

City Office REIT, Inc.
Form 10-Q
August 04, 2017
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _____ to _____

Commission file no: 001-36409

CITY OFFICE REIT, INC.

Maryland
(State or other jurisdiction of
incorporation)

98-1141883
(IRS Employer

Identification No.)

1075 West Georgia Street

Suite 2010

Vancouver, BC

V6E 3C9

(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark 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

Accelerated filer

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

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 Exchange Act). Yes No

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at July 31, 2017 was 30,262,086.

Table of Contents

City Office REIT, Inc.
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2017
Table of Contents

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	
	<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016</u>	
	<u>Condensed Consolidated Statement of Changes in Equity as of June 30, 2017 and December 31, 2016</u>	
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u>	
	<u>Notes to Condensed Consolidated Financial Statements</u>	
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	1
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	2
Item 4.	<u>Controls and Procedures</u>	3

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	3
Item 1A.	<u>Risk Factors</u>	3
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	3
Item 3.	<u>Defaults Upon Senior Securities</u>	3
Item 4.	<u>Mine Safety Disclosures</u>	3
Item 5.	<u>Other Information</u>	3
Item 6.	<u>Exhibits</u>	3
	<u>Signatures</u>	3

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****City Office REIT, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)***(In thousands, except par value and share data)*

	June 30, 2017	December 31, 2016
Assets		
Real estate properties		
Land	\$ 111,268	\$ 115,634
Building and improvement	436,207	423,707
Tenant improvement	44,183	49,813
Furniture, fixtures and equipment	232	222
	591,890	589,376
Accumulated depreciation	(41,270)	(39,052)
	550,620	550,324
Cash and cash equivalents	68,149	13,703
Restricted cash	24,049	15,948
Rents receivable, net	18,831	17,257
Deferred leasing costs, net	5,351	5,422
Acquired lease intangibles assets, net	49,799	56,214
Prepaid expenses and other assets	2,259	2,626
Assets held for sale	38,289	
Total Assets	\$ 757,347	\$ 661,494
Liabilities and Equity		
Liabilities:		
Debt	\$ 411,110	\$ 370,057
Accounts payable and accrued liabilities	12,092	12,976
Deferred rent	2,629	5,558
Tenant rent deposits	2,387	2,621
Acquired lease intangibles liability, net	5,807	4,302
Dividend distributions payable	8,967	7,521
Earn-out liability		2,400
Liabilities related to assets held for sale	1,445	

Total Liabilities	444,437	405,435
Commitments and Contingencies (Note 9)		
Equity:		
6.625% Series A Preferred stock, \$0.01 par value per share, 5,600,000 and 4,600,000 shares authorized, 4,480,000 issued and outstanding	112,000	112,000
Common stock, \$0.01 par value, 100,000,000 shares authorized, 30,257,448 and 24,382,226 shares issued and outstanding	303	244
Additional paid-in capital	264,785	195,566
Accumulated deficit	(64,781)	(53,608)
Total Stockholders Equity	312,307	254,202
Operating Partnership unitholders non-controlling interests		108
Non-controlling interests in properties	603	1,749
Total Equity	312,910	256,059
Total Liabilities and Equity	\$ 757,347	\$ 661,494

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

Table of Contents**City Office REIT, Inc.****Condensed Consolidated Statements of Operations****(Unaudited)***(In thousands, except per share data)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Rental income	\$ 21,635	\$ 14,203	\$ 43,948	\$ 28,276
Expense reimbursement	2,847	1,562	5,141	3,344
Other	675	327	1,466	750
Total Revenues	25,157	16,092	50,555	32,370
Operating Expenses:				
Property operating expenses	10,674	6,236	20,284	12,398
General and administrative	1,597	1,544	3,790	2,787
Base management fee				109
External advisor acquisition				7,045
Acquisition Costs		87		87
Depreciation and amortization	9,148	6,520	19,646	13,071
Total Operating Expenses	21,419	14,387	43,720	35,497
Operating income/(loss)	3,738	1,705	6,835	(3,127)
Interest Expense:				
Contractual interest expense	(4,356)	(3,139)	(8,429)	(6,885)
Amortization of deferred financing costs	(331)	(250)	(655)	(471)
	(4,687)	(3,389)	(9,084)	(7,356)
Change in fair value of contingent consideration	2,000		2,000	
Net gain on sale of real estate property	12,116	15,934	12,116	15,934
Net income	13,167	14,250	11,867	5,451
Less:				
Net income attributable to noncontrolling interests in properties	(3,104)	(110)	(3,272)	(177)
Net income attributable to Operating Partnership unitholders non-controlling interests		(2,613)		(874)
Net income attributable to the Company	10,063	11,527	8,595	4,400
Preferred stock distributions	(1,855)		(3,701)	

