13)	\$ (0.53)
Dividend distributions declared per common share	\$ 0.94	\$ 0.94	\$ 0.94	\$ 0.94	\$ 0.94
Balance Sheet Data (as of end of period):					
Real estate properties, net of accumulated depreciation	\$1,007,338	\$ 935,163	\$ 728,067	\$ 550,324	\$ 354,880
Total assets	1,228,474	1,100,431	896,489	661,494	440,207
Debt	607,250	645,354	489,509	370,057	341,278
Total liabilities	679,342	702,054	536,657	405,435	366,487
Total stockholders' equity	548,008	397,413	359,624	254,202	65,845
Non-controlling interests in properties	1,124	964	208	1,749	(675)
Operating Partnership unitholders' non-controlling interests	—	—	—	108	8,550
Total equity	549,132	398,377	359,832	256,059	73,720
Other Data					
Cash flows from/(to)					
Operating activities	\$ 49,499	\$ 42,187	\$ 36,553	\$ 19,147	\$ 14,163
Investing activities	(81,922)	(197,309)	(243,298)	(216,235)	(175,471)
Financing activities	86,801	153,253	212,108	203,425	138,667

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, 2019 and December 31, 2018.

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 (this “MD&A”) 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.

You should read the following MD&A in conjunction with the historical consolidated financial statements, and notes thereto, included elsewhere in this Report. We have omitted from this MD&A a detailed discussion of the year-over-year changes from the Company’s fiscal year 2017 as compared to fiscal year 2018, which can be found in the MD&A section in the Company’s annual report on Form 10-K for the year ended December 31, 2018, filed with the U.S. Securities and Exchange Commission on February 27, 2019.

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 7, 2019, the Company sold the Plaza 25 property in Denver, Colorado for \$17.9 million. No gain or loss was recognized on the sale as the property was carried at fair value less cost to sell on the date of disposition.

On February 25, 2019, the Company, through a wholly owned subsidiary of the Operating Partnership, closed on the acquisition of Canyon Park, a 206,771 square foot property in Seattle, Washington, for \$63.0 million.

On May 7, 2019, the Company sold the 10455 Pacific Center building of the Sorrento Mesa property in San Diego, California for \$16.5 million, resulting in an aggregate gain of \$0.5 million net of disposal-related costs, which has been classified as net gain on sale of real estate property in the consolidated statements of operations.

On June 13, 2019, the Company, through a wholly owned subsidiary of the Operating Partnership, closed on the acquisition of Cascade Station, a 127,508 square foot property in Portland, Oregon, for \$32.5 million.

On September 5, 2019, the Company, through a wholly owned subsidiary of the Operating Partnership, closed on the acquisition of 7601 Tech, a 191,368 square foot property in Denver, Colorado, for \$48.8 million.

On October 7, 2019, the Company completed a public offering pursuant to which the Company sold 6,900,000 shares of its common stock, inclusive of the overallotment option. The Company raised \$95.6 million in gross proceeds, resulting in net proceeds to the Company of approximately \$94.1 million after deducting underwriting discounts and offering expenses.

On December 12, 2019, the Company sold the Logan Tower property in Denver, Colorado for \$12.6 million, resulting in an aggregate gain of \$2.9 million net of disposal-related costs, which has been classified as net gain on sale of real estate property in the consolidated statements of operations.

During the year ended December 31, 2019, the Company issued 8,000,000 shares of common stock under its at-the-market offering program (the "ATM Program"). The Company raised \$106.5 million in aggregate gross proceeds, resulting in aggregate net proceeds to the Company of approximately \$104.8 million after deducting sales commissions and offering expenses.

Indebtedness

On February 25, 2019, the Company closed on a \$41.0 million loan secured by a first mortgage lien on the Canyon Park property in Seattle, Washington. The mortgage loan anticipated repayment date is March 2027. Interest is payable at a fixed rate of 4.30% per annum.

On June 13, 2019, the Company assumed a \$22.5 million loan secured by a first mortgage lien on the Cascade Station property in Portland, Oregon. The mortgage loan matures in May 2024. Interest is payable at a fixed rate of 4.55% per annum.

On August 30, 2019, the Company closed on a loan modification agreement reducing the interest rate from 4.60% to 3.15% per annum on the Greenwood Blvd property in Orlando, Florida. The modification has the same maturity of December 2025 and loan amount of \$22.4 million as the original agreement.

On August 30, 2019, the Company closed on a loan modification agreement reducing the interest rate from 3.85% to 3.10% per annum on the FRP Collection property in Orlando, Florida. The modification has the same maturity of September 2023 and loan amount of \$30.9 million as the original agreement.

On August 30, 2019, the Company closed on a loan modification agreement reducing the interest rate from 3.50% to 3.10% per annum on the Carillon property in Tampa, Florida. The modification has the same maturity of October 2023 and loan amount of \$17.1 million as the original agreement.

On September 24, 2019, the Company closed on a loan modification agreement reducing the interest rate from 4.00% to 3.15% per annum on the Central Fairwinds property in Orlando, Florida. The modification has the same maturity of June 2024 and loan amount of \$18.0 million as the original agreement.

On September 27, 2019, the Company entered into a five-year \$50 million term loan (the “Term Loan”), increasing its authorized borrowings under the Company’s unsecured credit facility (the “Unsecured Credit Facility”) from \$250 million to \$300 million. Borrowings under the Term Loan bear interest at a rate equal to the LIBOR rate plus a margin between 125 to 215 basis points depending upon the Company’s consolidated leverage ratio. In conjunction with the Term Loan, the Company also entered into a five-year interest rate swap for a notional amount of \$50 million (the “Interest Rate Swap”). Pursuant to the Interest Rate Swap, the Company will pay a fixed rate of approximately 1.27% of the notional amount annually, payable monthly, and receive floating rate 30-day LIBOR payments.

For additional information regarding these mortgage loans, the Unsecured Credit Facility, the Term Loan and the Interest Rate Swap, please refer to “Liquidity and Capital Resources” below.

Revenue Base

As of December 31, 2019, we owned 25 properties comprised of 65 office buildings with a total of approximately 5.8 million square feet of net rentable area (“NRA”). As of December 31, 2019, our properties were approximately 91.9% 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, 2525 McKinnon, Sorrento Mesa and Canyon Park properties have triple net leases. Certain tenants at AmberGlen, Cherry Creek, Superior Pointe, Florida Research Park, Circle Point, The Quad, Cascade Station and Denver Tech 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.

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.

Leases

We determine if an arrangement is a lease at inception. Operating and financing right-of-use assets and lease liabilities are included within other assets and other liabilities on the consolidated balance sheets. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Right-of-use assets include any prepaid lease payments and exclude any lease incentives and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The lease terms may include options to extend or terminate the lease if it is reasonably certain we will exercise that option. For lease agreements with lease and non-lease components, we account for the components as a single combined lease component.

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.

Recently Issued or Adopted Accounting Standards

Adopted in the Current Year

In February 2016, the Financial Accounting Standards Board, or FASB, established Topic 842, Leases, by issuing Accounting Standards Update (“ASU”) No. 2016-02, which requires lessors to classify leases as a sales-type, direct financing, or operating lease and requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements.

Effective January 1, 2019, the Company adopted FASB ASU 2016-02, Leases (ASC 842) and elected the effective date method for the transition. The Company elected the following practical expedients:

- Transition method practical expedient – permits the Company to use the effective date as the date of initial application. Upon adoption, the Company did not have a cumulative-effect adjustment to the opening balance of retained earnings. Financial information and disclosures for periods before January 1, 2019 were not updated.
- Package of practical expedients – permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs. This allowed the Company to continue classifying its leases at transition in substantially the same manner.
- Single component practical expedient – permits the Company to not separate lease and non-lease components of leases. Upon transition, rental income, expense reimbursement, and other were aggregated into a single line within rental and other revenues on the consolidated statement of operations.
- Land easement practical expedient – permits the Company not to reassess under the new standard its prior conclusions about land easements.

- Short-term lease practical expedient – permits the Company not to recognize leases with a term equal to or less than 12 months.

Lessor Accounting

The accounting for lessors under the new standard remained relatively unchanged with a few targeted updates impacting the Company, which included: (i) narrower definition of initial direct costs that requires certain costs to be expensed rather than capitalized, and (ii) provisions for uncollectible rents to be recorded as a reduction in revenue rather than as bad debt expense.

Lessee Accounting

The new standard requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating at inception, with classification affecting the pattern and recording of expenses in the statement of operations. Upon transition, the Company recognized right-of use assets and lease liabilities principally for its ground and office leases.

Results of Operations

Comparison of Year Ended December 31, 2019 to Year Ended December 31, 2018

Rental and Other Revenues. Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Rental and other revenues increased \$26.8 million, or 21%, to \$156.3 million for the year ended December 31, 2019 compared to \$129.5 million for the year ended December 31, 2018. Of this increase, \$1.5 million was attributable to the acquisition of Pima Center in April 2018, \$4.5 million attributable to the acquisition of Circle Point in July 2018, \$3.1 million attributable to the acquisition of The Quad in July 2018, \$4.5 million attributable to the acquisition of Greenwood Blvd in December 2018, \$4.7 million attributable to the acquisition of Camelback Square in December 2018, \$4.9 million attributable to the acquisition of Canyon Park in February 2019, \$2.0 million attributable to the acquisition of Cascade Station in June 2019 and \$1.5 million attributable to the acquisition of 7601 Tech, part of our Denver Tech property, in September 2019. Revenue from Central Fairwinds, Park Tower, Mission City and Florida Research Park (comprised of “FRP Collection” and “FRP Ingenuity Drive”) also increased by \$0.4 million, \$0.9 million, \$1.0 million and \$0.7 million, respectively, as a result of increased average occupancy over the prior year. Partially offsetting these increases, Washington Group Plaza decreased overall revenue by \$1.7 million due to the sale of the property in March 2018, Plaza 25 decreased overall revenue by \$2.4 million due to the sale of the property in February 2019 and Logan Tower decreased overall revenue by \$0.2 million due to the sale of the property in December 2019. Revenue from Cherry Creek decreased by \$0.5 million due to a property tax refund received during the year which correspondingly decreased the expense reimbursement. Revenue from 7595 Tech (formerly “DTC Crossroads”), part of our Denver Tech property, decreased \$0.9 million as a result of decreased occupancy over the prior year and Sorrento Mesa also decreased by \$1.5 million as a result of the termination fee payment received in the prior year. The remaining properties’ revenues were modestly higher in comparison to the prior year primarily as a result of modest mark-to-market increases in rents upon renewal. Other Revenues benefited from a one-time payment of \$2.6 million received as consideration for the assignment of a purchase contract. The assignment fee originated through our administrative services relationship. Upon adoption of Topic 842, prior year amounts disclosed in rental income, expense reimbursement, and other have been combined into a single line to conform to current period presentation.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, general and administrative expenses and depreciation and amortization. Total operating expenses increased by \$13.6 million,

or 12%, to \$127.5 million for the year ended December 31, 2019, from \$113.9 million for the year ended December 31, 2018, primarily due to the acquisitions described above. Total operating expenses increased by \$1.7 million, \$4.1 million, \$2.1 million, \$2.9 million, \$4.2 million, \$2.4 million, \$1.5 million and \$1.3 million, respectively, from the acquisitions of Pima Center, Circle Point, The Quad, Greenwood Blvd, Camelback Square, Canyon Park, Cascade Station and 7601 Tech properties. Park Tower operating expenses also increased by \$0.8 million due to the higher occupancy at that property. Washington Group Plaza operating expenses decreased by \$0.8 million due to its sale in March 2018 and Plaza 25 operating expenses decreased by \$6.4 million due to its sale in February 2019. Sorrento Mesa decreased by \$3.0 million due to the sale of the 10455 Pacific Center building of the Sorrento Mesa property in May 2019. General and administrative expenses increased by approximately \$2.7 million, of which \$1.1 million was the result of one-time expenses and accruals incurred as a result of the assignment fee income earned during the year ended December 31, 2019 and the balance related to higher payroll costs. The remaining operating expenses were modestly higher in comparison to the prior-year period primarily due to higher occupancy at our properties.

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 by \$7.4 million, or 15%, to \$57.3 million for the year ended December 31, 2019, from \$49.9 million for the year ended December 31, 2018. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisition of the Pima Center, Circle Point, The Quad, Greenwood Blvd, Camelback Square, Canyon Park, Cascade Station and 7601 Tech properties contributed an additional \$0.6 million, \$2.1 million, \$1.1 million, \$1.5 million, \$1.5 million, \$0.7 million, \$0.5 million and \$0.8 million, respectively, in additional property operating expenses. Park Tower operating expenses also increased by \$0.2 million due to the higher occupancy at that property. Washington Group Plaza decreased by \$0.8 million due to the sale of that property in March 2018 and Plaza 25 decreased by \$1.6 million due to the sale of that property in February 2019. The remaining property operating expenses aggregate to an increase of \$0.8 million in comparison to the prior-year period.

General and Administrative. General and administrative expenses are comprised of 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 \$3.0 million, or 36%, to \$11.1 million for the year ended December 31, 2019, from \$8.1 million for the year ended December 31, 2018. Of this increase, \$1.1 million can be attributed to the one-time expenses and accruals incurred as a result of the assignment fee income earned during the year ended December 31, 2019, as described above, and the balance of the increase was primarily attributable to higher payroll costs.

Depreciation and Amortization. Depreciation and amortization increased \$6.8 million, or 13%, to \$59.2 million for the year ended December 31, 2019, from \$52.4 million for the year ended December 31, 2018, primarily due to the addition of the Pima Center, Circle Point, The Quad, Greenwood Blvd, Camelback Square, Canyon Park, Cascade Station and 7601 Tech properties. These increases were partially offset by a decrease at Washington Group Plaza, Plaza 25, Logan Tower and the 10455 Pacific Center building of the Sorrento Mesa property due to the sale of those properties.

Impairment of Real Estate. Impairment of real estate was nil for the year ended December 31, 2019 compared to \$3.5 million in the prior year. The impairment estimate was related to the write down of the book value of Plaza 25, which was held for sale as of December 31, 2018, to its expected sale price. In February 2019, the Company completed the sale of the Plaza 25 property.

Other Expense (Income)

Interest Expense. Interest expense increased \$5.8 million, or 24%, to \$29.7 million for the year ended December 31, 2019, from \$23.9 million for the year ended December 31, 2018. The increase was primarily due to interest expense related to acquisitions. Interest expense for the Circle Point, The Quad, Greenwood Blvd, Canyon Park and Cascade Station property level debt increased by \$1.2 million, \$0.9 million, \$1.0 million, \$1.5 million and \$0.5 million, respectively, and the interest on our Unsecured Credit Facility increased by \$2.1 million as a result of acquisitions funded by borrowings thereunder, net of the repayments resulting from the proceeds of the equity raises during the year. These increases were partially offset by decreases of \$0.2 million and \$0.7 million, of debt of the Washington Group Plaza and Plaza 25, respectively, as a result of the sale of those properties and the extinguishment of its property level debt.

Net Gain on the Sale of Real Estate Property. Net gain on the sale of real estate property of \$3.4 million for the year ended December 31, 2019 relates to the sales of the 10455 Pacific Center building of the Sorrento Mesa property in May 2019 and Logan Tower property in December 2019. Net gain on the sale of real estate property of \$47.0 million for the year ended December 31, 2018 relates to the sale of our Washington Group Plaza property in March 2018.

Cash Flows

Comparison of Period Ended December 31, 2019 to Period Ended December 31, 2018

Cash, cash equivalents and restricted cash were \$87.5 million and \$33.1 million as of December 31, 2019 and December 31, 2018, respectively.

Cash flow from operating activities. Net cash provided by operating activities increased by \$7.3 million to \$49.5 million for the year ended December 31, 2019 compared to \$42.2 million for the same period in 2018. The increase was attributable to increased operating cash flows from acquired properties, including related changes in working capital.

Cash flow to investing activities. Net cash used in investing activities decreased by \$115.4 million to \$81.9 million for the year ended December 31, 2019 compared to \$197.3 million used in investing activities for the same period in 2018. The decrease was primarily due to fewer acquisitions made in 2019 compared to 2018.

Cash flow from financing activities. Net cash provided by financing activities decreased by \$66.5 million to \$86.8 million for the year ended December 31, 2019 compared to \$153.3 million provided by the same period in 2018. The decrease was primarily due to lower net proceeds from borrowings, partially offset by higher proceeds from sale of common stock in 2019 compared to 2018.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

We had approximately \$70.1 million of cash and cash equivalents and \$17.4 million of restricted cash as of December 31, 2019.

On March 15, 2018, the Company entered into a credit agreement (the "Credit Agreement") for our Unsecured Credit Facility that provided for commitments of up to \$250 million, which includes an accordion feature that allows the Company to borrow up to \$500 million, subject to customary terms and conditions. The Company's previous secured credit facility was replaced and repaid in full from the proceeds of our Unsecured Credit Facility. Our Unsecured Credit Facility matures in March 2022 and may be extended to March 2023 at the Company's option upon meeting certain conditions. Borrowings under our Unsecured Credit Facility bear an interest at a rate equal to the LIBOR rate plus a margin of between 140 to 225 basis points depending upon the

Company's consolidated leverage ratio. As of December 31, 2019, we had no amounts outstanding under our Unsecured Credit Facility and approximately \$7.0 million of letters of credit to satisfy escrow requirements for mortgage lenders.

On September 27, 2019, the Company entered into the five-year Term Loan, increasing its authorized borrowings under the Company's Unsecured Credit Facility from \$250 million to \$300 million. Borrowings under the Term Loan bear interest at a rate equal to the LIBOR rate plus a margin between 125 to 215 basis points depending upon the Company's consolidated leverage ratio. In conjunction with the Term Loan, the Company also entered into the five-year Interest Rate Swap for a notional amount of \$50 million. Pursuant to the Interest Rate Swap, the Company will pay a fixed rate of approximately 1.27% of the notional amount annually, payable monthly, and receive floating rate 30-day LIBOR payments.

On June 16, 2017, the Company and the Operating Partnership previously entered into the equity distribution agreements (collectively, the "Original 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 shares of common stock and the Company's 6.625% Series A Preferred Stock (the "Series A Preferred Stock") through the Sales Agents, acting as agents or principals (the "ATM Program"). On November 1, 2018, the Company and the Operating Partnership entered into amendments (the "Amendments") to the Original Agreements (as amended by the Amendments, the "EDAs") with each of the Sales Agents to increase the number of shares of common stock issuable under the ATM Program. Pursuant to the terms of the EDAs, the Company may issue and sell from time to time, up to 8,000,000 shares of common stock and up to 1,000,000 shares of Series A Preferred Stock through the Sales Agents pursuant to the ATM Program. Pursuant to the EDAs, 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 EDAs. The Company has no obligation to sell any of the shares under the EDAs and may at any time suspend solicitations and offers under, or terminate, the EDAs. During the year ended December 31, 2019, the Company issued 8,000,000 shares of common stock under the ATM Program. The Company raised \$106.5 million in aggregate gross proceeds, resulting in aggregate net proceeds to the Company of approximately \$104.8 million after deducting sales commissions and offering expenses. During the year ended December 31, 2018, the Company issued 3,410,802 shares of common stock under the ATM Program pursuant to the Original Agreements. The Company raised \$43.6 million in gross proceeds, resulting in net proceeds to us of approximately \$42.9 million after deducting sales commissions and offering expenses. The Company terminated the EDAs effective February 25, 2020.