Net income attributable to common stockholders	\$ 8,208	\$ 11,527	\$ 4,894	\$ 4,400
Net income per common share and unit:				
Basic	\$ 0.27	\$ 0.56	\$ 0.16	\$ 0.26
Diluted	\$ 0.27	\$ 0.48	\$ 0.16	\$ 0.22
Weighted average common shares outstanding:				
Basic	30,257	20,729	29,886	16,746
Diluted	30,563	24,235	30,186	20,237
Dividend distributions declared per common share and unit	\$ 0.235	\$ 0.235	\$ 0.235	\$ 0.235

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

Table of Contents

City Office REIT, Inc.

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

(In thousands)

	Number of shares of preferred stock	Preferred stock	Number of shares of common stock	Common stock	Additional paid-in capital	Accumulated deficit	Total stockholders' equity	Operating Partnership unitholders non- controlling interests	Non- controlling properties	Total equity
Balance January 1, 2016		\$	12,518	\$ 125	\$ 95,318	\$ (29,598)	\$ 65,845	\$ 8,550	\$ (675)	\$ 73,720
Conversion of OP units to shares			3,206	32	10,754		10,786	(10,786)		
Restricted stock award grants and vesting			164	2	2,434		2,436			2,436
Internalization payment in shares			297	3	3,461		3,464			3,464
Earn out payment in shares			147	2	767		769	3,009		3,778
Net proceeds from sale of common stock			8,050	80	86,705		86,785			86,785
Net proceeds from sale of preferred stock	4,480	112,000			(3,873)		108,127			108,127
Common stock dividend distributions declared						(21,386)	(21,386)	(1,530)		(22,916)
Preferred stock dividend distributions declared						(1,781)	(1,781)			(1,781)
Contributions									2,525	2,525

Edgar Filing: City Office REIT, Inc. - Form 10-Q

Distributions									(455)	(455)
Net										
(loss)/income					(843)	(843)	865	354		376
Balance										
December 31,										
2016	4,480	112,000	24,382	244	195,566	(53,608)	254,202	108	1,749	256,059
Conversion of										
OP units to										
shares			40		108		108	(108)		
Restricted										
stock award										
grants and										
vesting			85	1	1,178		1,179			1,179
Net proceeds										
from sale of										
common stock			5,750	58	67,933		67,991			67,991
Common										
stock dividend										
distributions										
declared						(15,573)	(15,573)			(15,573)
Preferred										
stock dividend										
distributions										
declared						(4,195)	(4,195)			(4,195)
Distributions									(4,418)	(4,418)
Net income						8,595	8,595	3,272		11,867
Balance -										
June 30, 2017	4,480	\$ 112,000	30,257	\$ 303	\$ 264,785	\$ (64,781)	\$ 312,307	\$	\$ 603	\$ 312,910

Table of Contents**City Office REIT, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)***(In thousands)*

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	\$ 11,867	\$ 5,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,646	13,071
Amortization of deferred financing costs	655	471
Amortization of above/below market leases	(77)	120
Increase in straight-line rent	(1,960)	(2,911)
Non-cash stock compensation	1,179	1,157
Earn-out termination payment	(2,400)	
Internalization shares issued		3,464
Net gain on sale of real estate property	(12,116)	(15,934)
Changes in non-cash working capital:		
Rents receivable, net	(1,135)	(2,438)
Prepaid expenses and other assets	(26)	(955)
Accounts payable and accrued liabilities	(764)	995
Deferred rent	(2,620)	(727)
Tenant rent deposits	(313)	(150)
Net Cash Provided By Operating Activities	11,936	1,614
Cash Flows (to) / from Investing Activities:		
Additions to real estate properties	(4,038)	(6,012)
Acquisition of real estate	(46,035)	(25,842)
Net proceeds from sale of real estate	16,993	42,983
Deferred leasing costs	(1,810)	(689)
Net Cash (Used In) / Provided By Investing Activities	(34,890)	10,440
Cash Flows from / (to) Financing Activities:		
Proceeds from sale of common stock	67,991	86,786
Debt issuance and extinguishment costs	(753)	(226)
Proceeds from mortgage loan payable	119,340	
Repayment of mortgage loans payable	(25,836)	(51,685)
Repayment of Secured Credit Facility	(52,500)	
Distributions to noncontrolling interests in properties	(4,418)	(242)
Dividend distributions paid to stockholders and Operating Partnership unitholders	(18,323)	(9,364)

Change in restricted cash	(8,101)	(37,805)
Net Cash Provided By / (Used In) Financing Activities	77,400	(12,536)
Net Increase / (Decrease) in Cash and Cash Equivalents	54,446	(482)
Cash and Cash Equivalents, Beginning of Period	13,703	8,138
Cash and Cash Equivalents, End of Period	\$ 68,149	\$ 7,656

Supplemental Disclosures of Cash Flow Information:

Cash paid for interest	\$ 8,596	\$ 7,100
Earn-out payment in common stock	\$	\$ 3,778
Purchases of additions in real estate properties included in accounts payable	\$ 677	\$
Purchases of deferred leasing costs included in accounts payable	\$ 223	\$

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

Table of Contents

City Office REIT, Inc.

Notes to the Condensed 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). Both the Company and the Operating Partnership commenced operations upon completion of the IPO and certain related formation transactions (the 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 real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). Subject to qualification as a REIT, the Company will be permitted to deduct dividend distributions paid to its stockholders, eliminating the U.S. federal taxation of income represented by such distributions at the Company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and any applicable alternative minimum tax.

On February 1, 2016, the Company closed on the previously announced management internalization (the Internalization). The Company had previously entered into a Stock Purchase Agreement (Stock Purchase Agreement) with certain stockholders of the Company's external advisor, City Office Real Estate Management Inc. (the Advisor) pursuant to which the Company acquired all of the outstanding stock of the Advisor. Pursuant to this Stock Purchase Agreement, at closing, the Company issued 297,321 shares of its common stock with a fair market value of \$3.5 million to the stockholders of the Advisor (the Sellers), which included the Company's three executive officers and Samuel Belzberg, a director of the Company. In addition, the Company was required to make cash payments to the Sellers of up to \$3.5 million if the Company's fully diluted market capitalization reached the following thresholds prior to December 31, 2016: \$1 million upon the Company achieving a \$200 million fully diluted market capitalization, an additional \$1 million upon the Company achieving a \$225 million fully diluted market capitalization and an additional \$1.5 million upon the Company achieving a \$250 million fully diluted market capitalization. The Company paid an additional \$3.5 million in the first quarter of 2016 representing the payments to be made to the Sellers upon reaching these fully diluted market capitalizations, which, together with the initial payment and professional fees, resulted in a total cost of \$7.0 million in the year ended December 31, 2016. The amount was recorded as an expense in the accompanying condensed consolidated statements of operations as it represented the cost of terminating the relationship.

In connection with the closing of the Internalization, the Company entered into an amendment to the Advisory Agreement between the Company, the Operating Partnership and the Company's former external Advisor (Advisory Agreement) that eliminates the payment of acquisition fees by the Company to the Advisor. In addition, each of the Company's executive officers entered into an employment agreement with the Company and became employees of the

Company, and, at the same time, approximately eleven additional former employees of the Advisor and its affiliates became employees of the Company.