On October 7, 2019, the Company completed a public offering pursuant to which the Company sold 6,900,000 shares of its common stock, inclusive of the overallotment option. The Company raised \$95.6 million in aggregate gross proceeds, resulting in aggregate net proceeds to the Company of approximately \$94.1 million after deducting underwriting discounts and offering expenses.

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 at the market issuance program, and borrowings under our mortgage loans and our Unsecured 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 Unsecured 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, 2019

As of December 31, 2019, we had approximately \$612.3 million of outstanding consolidated principal indebtedness, 91.8% of which is fixed rate debt. The following table sets forth information as of December 31, 2019 with respect to our outstanding indebtedness (in thousands).

<u>Property</u>	<u>December 31, 2019</u>	<u>Interest Rate as of December 31, 2019⁽¹⁾</u>	<u>Maturity</u>
Unsecured Credit Facility ⁽³⁾⁽⁴⁾	\$ —	LIBOR +1.40% ⁽²⁾	March 2022
Term Loan ⁽⁴⁾	50,000	LIBOR +1.25% ⁽²⁾	September 2024
Midland Life Insurance ⁽⁵⁾	85,293	4.34	May 2021
Mission City	47,000	3.78	November 2027
Canyon Park ⁽⁶⁾	40,950	4.30	March 2027
190 Office Center	40,854	4.79	October 2025
Circle Point	39,650	4.49	September 2028
SanTan	34,053	4.56	March 2027
Intellicenter	32,971	4.65	October 2025
The Quad	30,600	4.20	September 2028
FRP Collection ⁽⁷⁾	28,969	3.10	September 2023
2525 McKinnon	27,000	4.24	April 2027
Greenwood Blvd ⁽⁷⁾	22,425	3.15	December 2025
Cascade Station	22,304	4.55	May 2024
5090 N 40th St	22,000	3.92	January 2027
AmberGlen	20,000	3.69	May 2027
Lake Vista Pointe	17,717	4.28	August 2024
Central Fairwinds ⁽⁸⁾	17,534	3.15	June 2024
FRP Ingenuity Drive	17,000	4.44	December 2024
Carillon Point ⁽⁷⁾	15,972	3.10	October 2023
Total principal	612,292		
Deferred financing costs, net	(5,660)		
Unamortized fair value adjustments	618		
Total	<u>\$607,250</u>		

(1) All interest rates are fixed interest rates with the exception of the Unsecured Credit Facility and the Term Loan as explained in footnotes 3 and 4 below.

(2) As of December 31, 2019, the one month LIBOR rate was 1.76%.

(3) In March 2018, the Company entered into the Credit Agreement for our Unsecured Credit Facility that provided for commitments of up to \$250 million, which includes an accordion feature that allows the Company to borrow up to \$500 million, subject to customary terms and conditions. The Unsecured Credit Facility matures in March 2022 and may be extended to March 2023 at the Company's option upon meeting certain conditions. As of December 31, 2019, the Unsecured Credit Facility had \$0 drawn and \$7.0 million of letters of credit to satisfy escrow requirements for mortgage lenders. Borrowings under the Unsecured Credit Facility bear interest at a rate equal to the LIBOR rate plus a margin of between 140 to 225 basis points depending upon the Company's consolidated leverage ratio. The Unsecured Credit Facility requires the Company to maintain a fixed charge coverage ratio of no less than 1.50x.

- (4) In September 2019, the Company entered into a five-year \$50 million Term Loan increasing its authorized borrowings under the Unsecured Credit Facility from \$250 million to \$300 million. Borrowings under the Term Loan bear interest at a rate equal to the LIBOR rate plus a margin between 125 to 215 basis points depending upon the Company’s consolidated leverage ratio. In conjunction with the Term Loan, the Company also entered into the five-year Interest Rate Swap for a notional amount of \$50 million. Pursuant to the Interest Rate Swap, the Company will pay a fixed rate of approximately 1.27% of the notional amount annually, payable monthly, and receive floating rate 30-day LIBOR payments.
- (5) The mortgage loan is cross-collateralized by Cherry Creek, City Center and 7595 Tech (formerly “DTC Crossroads”). 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.
- (6) The mortgage loan anticipated repayment date (“ARD”) is March 1, 2027. The final scheduled maturity date can be extended up to 5 years beyond the ARD. If the loan is not paid off at ARD, loan’s interest rate shall be adjusted to the greater of (i) the initial interest rate plus 200 basis points or (ii) the yield on the five year “on the run” treasury reported by Bloomberg market data service plus 450 basis points.
- (7) In August 2019, the Company entered into loan modification agreements for FRP Collection (part of Florida Research Park), Carillon Point and Greenwood Blvd reducing the interest rates from 3.85% to 3.1%, 3.5% to 3.1% and 4.6% to 3.15% respectively.
- (8) In September 2019, the Company entered into a loan modification agreement for Central Fairwinds reducing the interest rate from 4.0% to 3.15%.

Contractual Obligations and Other Long-Term Liabilities

The following table provides information with respect to our commitments as of December 31, 2019, including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extension options.

Contractual Obligations	Payments Due by Period (in thousands)				
	Total	2020	2021-2022	2023-2024	More than 5 years
Principal payments on mortgage loans	\$ 612,292	\$ 6,279	\$ 95,885	\$ 173,253	\$ 336,875
Interest payments ⁽¹⁾	135,458	24,525	42,527	36,958	31,448
Tenant-related commitments	10,509	9,140	1,369	—	—
Lease obligations	30,173	560	1,669	1,264	26,680
Total	\$ 788,432	\$ 40,504	\$ 141,450	\$ 211,475	\$ 395,003

(1) Contracted interest on the floating rate debt was calculated based on the Term Loan balance and interest rate at December 31, 2019. Contracted interest on the Term Loan was calculated based on the Interest Rate Swap rate fixing the LIBOR component of the borrowing rate to approximately 1.27%.

Off-Balance Sheet Arrangements

As of December 31, 2019, 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 91.8% of our outstanding consolidated indebtedness had a fixed contractual interest rate at December 31, 2019. The entire balance of the variable rate debt relates to the Term Loan against which we have applied the Interest Rate Swap. The Interest Rate Swap effectively fixes the 30-day LIBOR rate at approximately 1.27% until maturity of the Term Loan. When factoring in the Term Loan as fixed rate debt through the Interest Rate Swap, 100% of our debt had fixed rate debt as of December 31, 2019.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use 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. See Note 7 to our consolidated financial statements in Item 15 of this Report for more information regarding our 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, 2019, approximately \$562.3 million, or 91.8%, of our debt had fixed interest rates and \$50 million, or 8.2%, had variable interest rates. The entire balance of the variable rate debt relates to the Term Loan against which we have applied the Interest Rate Swap. The Interest Rate Swap effectively fixes the 30-day LIBOR rate at approximately 1.27% until maturity of the Term Loan. When factoring in the Term Loan as fixed rate debt through the Interest Rate Swap, 100% of our debt had fixed rate debt as of December 31, 2019. A 10% increase in LIBOR would increase our interest costs by approximately \$0.1 million on debt outstanding as of December 31, 2019, 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 Unsecured Credit Facility. A 10% decrease in LIBOR would decrease our interest costs by approximately \$0.1 million on debt outstanding as of December 31, 2019, 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 Unsecured 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 52 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, 2019, 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, 2019, 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, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019, has been audited by KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, as stated in their report appearing on page 54, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2019.

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

On June 16, 2017, the Company and the Operating Partnership previously entered into the equity distribution agreements (collectively, the "Original 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 shares of common stock and the Company's 6.625% Series A Preferred Stock through the Sales Agents, acting as agents or principals (the "ATM Program"). On November 1, 2018, the Company and the Operating Partnership entered into amendments (the "Amendments") to

the Original Agreements (as amended by the Amendments, the “EDAs”) with each of the Sales Agents to increase the number of shares of common stock issuable under the ATM Program. During the year ended December 31, 2019, the Company issued 8,000,000 shares of common stock under the ATM Program. The Company raised \$106.5 million in aggregate gross proceeds, resulting in aggregate net proceeds to the Company of approximately \$104.8 million after deducting sales commissions and offering expenses. During the year ended December 31, 2018, the Company issued 3,410,802 shares of common stock under the ATM Program pursuant to the Original Agreements. The Company raised \$43.6 million in gross proceeds, resulting in net proceeds to us of approximately \$42.9 million after deducting sales commissions and offering expenses. The Company terminated the EDAs effective February 25, 2020.

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 2020 annual stockholders' meeting.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement for our 2020 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 2020 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 2020 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 2020 annual stockholders' meeting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

CITY OFFICE REIT, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2019

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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 Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of City Office REIT, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has adopted ASC 842, Leases, using the effective date method, under which the cumulative effect of initial application was recognized in retained earnings at January 1, 2019, the date of initial application.