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

Table of Contents

2. Summary of Significant Accounting Policies

Basis of Preparation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with Securities and Exchange Commission rules and regulations and generally accepted accounting principles in the United States of America (US GAAP) and in the opinion of management contain all adjustments (including normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

New Accounting Pronouncements

Adopted in the Current Year

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

To be Adopted in Future Years

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which creates a new Topic Accounting Standards Codification (Topic 606). The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a Company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. This standard is effective for interim or annual periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption. Early adoption of this standard is permitted, but not prior to the original effective date of January 1, 2017. The new standard will be effective for the Company on January 1, 2018. We are currently evaluating the impact the adoption of Topic 606 will have on our financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The update amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new leases standard on its consolidated financial statements.

In August of 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides clarified guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company is currently assessing the impact of the guidance on our statement of cash flows.

Table of Contents

In November of 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standard requires that the statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This standard is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The Company is currently assessing the impact of the guidance on our statement of cash flows.

3. Real Estate Investments***Acquisitions***

During the six months ended June 30, 2017 and 2016 the Company acquired the following properties:

Property	Date Acquired	Percentage Owned
2525 McKinnon	January 2017	100%
Carillon Point	June 2016	100%

2525 McKinnon has been accounted for as an asset acquisition. Carillon Point was accounted for as a business combination.

The following table summarizes the Company's allocations of the purchase price of assets acquired and liabilities assumed during the six months ended June 30, 2017 (in thousands):

	2525 McKinnon
Land	\$ 10,629
Buildings and improvements	33,357
Tenant improvements	1,158
Acquired intangible assets	3,267
Accounts payable and other liabilities	(190)
Lease intangible liabilities	(2,186)
Total consideration	\$ 46,035

The following table summarizes the Company's allocations of the purchase price of assets acquired and liabilities assumed during the six months ended June 30, 2016 (in thousands):

	Carillon Point
Land	\$ 5,030
Buildings and improvements	14,100
Tenant improvements	2,739
Acquired intangible assets	4,140
Prepaid expenses and other assets	73

Edgar Filing: City Office REIT, Inc. - Form 10-Q

Accounts payable and other liabilities	(217)
Lease intangible liabilities	(23)
Total consideration	\$ 25,842

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

Table of Contents***Change in Fair Value of Contingent Consideration***

On June 28, 2017, the Company received a \$2 million refund from a third party escrow account related to the Park Tower acquisition when certain leasing thresholds were not achieved as a condition of that purchase in the prior year.

Sale of Real Estate Property

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

Assets Held for Sale

On September 21, 2016, we entered into a Purchase and Sale agreement to sell the Washington Group Plaza property for \$86.5 million. The transaction is anticipated to close in April 2018, subject to customary closing conditions. Either party has the right to accelerate closing by providing at least 120 days advance notice.

The property has been classified as held for sale as of June 30, 2017:

June 30, 2017	Washington Group Plaza
Real estate properties, net	\$ 34,539
Deferred leasing costs, net	1,295
Acquired lease intangibles asset, net	817
Rents receivable, prepaid expenses and other assets	1,638
Assets held for sale	\$ 38,289
Accounts payable, accrued expenses, deferred rent and tenant rent deposits	(1,445)
Liabilities related to assets held for sale	\$ (1,445)

Table of Contents**4. Lease Intangibles**

Lease intangibles and the value of assumed lease obligations as of June 30, 2017 and December 31, 2016 were comprised as follows (in thousands):

	Above Market Leases	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease	Total
June 30, 2017							
Cost	\$ 6,143	\$ 55,451	\$ 23,219	\$ 84,813	\$ (7,743)	\$ (138)	\$ (7,881)
Accumulated amortization	(2,958)	(24,375)	(7,681)	(35,014)	2,044	30	2,074
	\$ 3,185	\$ 31,076	\$ 15,538	\$ 49,799	\$ (5,699)	\$ (108)	\$ (5,807)

	Above Market Leases	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease	Total
December 31, 2016							
Cost	\$ 7,796	\$ 59,370	\$ 25,693	\$ 92,859	\$ (5,587)	\$ (138)	\$ (5,725)
Accumulated amortization	(3,779)	(24,384)	(8,482)	(36,645)	1,395	28	1,423
	\$ 4,017	\$ 34,986	\$ 17,211	\$ 56,214	\$ (4,192)	\$ (110)	\$ (4,302)

Table of Contents

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

2017	\$ 7,334
2018	10,912
2019	9,370
2020	7,798
2021	5,555
Thereafter	3,023
	\$ 43,992

5. Debt

The following table summarizes the secured indebtedness as of June 30, 2017 and December 31, 2016 (in thousands):

Property	June 30, 2017	December 31, 2016	Interest Rate as of June 30, 2017	Maturity
Secured Credit Facility ⁽¹⁾	\$	\$ 52,500	LIBOR +2.25% ⁽²⁾	June 2018
Washington Group Plaza ⁽³⁾	32,644	32,995	3.85	July 2018
AmberGlen Mortgage Loan ⁽⁴⁾		24,280	4.38	May 2019
Midland Life Insurance ⁽⁵⁾	89,361	90,124	4.34	May 2021
Lake Vista Pointe ⁽³⁾	18,460	18,460	4.28	August 2024
FRP Ingenuity Drive ⁽³⁾⁽⁶⁾	17,000	17,000	4.44	December 2024
Plaza 25 ⁽³⁾⁽⁷⁾	17,000	17,000	4.10	July 2025
190 Office Center ⁽⁷⁾	41,250	41,250	4.79	October 2025
Intellicenter ⁽⁷⁾	33,563	33,563	4.65	October 2025
FRP Collection ⁽⁷⁾	30,458	30,737	3.85	September 2023
Carillon Point ⁽⁷⁾	16,837	17,000	3.50	October 2023
5090 N 40 th St	22,000		3.92	January 2027
SanTan ⁽⁷⁾	35,100		4.56	March 2027
2525 McKinnon	27,000		4.24	April 2027
AmberGlen ⁽⁷⁾	20,000		3.69	May 2027
Central Fairwinds ⁽⁷⁾	15,240		4.00	June 2024
Total Principal	415,913	374,909		
Deferred financing costs, net	(4,803)	(4,852)		
Total	\$ 411,110	\$ 370,057		

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

- (1) At June 30, 2017 the Secured Credit Facility had \$100 million authorized and was undrawn. In addition, the Secured Credit Facility has an accordion feature that will permit the Company to borrow up to \$150 million, subject to additional collateral availability and lender approval. The Credit Agreement has a maturity date of June 26, 2018, which may be extended to June 26, 2019 at the Company's option upon meeting certain conditions. The Secured Credit Facility requires the Company to maintain a fixed charge coverage ratio of no less than 1.60x. At June 30, 2017, the Secured Credit Facility was cross-collateralized by Logan Tower, Superior Pointe and Park Tower. During 2016 the authorized borrowing capacity was increased from \$75 million to \$100 million.
- (2) As of June 30, 2017, the one month LIBOR rate was 1.22%.
- (3) Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization.

Table of Contents

- (4) The Company is required to maintain a minimum net worth of \$25 million and a minimum liquidity of \$2 million. On May 2, 2017, in conjunction with the sale of the 1400 and 1600 buildings at the AmberGlen property, the Company repaid the outstanding debt secured on the property of \$24.1 million plus closing costs and subsequently closed on a \$20 million loan secured by a first mortgage lien on the remaining buildings.
- (5) The mortgage loan is cross-collateralized by DTC Crossroads, Cherry Creek and City Center. Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization. The loan bears a fixed interest rate of 4.34% and matures on May 6, 2021. Upon the sale of Corporate Parkway on June 15, 2016, \$4 million of the loan was paid down and DTC Crossroads was substituted in as collateral property.
- (6) The Company is required to maintain a minimum net worth of \$17 million, minimum liquidity of \$1.7 million and a debt service coverage ratio of no less than 1.15x.
- (7) The Company is required to maintain a debt service coverage ratio of no less than 1.45x, 1.15x, 1.20x, 1.40x, 1.35x, 1.20x, 1.15x and 1.35x respectively for each of Plaza 25, 190 Office Center, Intellicenter, FRP Collection, Carillon Point, SanTan, AmberGlen and Central Fairwinds.