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 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. 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
February 26, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control Over Financial Reporting

We have audited City Office REIT, Inc.'s (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedules III (collectively, the consolidated financial statements), and our report dated February 26, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Chartered Professional Accountants

Vancouver, Canada

February 26, 2020

City Office REIT, Inc.
Consolidated Balance Sheets

(In thousands, except par value and share data)

	December 31,	
	2019	2018
Assets		
Real estate properties		
Land	\$ 230,034	\$ 223,789
Building and improvement	784,636	704,113
Tenant improvement	94,218	77,426
Furniture, fixtures and equipment	285	319
	1,109,173	1,005,647
Accumulated depreciation	(101,835)	(70,484)
	1,007,338	935,163
Cash and cash equivalents	70,129	16,138
Restricted cash	17,394	17,007
Rents receivable, net	32,112	26,095
Deferred leasing costs, net	12,393	10,402
Acquired lease intangible assets, net	67,533	75,501
Other assets	17,061	2,755
Assets held for sale	4,514	17,370
Total Assets	\$1,228,474	\$1,100,431
Liabilities and Equity		
Liabilities:		
Debt	\$ 607,250	\$ 645,354
Accounts payable and accrued liabilities	28,786	25,892
Deferred rent	6,593	5,331
Tenant rent deposits	5,658	4,564
Acquired lease intangible liabilities, net	8,194	8,887
Other liabilities	22,794	11,148
Liabilities related to assets held for sale	67	878
Total Liabilities	679,342	702,054
Commitments and Contingencies (Note 10)		
Equity:		
6.625% Series A Preferred stock, \$0.01 par value per share, 5,600,000 shares authorized, 4,480,000 issued and outstanding as of December 31, 2019 and 2018 respectively	112,000	112,000
Common stock, \$0.01 par value, 100,000,000 shares authorized, 54,591,047 and 39,544,073 shares issued and outstanding as of December 31, 2019 and 2018 respectively	545	395
Additional paid-in capital	577,131	377,126
Accumulated deficit	(142,383)	(92,108)
Accumulated other comprehensive income	715	—
Total Stockholders' Equity	548,008	397,413
Non-controlling interests in properties	1,124	964
Total Equity	549,132	398,377
Total Liabilities and Equity	\$1,228,474	\$1,100,431

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,		
	2019	2018	2017
Rental and other revenues	\$156,297	\$129,484	\$106,487
Operating expenses:			
Property operating expenses	57,316	49,872	42,886
General and administrative	11,066	8,137	6,792
Depreciation and amortization	59,159	52,352	41,594
Impairment of real estate	—	3,497	—
Total operating expenses	127,541	113,858	91,272
Operating income	28,756	15,626	15,215
Interest expense:			
Contractual interest expense	(28,401)	(22,316)	(18,721)
Amortization of deferred financing costs and debt fair value	(1,325)	(1,621)	(1,452)
	(29,726)	(23,937)	(20,173)
Net gain on sale of real estate property	3,412	46,980	12,116
Change in fair value of contingent consideration	—	—	2,000
Net income	2,442	38,669	9,158
Less:			
Net income attributable to non-controlling interests in properties	(644)	(501)	(3,402)
Net income attributable to the Company	1,798	38,168	5,756
Preferred stock distributions	(7,420)	(7,420)	(7,411)
Net (loss)/income attributable to common stockholders	\$ (5,622)	\$ 30,748	\$ (1,655)
Net (loss)/income per common share:			
Basic	\$ (0.13)	\$ 0.82	\$ (0.05)
Diluted	\$ (0.13)	\$ 0.82	\$ (0.05)
Weighted average common shares outstanding:			
Basic	43,997	37,321	30,198
Diluted	43,997	37,670	30,198
Dividend distributions declared per common share	\$ 0.940	\$ 0.940	\$ 0.940

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

City Office REIT, Inc.
Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Years Ended December 31,		
	2019	2018	2017
Net income	\$ 2,442	\$38,669	\$ 9,158
Unrealized cash flow hedge gains	821	—	—
Amounts reclassified from accumulated other comprehensive income to interest expense	(106)	—	—
Comprehensive income	3,157	38,669	9,158
Less:			
Comprehensive income attributable to non-controlling interests in properties	(644)	(501)	(3,402)
Comprehensive income attributable to the Company	2,513	38,168	5,756
Preferred stock distributions	(7,420)	(7,420)	(7,411)
Comprehensive (loss)/income attributable to common stockholders	\$(4,907)	\$30,748	\$(1,655)

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	Accumulated other comprehensive income	Total stockholders' equity	Operating Partnership non- controlling interests	Non- controlling interests in properties	Total equity
Balance—January 1, 2017	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	4,480	112,000	36,012	360	334,241	(86,977)	—	359,624	—	208	359,832
Restricted stock award grants and vesting	—	—	121	1	1,641	(312)	—	1,330	—	—	1,330
Net proceeds from sale of common stock	—	—	3,411	34	42,868	—	—	42,902	—	—	42,902
Common stock dividend distributions declared	—	—	—	—	—	(35,567)	—	(35,567)	—	—	(35,567)
Preferred stock dividend distributions declared	—	—	—	—	—	(7,420)	—	(7,420)	—	—	(7,420)
Minority interest buyout	—	—	—	—	(1,624)	—	—	(1,624)	—	485	(1,139)
Contributions	—	—	—	—	—	—	—	—	—	297	297
Distributions	—	—	—	—	—	—	—	—	—	(527)	(527)
Net income	—	—	—	—	—	38,168	—	38,168	—	501	38,669
Balance—December 31, 2018	4,480	112,000	39,544	395	377,126	(92,108)	—	397,413	—	964	398,377
Restricted stock award grants and vesting	—	—	147	1	1,280	(374)	—	907	—	—	907
Net proceeds from sale of common stock	—	—	14,900	149	198,725	—	—	198,874	—	—	198,874
Common stock dividend distributions declared	—	—	—	—	—	(44,279)	—	(44,279)	—	—	(44,279)
Preferred stock dividend distributions declared	—	—	—	—	—	(7,420)	—	(7,420)	—	—	(7,420)
Contributions	—	—	—	—	—	—	—	—	—	112	112
Distributions	—	—	—	—	—	—	—	—	—	(596)	(596)
Net income	—	—	—	—	—	1,798	—	1,798	—	644	2,442
Unrealized cash flow hedge gains	—	—	—	—	—	—	715	715	—	—	715
Balance—December 31, 2019	4,480	\$112,000	54,591	\$545	\$577,131	\$(142,383)	\$ 715	\$548,008	\$ —	\$ 1,124	\$549,132

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,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net income	\$ 2,442	\$ 38,669	\$ 9,158
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	59,159	52,352	41,594
Amortization of deferred financing costs and debt fair value	1,325	1,621	1,452
Amortization of above/below market leases	(27)	(182)	(337)
Increase in straight-line rent/expense	(5,233)	(4,703)	(2,820)
Non-cash stock compensation	1,742	1,416	1,671
Earn-out termination payment	—	—	(2,400)
Net gain on sale of real estate property	(3,412)	(46,980)	(12,116)
Impairment of real estate	—	3,497	—
Changes in non-cash working capital:			
Rents receivable, net	(1,061)	(1,602)	(1,647)
Other assets	(330)	(353)	349
Accounts payable and accrued liabilities	(5,538)	(910)	670
Deferred rent	1,022	(834)	324
Tenant rent deposits	(590)	196	655
Net Cash Provided By Operating Activities	49,499	42,187	36,553
Cash Flows to Investing Activities:			
Additions to real estate properties	(16,002)	(23,586)	(8,189)
Acquisition of real estate	(108,358)	(254,514)	(249,299)
Net proceeds from sale of real estate	46,364	84,839	18,479
Deferred leasing costs	(3,926)	(4,048)	(4,289)
Net Cash Used In Investing Activities	(81,922)	(197,309)	(243,298)
Cash Flows from Financing Activities:			
Net proceeds from sale of common stock	198,874	42,902	136,941
Debt issuance and extinguishment costs	(1,008)	(2,963)	(3,202)
Proceeds from borrowings	154,750	398,749	392,340
Repayment of borrowings	(216,336)	(241,820)	(272,772)
Shares withheld for payment of taxes on restricted stock unit vesting	(832)	(87)	—
Minority interest buyout	—	(1,140)	—
Contributions from non-controlling interests in properties	112	297	—
Distributions to non-controlling interests in properties	(596)	(527)	(4,943)
Dividend distributions paid to stockholders and Operating Partnership unitholders	(48,163)	(42,158)	(36,256)
Net Cash Provided By Financing Activities	86,801	153,253	212,108
Net Increase/(Decrease) in Cash, Cash Equivalents and Restricted Cash ..	54,378	(1,869)	5,363
Cash, Cash Equivalents and Restricted Cash, Beginning of Period	33,145	35,014	29,651
Cash, Cash Equivalents and Restricted Cash, End of Period	\$ 87,523	\$ 33,145	\$ 35,014

	Years Ended December 31,		
	2019	2018	2017
Reconciliation of Cash, Cash Equivalents and Restricted Cash:			
Cash and Cash Equivalents, End of Period	70,129	16,138	12,301
Restricted Cash, End of Period	17,394	17,007	22,713
Cash, Cash Equivalents and Restricted Cash, End of Period	\$ 87,523	\$ 33,145	\$ 35,014
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	\$ 28,479	\$ 22,131	\$ 18,408
Purchases of additions in real estate properties included in accounts payable	\$ 6,489	\$ 6,791	\$ 2,616
Purchases of deferred leasing costs included in accounts payable	\$ 603	\$ 654	\$ 815
Debt assumed on acquisition of real estate	\$ 22,473	\$ —	\$ —

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, for years prior to 2019, any applicable alternative minimum tax.

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.

Leases

We determine if an arrangement is a lease at inception. Operating and financing right-of-use assets and lease liabilities are included within other assets and other liabilities on the consolidated balance sheets. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Right-of-use assets include any prepaid lease payments and exclude any lease incentives and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The lease terms may include options to extend or terminate the lease if it is reasonably certain we will exercise that option. For lease agreements with lease and non-lease components, we account for the components as a single combined lease component.

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	28-50
Site improvement	4-20
Furniture, fixtures and equipment	4-10

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, for years prior to 2018, 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).

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, 2019 and December 31, 2018 and December 31, 2017. Diluted earnings per share is calculated after giving effect to all potential dilutive shares outstanding during the period.