The scheduled principal repayments of debt as of June 30, 2017 are as follows (in thousands):

2017	\$ 1,962
2018	36,206
2019	5,050
2020	6,087
2021	88,111
Thereafter	278,497
Total	\$ 415,913

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

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

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

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

On June 5, 2017, the Company closed on a \$15.2 million loan secured by a first mortgage lien on the Central Fairwinds property in Orlando, Florida. The loan matures in June 2024. Interest is payable at a fixed rate of 4.00% per annum.

6. Fair Value of Financial Instruments

Edgar Filing: City Office REIT, Inc. - Form 10-Q

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

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

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

Level 3 Inputs unobservable inputs

As of June 30, 2017 and December 31, 2016, the Company did not have any hedges or derivatives.

Table of Contents

The estimated fair value of the earn-out liability decreased from \$2.4 million at December 31, 2016 to \$0 million at June 30, 2017. 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 was made to Second City on February 21, 2017.

Cash Equivalents, Restricted Cash, Accounts 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 \$420.3 million and \$323.7 million as of June 30, 2017 and December 31, 2016, respectively. Although the Company has determined the majority of the inputs used to value its fixed rate debt fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its fixed rate debt utilize Level 3 inputs, such as estimates of current credit spreads. Accordingly, mortgage loans payable have been classified as Level 3 fair value measurements.

7. Related Party Transactions*Property Management Fees*

Five of the Company's properties (City Center, Central Fairwinds, AmberGlen, FRP Collection and Park Tower) have engaged related parties to perform asset and property management services for a fee ranging from 2.0% to 3.5% of gross revenue. Management fees paid to the minority partners of these five properties totaled \$0.5 million and \$0.3 million for the six months ended June 30, 2017 and 2016, respectively.

8. Future Minimum Rent Schedule

Future minimum lease payments to be received as of June 30, 2017 under noncancellable operating leases for the next five years and thereafter are as follows (in thousands):

2017	40,670
2018	76,165
2019	66,120
2020	59,199
2021	51,708
Thereafter	121,742
	\$ 415,604

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.

Table of Contents

Thirteen state government tenants currently have the exercisable right to terminate their leases if the applicable state legislation does not appropriate rent in its annual budget. The Company has determined that the occurrence of any government tenant not being appropriated the rent in the applicable annual budget is a remote contingency and accordingly recognizes lease revenue on a straight-line basis over the respective lease term. These tenants represent approximately 14.3% of the Company's total future minimum lease payments as of June 30, 2017.

9. Commitments and Contingencies

Other

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 June 30, 2017, management believes that these matters will not have a material adverse effect, individually or in the aggregate, on the Company's financial position or results of operations.

10. Stockholders' Equity

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

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

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

through the Sales Agents, acting as agents or principals (the ATM Program).

Pursuant to the Sales Agreements, the Shares may be offered and sold through the Sales Agents in transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange or, with the prior consent of the Company, in privately negotiated transactions. The Sales Agents will be entitled to compensation of up to 2.0% of the gross proceeds of Shares sold through the Sales Agents from time to time under the Sales Agreements. The Company has no obligation to sell any of the Shares under the Sales Agreements and may at any time suspend solicitations and offers under, or terminate, the Sales Agreements.

Table of Contents

During the six month period ended June 30, 2017, we did not sell any Shares under the ATM Program.

Non-controlling Interests

Non-controlling interests in the Company represent common units not held by the Company or its consolidated subsidiaries. There were no non-controlling interests in the Company as of June 30, 2017. Common units and shares of common stock have essentially the same economic characteristics, as they share equally in the total net income or loss distributions of the Operating Partnership. Beginning on or after the date which is 12 months after the date on which a person first became a holder of common units, each limited partner and assignees of limited partners will have the right, subject to the terms and conditions set forth in the partnership agreement, to require the Operating Partnership to redeem all or a portion of the common units held by such limited partner or assignee in exchange for a cash amount per common unit equal to the value of one share of common stock, determined in accordance with and subject to adjustment under the partnership agreement. The Company has the sole option at its discretion to redeem the tendered common units by issuing common stock on a one-for-one basis. The Operating Partnership unitholders are entitled to share in cash distributions from the Operating Partnership in proportion to its percentage ownership of common units.

During the six months ended June 30, 2017, 40,000 common units were redeemed for shares of common stock.

Common Stock and Common Unit Distributions

On June 27, 2017, the Company's board of directors approved and the Company declared a cash dividend distribution of \$0.235 per share for the quarterly period ended June 30, 2017. The dividend was paid on July 25, 2017 to common stockholders and common unitholders of record as of July 11, 2017 for an aggregate of \$7.1 million.

Preferred Stock Distributions

During the quarter ended June 30, 2017, the Company's board of directors approved and the Company declared a cash dividend of \$0.4140625 per share for an aggregate amount of \$1.9 million. The dividend was paid subsequent to quarter end on July 25, 2017.

Restricted Stock Units

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

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

During the six months ended June 30, 2017, 117,478 restricted stock units (RSUs) were granted to directors 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 six months ended June 30, 2017 the Company

recognized net compensation expense of \$1.2 million 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 RSUs. The plan administrator may provide for a grant of dividend equivalent rights in connection with the grant of RSU; provided, however, that if the RSUs 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.

Table of Contents

11. Subsequent Events

Subsequent to June 30, 2017 the Company, through the Operating Partnership, entered into an Agreement of Purchase and Sale to acquire a portfolio of properties in San Diego, California for \$174.5 million, which is expected to close at the end of the third quarter of 2017, subject to customary closing conditions.

Table of Contents

Item 2. 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 condensed, consolidated financial statements and the related notes thereto of the City Office REIT, Inc. contained in this Quarterly Report on Form 10-Q.

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.

Cautionary Statement Regarding Forward-Looking Statements

This quarterly report on Form 10-Q, including Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition, contains both historical and forward-looking statements. All statements, other than statements of historical fact are, or may be deemed to be, forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward looking statements are not based on historical facts, but rather reflect our current expectations and projections about our future results, performance, prospects and opportunities. These forward looking statements may be identified by the use of words including anticipate, believe, expect, intend, may, might, plan, estimate, project, should, will, result and similar terms and phrases. These forward looking statements are subject to a number of known and unknown risks, uncertainties and other factors that are difficult to predict and which could cause our actual future results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. These risks, uncertainties and other factors include, among others:

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;

our failure to successfully operate acquired properties and operations;

changes in our business strategy;

Table of Contents

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

other factors described in our news releases and filings with the Securities and Exchange Commission (the SEC), including but not limited to those described in our Annual Report on Form 10-K for the year ended December 31, 2016 under the heading Risk Factors and in our subsequent reports filed with the SEC.

The forward looking statements included in this report are made only as of the date of this report, and except as otherwise required by federal securities law, we do not have any obligation to publicly update or revise any forward looking statements to reflect subsequent events or circumstances.

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 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 real estate investment trust (REIT) under the Code. Subject to qualification as a REIT, the Company will be permitted to

deduct dividend distributions paid to its stockholders, eliminating the U.S. federal taxation of income represented by such distributions at the Company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and any applicable alternative minimum tax.

On February 1, 2016, the Company closed on the previously announced Internalization. The Company had previously entered into a Stock Purchase Agreement with certain stockholders of the Company's external advisor, City Office Real Estate Management Inc. pursuant to which the Company acquired all of the outstanding stock of the Advisor. Pursuant to this Stock Purchase Agreement, at closing, the Company issued 297,321 shares of its common stock with a fair market value of \$3.5 million to the Sellers, which include the Company's three executive officers and Samuel Belzberg, a director of the Company. In addition, the Company was required to make cash payments to the Sellers of up to \$3.5 million if the Company's fully diluted market capitalization reached the

Table of Contents

following thresholds prior to December 31, 2016: \$1 million upon the Company achieving a \$200 million fully diluted market capitalization, an additional \$1 million upon the Company achieving a \$225 million fully diluted market capitalization and an additional \$1.5 million upon the Company achieving a \$250 million fully diluted market capitalization. The Company paid an additional \$3.5 million in the first quarter of 2016 representing the payments made to the Sellers upon reaching these fully diluted market capitalizations, which, together with the initial payment and professional fees, resulted in a total cost of \$7.0 million in the year ended December 31, 2016. The amount was recorded as an expense in the accompanying condensed consolidated statements of operations as it represented the cost of terminating the relationship.