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. For derivatives that qualify as hedging instruments, a company must designate the instruments as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation.

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 February 2016, the Financial Accounting Standards Board, or FASB, established Topic 842, Leases, by issuing Accounting Standards Update (“ASU”) No. 2016-02, which requires lessors to classify leases as a sales-type, direct financing, or operating lease and requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements.

Effective January 1, 2019, the Company adopted FASB ASU 2016-02, Leases (ASC 842) and elected the effective date method for the transition. The Company elected the following practical expedients:

- Transition method practical expedient – permits the Company to use the effective date as the date of initial application. Upon adoption, the Company did not have a cumulative-effect adjustment to the opening balance of retained earnings. Financial information and disclosures for periods before January 1, 2019 were not updated.
- Package of practical expedients – permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs. This allowed the Company to continue classifying its leases at transition in substantially the same manner.
- Single component practical expedient – permits the Company to not separate lease and non-lease components of leases. Upon transition, rental income, expense reimbursement, and other were aggregated into a single line within rental and other revenues on the consolidated statement of operations.
- Land easement practical expedient – permits the Company not to reassess under the new standard its prior conclusions about land easements.
- Short-term lease practical expedient – permits the Company not to recognize leases with a term equal to or less than 12 months.

Lessor Accounting

The accounting for lessors under the new standard remained relatively unchanged with a few targeted updates impacting the Company, which included: (i) narrower definition of initial direct costs that requires certain costs to be expensed rather than capitalized, and (ii) provisions for uncollectible rents to be recorded as a reduction in revenue rather than as bad debt expense.

Lessee Accounting

The new standard requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating at inception, with classification affecting the pattern and recording of expenses in the statement of operations. Upon transition the Company recognized right-of use assets and lease liabilities principally for its ground and office leases.

3. Rents Receivable, Net

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

	December 31, 2019	December 31, 2018
Billed receivables	\$ 2,880	\$ 2,383
Straight-line receivables	29,232	23,712
Total rents receivable	<u>\$32,112</u>	<u>\$26,095</u>

As of December 31, 2019, and 2018, the Company's allowance for doubtful accounts was nominal.

4. Real Estate Investments

Acquisitions

During the years ended December 31, 2019, December 31, 2018 and December 31, 2017 the Company acquired the following properties:

<u>Property</u>	<u>Date Acquired</u>	<u>Percentage Owned</u>
7601 Tech ⁽¹⁾	September 2019	100%
Cascade Station	June 2019	100%
Canyon Park	February 2019	100%
Camelback Square	December 2018	100%
Greenwood Blvd	December 2018	100%
Circle Point Land	December 2018	100%
The Quad	July 2018	100%
Circle Point	July 2018	100%
Pima Center	April 2018	100%
Papago Tech	October 2017	100%
Mission City and Sorrento Mesa	September 2017	100%
2525 McKinnon	January 2017	100%

(1) Denver Tech is comprised of 7601 Tech, which was acquired in September 2019, and 7595 Tech (formerly “DTC Crossroads”).

Each of the foregoing acquisitions were accounted for as asset acquisitions.

The following table summarizes the Company’s allocations of the purchase price of assets acquired and liabilities assumed during the year ended December 31, 2019 (in thousands):

	<u>Canyon Park</u>	<u>Cascade Station</u>	<u>7601 Tech</u>	<u>Total December 31, 2019</u>
Land	\$ 7,098	\$ —	\$10,865	\$ 17,963
Buildings and improvements	36,619	25,141	25,677	87,437
Tenant improvements	1,797	2,080	3,858	7,735
Lease intangible assets	8,109	3,134	7,401	18,644
Other assets	10	3,164	293	3,467
Debt	—	(697)	—	(697)
Accounts payable and other liabilities	(1,266)	(186)	(668)	(2,120)
Lease intangible liabilities	(1,297)	(220)	(79)	(1,596)
Net assets acquired	<u>\$51,070</u>	<u>\$32,416</u>	<u>\$47,347</u>	<u>\$130,833</u>

Consideration paid on acquisitions was in the form of cash and debt. The acquisition of the Cascade Station property was partially funded through an assumption of debt with a principal amount of \$22.5 million at closing.

The following table summarizes the Company's allocations of the purchase price of assets acquired and liabilities assumed during the year ended December 31, 2018 (in thousands):

	<u>Pima Center</u>	<u>Circle Point</u>	<u>The Quad</u>	<u>Circle Point Land</u>	<u>Greenwood Blvd</u>	<u>Camelback Square</u>	<u>Total December 31, 2018</u>
Land	\$ —	\$ 8,744	\$ 8,079	\$4,937	\$ 3,945	\$11,738	\$ 37,443
Buildings and improvements	42,235	33,708	38,060	—	23,741	35,532	173,276
Tenant improvements	2,898	5,393	1,798	—	2,278	2,390	14,757
Lease intangible assets	10,691	10,299	4,209	—	4,578	4,304	34,081
Other assets	95	25	15	—	15	10	160
Accounts payable and other liabilities	(337)	(1,157)	(527)	(72)	(96)	(421)	(2,610)
Lease intangible liabilities	(129)	(390)	(1,247)	—	—	(827)	(2,593)
Net assets acquired	<u>\$55,453</u>	<u>\$56,622</u>	<u>\$50,387</u>	<u>\$4,865</u>	<u>\$34,461</u>	<u>\$52,726</u>	<u>\$254,514</u>

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):

	<u>2525 McKinnon</u>	<u>Mission City and Sorrento Mesa</u>	<u>Papago Tech</u>	<u>Total December 31, 2017</u>
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
Lease intangible assets	3,267	22,846	2,816	28,929
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)
Net assets acquired	<u>\$46,035</u>	<u>\$170,275</u>	<u>\$32,989</u>	<u>\$249,299</u>

Sale of Real Estate Property

On December 12, 2019, the Company sold the Logan Tower property in Denver, Colorado for \$12.6 million, resulting in an aggregate gain of \$2.9 million net of disposal-related costs, which has been classified as net gain on sale of real estate property in the consolidated statements of operations.

On May 7, 2019, the Company sold the 10455 Pacific Center building of the Sorrento Mesa property in San Diego, California for \$16.5 million, resulting in an aggregate gain of \$0.5 million net of disposal-related costs, which has been classified as net gain on sale of real estate property in the consolidated statements of operations.

On February 7, 2019, the Company sold the Plaza 25 property in Denver, Colorado for \$17.9 million. No gain or loss was recognized on the sale as the property was carried at fair value less cost to sell on the date of disposition.

On March 8, 2018, the Company sold the Washington Group Plaza property in Boise, Idaho for \$86.5 million, resulting in an aggregate net gain of \$47.0 million, net of \$1.7 million in costs, which has been classified as net gain on sale of real estate property in the consolidated statements of operations.

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.

Assets Held for Sale

On May 10, 2019, the Company entered into a purchase and sale agreement to sell a land parcel at the Circle Point property for \$6.5 million. The Company determined that the land parcel met the criteria for classification as held for sale as of December 31, 2019. The transaction is anticipated to close in the first half of 2020, subject to customary closing conditions. As of December 31, 2019, the Company has received a \$0.5 million non-refundable deposit.

The property has been classified as held for sale as of December 31, 2019 (in thousands):

<u>December 31, 2019</u>	<u>Circle Point Land</u>
Real estate properties, net	\$4,514
Assets held for sale	<u>\$4,514</u>
Accounts payable, accrued expenses, deferred rent and tenant rent deposits	(67)
Liabilities related to assets held for sale	<u>\$ (67)</u>

On November 30, 2018, the Company entered into a purchase and sale agreement to sell the Plaza 25 property for \$17.9 million. The Company determined that the property met the criteria for classification as held for sale as of December 31, 2018. Upon classification as held for sale, we recognized an impairment charge of \$3.5 million to lower the carrying amount of the property to its estimated fair value less cost to sell. As of December 31, 2018, a \$0.5 million non-refundable deposit was received. On February 7, 2019, the Company completed the sale of the Plaza 25 property.

The property was classified as held for sale as of December 31, 2018 (in thousands):

<u>December 31, 2018</u>	<u>Plaza 25</u>
Real estate properties, net	\$16,149
Deferred leasing costs, net	419
Acquired lease intangible assets, net	11
Rents receivable, prepaid expenses and other assets	791
Assets held for sale	<u>\$17,370</u>
Accounts payable, accrued expenses, deferred rent and tenant rent deposits	(878)
Liabilities related to assets held for sale	<u>\$ (878)</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 retained 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 are included in the Consolidated Balance Sheets and Consolidated Statements of Operations as a VIE. As of December 31, 2019 and December 31, 2018 the Company did not have any variable interest entities.

5. Lease Intangibles

Lease intangibles and the value of assumed lease obligations as of December 31, 2019 and December 31, 2018 were comprised as follows (in thousands):

	Lease Intangible Assets					Lease Intangible Liabilities		
	Above Market Leases	Below Market Ground Lease ⁽¹⁾	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease ⁽¹⁾	Total
December 31, 2019								
Cost	\$15,242	\$ —	\$ 87,320	\$ 36,048	\$138,610	\$(13,878)	\$(138)	\$(14,016)
Accumulated amortization . . .	(6,704)	—	(48,229)	(16,144)	(71,077)	5,782	40	5,822
	<u>\$ 8,538</u>	<u>\$ —</u>	<u>\$ 39,091</u>	<u>\$ 19,904</u>	<u>\$ 67,533</u>	<u>\$ (8,096)</u>	<u>\$ (98)</u>	<u>\$ (8,194)</u>
	Lease Intangible Assets					Lease Intangible Liabilities		
	Above Market Leases	Below Market Ground Lease ⁽¹⁾	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease ⁽¹⁾	Total
December 31, 2018								
Cost	\$10,595	\$1,855	\$ 82,474	\$ 31,706	\$126,630	\$(12,925)	\$(138)	\$(13,063)
Accumulated amortization . . .	(4,800)	(19)	(34,273)	(12,037)	(51,129)	4,140	36	4,176
	<u>\$ 5,795</u>	<u>\$1,836</u>	<u>\$ 48,201</u>	<u>\$ 19,669</u>	<u>\$ 75,501</u>	<u>\$ (8,785)</u>	<u>\$ (102)</u>	<u>\$ (8,887)</u>

(1) For the below market ground lease asset the Company is the lessee, whereas, for the below market ground lease liability the Company is the lessor. Upon the adoption of Topic 842 on January 1, 2019, the Company derecognized the below market ground lease intangible asset related to one of its lessee ground leases and included the net carrying value of the intangible asset within the right-of-use asset recognized upon transition to the new standard.

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

2020	\$18,987
2021	15,894
2022	8,217
2023	5,358
2024	3,190
Thereafter	7,693
	<u>\$59,339</u>

6. Debt

The following table summarizes the outstanding indebtedness as of December 31, 2019 and 2018 (in thousands):

Property	December 31, 2019	December 31, 2018	Interest Rate as of December 31, 2019 ⁽¹⁾	Maturity
Unsecured Credit Facility ⁽³⁾⁽⁴⁾ . . .	\$ —	\$147,500	LIBOR +1.40% ⁽²⁾	March 2022
Term Loan ⁽⁴⁾	50,000	—	LIBOR +1.25% ⁽²⁾	September 2024
Midland Life Insurance ⁽⁵⁾	85,293	86,973	4.34	May 2021
Mission City	47,000	47,000	3.78	November 2027
Canyon Park ⁽⁶⁾	40,950	—	4.30	March 2027
190 Office Center	40,854	41,250	4.79	October 2025
Circle Point	39,650	39,650	4.49	September 2028
SanTan	34,053	34,682	4.56	March 2027
Intellicenter	32,971	33,481	4.65	October 2025
The Quad	30,600	30,600	4.20	September 2028
FRP Collection ⁽⁷⁾	28,969	29,589	3.10	September 2023
2525 McKinnon	27,000	27,000	4.24	April 2027
Greenwood Blvd ⁽⁷⁾	22,425	22,425	3.15	December 2025
Cascade Station	22,304	—	4.55	May 2024
5090 N 40 th St	22,000	22,000	3.92	January 2027
AmberGlen	20,000	20,000	3.69	May 2027
Lake Vista Pointe	17,717	18,044	4.28	August 2024
Central Fairwinds ⁽⁸⁾	17,534	17,882	3.15	June 2024
FRP Ingenuity Drive	17,000	17,000	4.44	December 2024
Carillon Point ⁽⁷⁾	15,972	16,330	3.10	October 2023
Total Principal	612,292	651,406		
Deferred financing costs, net	(5,660)	(6,052)		
Unamortized fair value adjustments	618	—		
Total	<u>\$607,250</u>	<u>\$645,354</u>		

- (1) All interest rates are fixed interest rates with the exception of the unsecured credit facility (“Unsecured Credit Facility”) and the term loan (“Term Loan”) as explained in footnotes 3 and 4 below.
- (2) As of December 31, 2019, the one month LIBOR rate was 1.76%.
- (3) In March 2018, the Company entered into the Credit Agreement for our Unsecured Credit Facility that provides for commitments of up to \$250 million, which includes an accordion feature that allows the Company to borrow up to \$500 million, subject to customary terms and conditions. The Unsecured Credit Facility matures in March 2022 and may be extended to March 2023 at the Company’s option upon meeting certain conditions. As of December 31, 2019, the Unsecured Credit Facility had \$0 drawn and \$7.0 million of letters of credit to satisfy escrow requirements for mortgage lenders. Borrowings under the Unsecured Credit Facility bear interest at a rate equal to the LIBOR rate plus a margin of between 140 to 225 basis points depending upon the Company’s consolidated leverage ratio. The Unsecured Credit Facility requires the Company to maintain a fixed charge coverage ratio of no less than 1.50x.
- (4) In September 2019, the Company entered into a five-year \$50 million Term Loan increasing its authorized borrowings under the Unsecured Credit Facility from \$250 million to \$300 million. Borrowings under the Term Loan bear interest at a rate equal to the LIBOR rate plus a margin between 125 to 215 basis points depending upon the Company’s consolidated leverage ratio. In conjunction with the Term Loan, the Company also entered into a five-year interest rate swap for a notional amount of \$50 million (the “Interest Rate Swap”). Pursuant to the Interest Rate Swap, the Company will pay a fixed rate of approximately 1.27% of the notional amount annually, payable monthly, and receive floating rate 30-day LIBOR payments.
- (5) The mortgage loan is cross-collateralized by Cherry Creek, City Center and 7595 Tech (formerly “DTC Crossroads”). 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.

- (6) The mortgage loan anticipated repayment date (“ARD”) is March 1, 2027. The final scheduled maturity date can be extended up to 5 years beyond the ARD. If the loan is not paid off at ARD, loan’s interest rate shall be adjusted to the greater of (i) the initial interest rate plus 200 basis points or (ii) the yield on the five year “on the run” treasury reported by Bloomberg market data service plus 450 basis points.
- (7) In August 2019, the Company entered into loan modification agreements for FRP Collection (part of Florida Research Park), Carillon Point and Greenwood Blvd reducing the interest rates from 3.85% to 3.1%, 3.5% to 3.1% and 4.6% to 3.15% respectively.
- (8) In September 2019, the Company entered into a loan modification agreement for Central Fairwinds reducing the interest rate from 4.0% to 3.15%.

The scheduled principal repayments of mortgage payable as of December 31, 2019 are as follows (in thousands):

2020	\$ 6,279
2021	89,355
2022	6,529
2023	48,529
2024	124,725
Thereafter	336,875
	<u>\$612,292</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

In September 2019, the Company entered into the five-year Interest Rate Swap for a notional amount of \$50.0 million. Pursuant to the Interest Rate Swap, the Company will pay a fixed rate of approximately 1.27% of the notional amount annually, payable monthly, and receive floating rate 30-day LIBOR payments.

The Interest Rate Swap has been designated and qualifies as a cash flow hedge and has been recognized on the consolidated balance sheets at fair value. Gains and losses resulting from changes in the fair value of derivatives that have been designated and qualify as cash flow hedges are reported as a component of other comprehensive income (loss) and reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings.

As of December 31, 2019, the Interest Rate Swap was reported as an asset at its fair value of approximately \$0.7 million, which is included in other assets on the Company’s consolidated balance sheet. For the year ended December 31, 2019 the amount of realized gains reclassified to interest expense due to payments received by the swap counterparty was \$0.1 million. Accordingly, the fair value of the Interest Rate Swap has been classified as a Level 2 fair value measurement.

As of December 31, 2018, the Company did not have any hedges or derivatives.

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 \$576.9 million and \$503.3 million as of December 31, 2019 and December 31, 2018, respectively. Accordingly, the fair value of mortgage loans payable have been classified as Level 3 fair value measurements.

8. Related Party Transactions

Administrative Services Agreements

On October 29, 2018, the Company entered into the First Amendment (the "Amendment") to the Administrative Services Agreement with real estate investment funds affiliated with Second City Capital II Corporate and Second City Real Estate II Corporation ("SCRE II"). The terms of the Amendment were effective on February 1, 2019 (the "Effective Date"). After February 1, 2019, the annual fees payable to the Company will be \$500,000 for the first twelve months following the Effective Date and thereafter an amount equal to 40% of the management fee paid to SCRE II by the fund managed by SCRE II. During the years ended December 31, 2019, 2018, and 2017, the Company earned \$0.5 million, \$0.7 million, and \$1.2 million, respectively, in administrative services performed for SCRE II and its affiliates.

Also during the year ended December 31, 2019, the Company was assigned a purchase contract which had been entered into by an entity affiliated with principals of Second City, which principals are also officers of the Company. The Company subsequently assigned the purchase contract to a third party. The Company paid no consideration to the related party for the contract other than return of deposits which the Company subsequently recovered from a third party in addition to an assignment fee. The Company recognized income of \$2.6 million on the assignment of the purchase contract to the third party, which was recorded in rental and other revenues on the consolidated statement of operations.

On July 31, 2019, an indirect, wholly-owned subsidiary of the Company entered into an administrative services agreement with Clarity Real Estate III GP, Limited Partnership and Clarity Real Estate Ventures GP, Limited Partnership (together, "Clarity"), entities affiliated with principals of Second City and officers of the Company. Pursuant to the Administrative Services Agreement, the Company will provide various administrative services and support to the related entities managing the Clarity funds. During the year ended December 31, 2019, the amounts earned by the Company for the administrative services performed for Clarity were nominal.

Earn-Out Payment

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.

Minority Interest Buy Out

On August 1, 2018, the Company signed an agreement with Second City Capital Partners II, Limited Partnership ("SCCP") whereby SCCP agreed to sell its seven percent minority interest in Central Fairwinds Limited Partnership to the Company for \$1.1 million. As a result of the agreement, the Company's ownership percentage in Central Fairwinds Limited Partnership is 97%.

9. Leases

Lessor Accounting

The Company is focused on acquiring, owning and operating high-quality office properties for lease to a stable and diverse tenant base. Our properties have both full-service gross and net leases which are generally classified as operating leases. Rental income related to such leases is recognized on a straight-line basis over the remaining lease term. The Company's total revenue includes fixed base rental payments provided under the lease and variable payments which principally consist of tenant expense reimbursements for certain property operating expenses. The Company elected the practical expedient to account for its lease and non-lease components as a single combined operating lease component under the new leasing standard. As a result, rental income, expense reimbursement, and other were aggregated into a single line within rental and other revenues on the consolidated statement of operations.

For the year ended December 31, 2019, the Company recognized \$153.5 million, respectively, of rental and other revenue related to its operating leases (in thousands):

	<u>Year ended December 31, 2019</u>
Fixed payments	\$132,540
Variable payments	20,990
	<u>\$153,530</u>

Future minimum lease payments to be received as of December 31, 2019 under noncancellable operating leases for the next five years and thereafter are as follows (in thousands):

2020	\$116,513
2021	110,491
2022	94,800
2023	73,959
2024	53,905
Thereafter	113,580
	<u>\$563,248</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.

The Company's leases may include various provisions such as scheduled rent increases, renewal options and termination options. The majority of the Company's leases include defined rent increase rather than variable payments based on an index or unknown rate. One state government tenant currently has 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. This tenant represents approximately 7.3% of the Company's total future minimum lease payments as of December 31, 2019.

Lessee Accounting

As a lessee, the Company has ground and office leases classified as operating leases and one office lease classified as a financing lease. Upon adoption of Topic 842, on January 1, 2019, the Company recognized right-of-use assets of \$9.2 million and lease liabilities of \$7.2 million. The difference between the recorded

right-of-use assets and lease liabilities is mainly due to the reclassification of the below market ground lease intangible asset, which was included within the right-of-use assets recognized upon transition. As of December 31, 2019, these leases had remaining terms of two to 69 years and a weighted average remaining lease term of 56 years. Operating and financing right-of-use assets and lease liabilities have been included within other assets and other liabilities on the Company's consolidated balance sheet as follows (in thousands):

	<u>As of</u> <u>December 31, 2019</u>
Right-of-use asset – operating leases	\$13,130
Lease liability – operating leases	\$ 8,033
Right-of-use asset – financing leases	\$ 79
Lease liability – financing leases	\$ 79

Lease liabilities are measured at the commencement date based on the present value of future lease payments. One of the Company's operating ground leases includes rental payment increases over the lease term based on increases in the Consumer Price Index ("CPI"). Changes in the CPI were not estimated as part of the measurement of the operating lease liability. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. The Company used a weighted average discount rate of 6.3% in determining its lease liabilities. The discount rates were derived from the Company's assessment of the credit quality of the Company and adjusted to reflect secured borrowing, estimated yield curves and long-term spread adjustments.

Right-of-use assets include any prepaid lease payments and exclude any lease incentives and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The lease terms may include options to extend or terminate the lease if it is reasonably certain that the Company will exercise that option.

Operating lease expense for the twelve months ended December 31, 2019 was \$0.8 million. Financing lease expense for the twelve months ended December 31, 2019 was nominal.

Future minimum lease payments to be paid by the Company as a lessee as of December 31, 2019 for the next five years and thereafter are as follows (in thousands):

	<u>Operating</u> <u>Leases</u>	<u>Financing</u> <u>Leases</u>
2020	\$ 533	\$ 27
2021	817	27
2022	798	27
2023	663	4
2024	597	—
Thereafter	26,680	—
Total future minimum lease payments	30,088	85
Discount	(22,055)	(6)
Total	<u>\$ 8,033</u>	<u>\$ 79</u>

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, 2019, 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. Earnings per Share

The table below is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the years ended December 31, 2019, 2018, and 2017 (in thousands, except per share amounts):

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income	\$ 2,442	\$38,669	\$ 9,158
Less: Net income attributable to noncontrolling interests in properties	(644)	(501)	(3,402)
Less: Net income attributable to Preferred stockholders	(7,420)	(7,420)	(7,411)
Numerator for basic and diluted EPS	<u>\$ (5,622)</u>	<u>\$30,748</u>	<u>\$(1,655)</u>
Denominator for basic EPS	43,997	37,321	30,198
Dilutive effect of RSUs	—	349	—
Denominator for dilutive EPS	<u>43,997</u>	<u>37,670</u>	<u>30,198</u>
Net (loss)/income per common share:			
Basic	\$ (0.13)	\$ 0.82	\$ (0.05)
Dilutive	\$ (0.13)	\$ 0.82	\$ (0.05)

12. Stockholder's Equity

On June 16, 2017, the Company and the Operating Partnership previously entered into the equity distribution agreements (collectively, the "Original 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 shares of common stock and the Company's 6.625% Series A Preferred Stock (the "Series A Preferred Stock") through the Sales Agents, acting as agents or principals (the "ATM Program"). On November 1, 2018, the Company and the Operating Partnership entered into amendments (the "Amendments") to the Original Agreements (as amended by the Amendments, the "EDAs") with each of the Sales Agents to increase the number of shares of common stock issuable under the ATM Program. Pursuant to the terms of the EDAs, the Company may issue and sell from time to time, up to 8,000,000 shares of common stock and up to 1,000,000 shares of Series A Preferred Stock through the Sales Agents pursuant to the ATM Program. Pursuant to the EDAs, 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 EDAs. The Company has no obligation to sell any of the shares under the EDAs and may at any time suspend solicitations and offers under, or terminate, the EDAs. During the year ended December 31, 2019, the Company issued 8,000,000 shares of common stock under the ATM Program. The Company raised \$106.5 million in aggregate gross proceeds, resulting in aggregate net proceeds to the Company of approximately \$104.8 million after deducting sales commissions and offering expenses. During the year ended December 31, 2018, the Company issued 3,410,802 shares of common stock under the ATM Program pursuant to the Original Agreements. The Company raised \$43.6 million in gross proceeds, resulting in net proceeds to us of approximately \$42.9 million after deducting sales commissions and offering expenses. The Company terminated the EDAs effective February 25, 2020.

On October 7, 2019, the Company completed a public offering pursuant to which the Company sold 6,900,000 shares of its common stock, inclusive of the overallotment option. The Company raised \$95.6 million in aggregate gross proceeds, resulting in aggregate net proceeds to the Company of approximately \$94.1 million after deducting underwriting discounts and offering expenses.

Non-controlling Interests

The following table summarizes the non-controlling interests in properties as of December 31, 2019 and December 31, 2018 (in thousands):

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
City Center	\$ (147)	\$ (183)
Central Fairwinds	(314)	(304)
AmberGlen	(1,141)	(1,272)
FRP Collection	851	791
Park Tower	<u>1,875</u>	<u>1,932</u>
	<u>\$ 1,124</u>	<u>\$ 964</u>

Common Stock and Common Unit Distributions

During the year ended December 31, 2019, the Company declared aggregate cash distributions to common stockholders and common unitholders of \$44.3 million. The Company paid aggregate cash distributions of \$40.7 million for the year-ended December 31, 2019 and \$12.8 million was payable as of December 31, 2019.

During the year ended December 31, 2019, 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, 2019 – March 31, 2019 . . .	\$0.235	March 15, 2019	April 11, 2019	April 25, 2019
April 1, 2019 – June 30, 2019	0.235	June 14, 2019	July 11, 2019	July 25, 2019
July 1, 2019 – September 30, 2019 . . .	0.235	September 16, 2019	October 11, 2019	October 25, 2019
October 1, 2019 – December 31, 2019 . .	<u>0.235</u>	December 13, 2019	January 10, 2020	January 24, 2020
Total	<u>\$0.940</u>			

Preferred Stock Distributions

During the year ended December 31, 2019, the Company declared aggregate cash distributions to preferred stockholders of \$7.4 million. The Company paid aggregate cash distributions of \$7.4 million for the year ended December 31, 2019 and \$1.9 million was payable as of December 31, 2019.

Restricted Stock Units

The Company has an equity incentive plan (as amended, “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”).

On May 2, 2019, the Company’s stockholders approved an amendment to the Equity Incentive Plan increasing the maximum number of shares of common stock that may be issued under the Equity Incentive Plan from 1,263,580 shares to 2,263,580 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, 2019, 162,500 restricted stock units (“RSUs”) were granted to directors, executive officers and non-executive employees with a fair value of \$1.8 million. The awards will vest in three equal, annual installments on each of the first three anniversaries of the date of grant.

During the year ended December 31, 2018, 156,375 RSUs were granted to directors, executive officers and non-executive employees with a fair value of \$1.9 million. The awards will vest in three equal, annual installments on each of the first three anniversaries of the date of grant.

During the year ended December 31, 2017, 117,478 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, 2019, December 31, 2018 and December 31, 2017, the Company recognized net compensation expense of \$1.7 million, \$1.4 million and \$1.7 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.

13. Quarterly Financial Information (unaudited):

The following tables summarize certain selected quarterly financial data for 2019 and 2018 (in thousands, except per share data). Summation of the individual quarters of net income/(loss) per share may not equal annual totals due to rounding.

	2019 Quarters			
	Fourth	Third	Second	First
Revenue	\$39,060	\$38,946	\$41,171	\$37,120
Net income/(loss)	2,988	(947)	1,321	(920)
Net income/(loss) attributable to common stockholders	987	(2,966)	(699)	(2,944)
Net income/(loss) per share	0.02	(0.07)	(0.02)	(0.07)

	2018 Quarters			
	Fourth	Third	Second	First
Revenue	\$34,167	\$33,547	\$30,236	\$31,534
Net (loss)/income	(6,684)	(1,161)	(684)	47,198
Net (loss)/income attributable to common stockholders	(8,656)	(3,151)	(2,653)	45,208
Net (loss)/income per share	(0.22)	(0.08)	(0.07)	1.25

City Office REIT, Inc.
SCHEDULE III – REAL ESTATE PROPERTIES AND ACCUMULATED DEPRECIATION
December 31, 2019
(In thousands)

Description	Encumbrances ⁽²⁾	Initial Costs to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried as of December 31, 2019 ⁽¹⁾			Accumulated Amortization	Year of Construction	Year Acquired
		Land	Buildings and Improvements	Improvements	Land	Building and Improvements	Total ⁽³⁾			
AmberGlen	\$ 20,000	\$ 6,546	\$ 3,490	\$ 2,578	\$ 6,546	\$ 6,068	\$ 12,614	\$ 2,898	1984-1998	2009
City Center	22,965	3,123	10,656	9,790	3,123	20,446	23,569	7,484	1984	2010
Central										
Fairwinds	17,534	1,747	9,751	6,927	1,747	16,678	18,425	4,471	1982	2012
Cherry Creek	46,867	25,745	20,144	1,837	25,745	21,981	47,726	6,590	1962-1980	2014
Lake Vista										
Pointe	17,717	4,115	20,600	178	4,115	20,778	24,893	5,171	2007	2014
Florida Research										
Park ⁽⁴⁾	45,969	11,446	56,475	3,228	11,446	59,703	71,149	9,100	1999 2014; 2016	
Superior Pointe	—	3,153	19,834	1,810	3,153	21,644	24,797	3,452	2000	2015
Denver Tech ⁽⁵⁾	15,461	18,002	52,719	1,679	18,002	54,398	72,400	4,314	1999; 1997	2015; 2019
190 Office										
Center	40,854	7,162	39,690	1,596	7,162	41,286	48,448	5,110	2001	2015
Intellicenter	32,971	5,244	34,278	69	5,244	34,347	39,591	4,726	2008	2015
Carillon Point	15,972	5,172	17,316	213	5,172	17,529	22,701	3,160	2007	2016
Park Tower	—	3,479	68,656	15,513	3,479	84,169	87,648	9,617	1973	2016
5090 N 40th St	22,000	6,696	32,123	1,633	6,696	33,756	40,452	3,018	1988	2016
SanTan	34,053	6,803	37,187	4,556	6,803	41,743	48,546	5,180	2000-2003	2016
2525 McKinnon	27,000	10,629	34,515	1,778	10,629	36,293	46,922	2,846	2003	2017
Mission City	47,000	25,741	41,474	6,337	25,741	47,811	73,552	6,066	1990-2007	2017
Sorrento Mesa	—	34,305	36,726	2,445	34,305	39,171	73,476	4,093	1985-2001	2017
Papago Tech	—	10,746	19,762	709	10,746	20,471	31,217	2,169	1993-1995	2017
Pima Center	—	—	45,133	1,030	—	46,163	46,163	3,345	2006-2008	2018
Circle Point	39,650	9,320	39,101	1,581	9,320	40,682	50,002	3,036	2001	2018
The Quad	30,600	8,079	39,858	93	8,079	39,951	48,030	2,103	1982	2018
Greenwood Blvd	22,425	3,945	26,019	500	3,945	26,519	30,464	915	1997	2018
Camelback										
Square	—	11,738	37,922	1,267	11,738	39,189	50,927	1,325	1978	2018
Canyon Park	40,950	7,098	38,416	2,691	7,098	41,107	48,205	1,046	1993; 1999	2019
Cascade Station	22,304	—	27,220	36	—	27,256	27,256	600	2008-2009	2019
Corporate	50,000	—	—	—	—	—	—	—		
Total	\$612,292	\$230,034	\$809,065	\$70,074	\$230,034	\$879,139	\$1,109,173	\$101,835		

(1) The aggregate cost for federal tax purposes as of December 31, 2019 of our real estate assets was approximately \$1.1 billion.

(2) Encumbrances exclude net deferred financing costs of \$5,660 and unamortized fair value adjustments of \$618.

(3) Properties identified as held for sale at December 31, 2019 are excluded.

(4) Florida Research Park is comprised of “FRP Ingenuity Drive” and “FRP Collection”.

(5) Denver Tech is comprised of “7601 Tech” and “7595 Tech” (formerly “DTC Crossroads”).

A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Real Estate Properties		
Balance, beginning of year	\$1,005,647	\$ 776,301
Acquisitions	113,134	225,476
Dispositions and impairments	(27,585)	(5,715)
Capital improvements	22,491	30,378
Assets held for sale	<u>(4,514)</u>	<u>(20,793)</u>
Balance, end of year	<u>\$1,109,173</u>	<u>\$1,005,647</u>
Accumulated Depreciation		
Balance, beginning of year	\$ 70,484	\$ 48,234
Depreciation	35,531	29,196
Dispositions	(4,180)	(2,301)
Depreciation on assets held for sale	<u>—</u>	<u>(4,645)</u>
Balance, end of year	<u>\$ 101,835</u>	<u>\$ 70,484</u>

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Amendment and Restatement of the Company, as amended and supplemented (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on March 1, 2018).
3.2	Second Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 14, 2017).
4.1	Certificate of Common Stock of City Office REIT, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-11/A filed 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 on September 30, 2016).
4.3	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, as amended. †
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 to the Company's Registration Statement on Form S-11/A filed 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 to the Company's Quarterly Report on Form 10-Q filed on May 23, 2014).
10.3	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 to the Company's Current Report on Form 8-K filed with the Commission on September 30, 2016).
10.4	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).
10.5	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).
10.6	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 to the Company's Current Report on Form 8-K filed with the Commission on February 5, 2016).
10.7	First Amendment to the Administrative Services Agreement, dated October 29, 2018 and effective as of February 1, 2019, by and among City Office Management ULC, Second City Capital II Corporation and Second City Real Estate II Corporation (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 1, 2018).
10.8	Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on May 23, 2014). *
10.9	Amendment No. 1 to the City Officer REIT, Inc. Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 6, 2019).*
10.10	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 9, 2016). *

<u>Exhibit Number</u>	<u>Description</u>
10.11	Form of Performance Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 28, 2020). *
10.12	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 to the Company's Current Report on Form 8-K filed with the Commission on February 2, 2018). *
10.13	Amendment No. 1 to Executive Employment Agreement, dated as of July 31, 2019, by and between City Office Management Ltd. and James Farrar (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 1, 2019). *
10.14	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 to the Company's Current Report on Form 8-K filed with the Commission on February 2, 2018). *
10.15	Amendment No. 1 to Executive Employment Agreement, dated as of July 31, 2019, by and between City Office Management Ltd. and Gregory Tylee (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 1, 2019). *
10.16	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 to the Company's Current Report on Form 8-K filed with the Commission on February 2, 2018).*
10.17	Amendment No. 1 to Executive Employment Agreement, dated as of July 31, 2019, by and between City Office Management Ltd. and Anthony Maretic (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 1, 2019). *
10.18	Credit Agreement dated as of March 15, 2018 by and among City Office REIT Operating Partnership, L.P., as borrower, City Office REIT, Inc. and certain of its subsidiaries, as guarantors, KeyBank National Association, as lender, agent and swing loan lender, the other lending institutions parties named therein, as lenders, and Keybank Capital Markets, as sole lead arranger and sole book manager (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 21, 2018).
10.19	Administrative Services Agreement, dated July 31, 2019, by and among CIO Administrative Services, LLC, Clarity Real Estate III GP, Limited Partnership and Clarity Real Estate Ventures GP, Limited Partnership (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 1, 2019).
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**

<u>Exhibit Number</u>	<u>Description</u>
101.CAL	CALCULATION LINKBASE DOCUMENT**
101.LAB	LABELS LINKBASE DOCUMENT**
101.PRE	PRESENTATION LINKBASE DOCUMENT**
101.DEF	DEFINITION LINKBASE DOCUMENT**

† Filed herewith.

* Compensatory Plan or arrangement

** 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: February 26, 2020

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)	February 26, 2020
<u>/s/ Anthony Maretic</u> Anthony Maretic	Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	February 26, 2020
<u>/s/ John McLernon</u> John McLernon	Independent Director, Chairman of Board of Directors	February 26, 2020
<u>/s/ Mark Murski</u> Mark Murski	Independent Director	February 26, 2020
<u>/s/ William Flatt</u> William Flatt	Independent Director	February 26, 2020
<u>/s/ John Sweet</u> John Sweet	Independent Director	February 26, 2020
<u>/s/ Sabah Mirza</u> Sabah Mirza	Independent Director	February 26, 2020

Certification

I, James Farrar, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2019 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.

February 26, 2020

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, 2019 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.

February 26, 2020

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, 2019 of City Office REIT, Inc. (the “Company”) to be 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.

February 26, 2020

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, 2019 of City Office REIT, Inc. (the “Company”) to be 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.

February 26, 2020

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.

COMPANY HIGHLIGHTS

Focused 18-Hour City Investment Strategy



- › Diversified portfolio of 5.8 million SF across leading 18-hour cities in the Southern and Western US
- › Markets positioned to outperform, driven by outsized employment and population growth
- › Focused on well-located office properties in vibrant, amenity-rich and transit-oriented submarkets

Proven Growth and Value Creation Approach



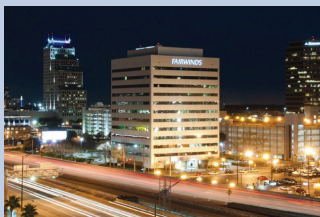
- › Disciplined underwriting and active asset management to generate long-term value creation opportunities
- › Built in rental rate growth enhanced through value-add programs, asset recycling and strategic land holdings
- › CIO's six dispositions have generated \$72 million of gains and a combined IRR of approximately 17%

Well-Positioned, Long Term Balance Sheet



- › Primarily fixed rate debt with a weighted average interest rate of 4.0%
- › 5.6 year weighted average debt maturity; no near-term maturities
- › Consistent access to capital and flexibility to grow with \$300 million unsecured credit facility

Experienced and Committed Management Team



- › Average over 20 years of experience with over \$2.5 billion of real estate acquisitions since 2011
- › Deep relationships in CIO markets and strong reputation for execution



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