In connection with the closing of the Internalization, the Company entered into an amendment to the Advisory Agreement that eliminates the payment of acquisition fees by the Company to the Company's former external Advisor. In addition, each of the Company's executive officers entered into an employment agreement with the Company and became employees of the Company, and, at the same time, approximately eleven additional former employees of the Advisor and its affiliates became employees of the Company.

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

Indebtedness

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

Revenue Base

As of June 30, 2017, we owned 19 properties comprised of 36 office buildings with a total of approximately 4.4 million square feet of net rentable area (NRA). As of June 30, 2017, our properties were approximately 90.1% occupied.

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. The tenants in the Lake Vista Pointe, FRP Ingenuity Drive and Superior Pointe properties have triple net leases. FRP Collection has triple net leases for three of its tenants. 2525 McKinnon has triple net leases for seven of its tenants. 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.

Table of Contents**Factors That May Influence Our Operating Results and Financial Condition***Business and Strategy*

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

Rental Revenue and Tenant Recoveries

The amount of net rental revenue generated by our properties will depend principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space that becomes available from lease terminations. As of June 30, 2017, our properties were approximately 90.1% occupied. 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.

Our Properties

As of June 30, 2017, we owned 19 office complexes comprised of 36 office buildings with a total of approximately 4.4 million square feet of NRA in the metropolitan areas of Boise, Dallas, Denver, Orlando, Phoenix, Portland and Tampa. The following table presents an overview of our portfolio as of June 30, 2017 (properties listed by descending NRA by market).

Metropolitan Area	Property	Economic Interest	NRA (000s Feet)	In Place Occupancy	Annualized	Annualized	Annualized Base Rent ⁽²⁾
					Base Rent per Square Foot	Gross Rent per Square Foot ⁽¹⁾	
Tampa, FL	Park Tower	94.8%	473	80.5%	\$ 23.61	\$ 23.61	\$ 8,983
	City Center	95.0%	241	100.0%	\$ 24.31	\$ 24.31	\$ 5,859
	Intellicenter	100.0%	204	100.0%	\$ 22.82	\$ 22.82	\$ 4,645
	Carillon Point	100.0%	124	100.0%	\$ 26.68	\$ 26.68	\$ 3,313

Edgar Filing: City Office REIT, Inc. - Form 10-Q

Denver, CO	Cherry Creek	100.0%	356	100.0%	\$ 17.61	\$ 17.61	\$ 6,262
	Plaza 25	100.0%	196	55.0%	\$ 21.46	\$ 21.46	\$ 2,307
	DTC Crossroads	100.0%	191	92.4%	\$ 23.36	\$ 23.36	\$ 4,120
	Superior Pointe	100.0%	149	95.8%	\$ 17.08	\$ 27.08	\$ 2,439
	Logan Tower	100.0%	70	95.5%	\$ 19.72	\$ 19.72	\$ 1,320
Boise, ID	Washington Group Plaza	100.0%	581	83.0%	\$ 17.53	\$ 17.53	\$ 8,448
Dallas, TX	190 Office Center	100.0%	303	88.6%	\$ 23.96	\$ 23.96	\$ 6,438
	Lake Vista Pointe	100.0%	163	100.0%	\$ 15.00	\$ 23.00	\$ 2,450
	2525 McKinnon	100.0%	111	100.0%	\$ 26.29	\$ 36.04	\$ 2,927

Table of Contents

Orlando, FL	FRP Collection	95.0%	272	82.2%	\$ 22.36	\$ 24.74	\$ 4,992
	Central Fairwinds	90.0%	170	89.0%	\$ 26.08	\$ 26.08	\$ 3,937
	FRP Ingenuity Drive	100.0%	125	100.0%	\$ 20.50	\$ 28.50	\$ 2,552
Phoenix, AZ	SanTan	100.0%	267	100.0%	\$ 26.53	\$ 26.53	\$ 7,070
	5090 N 40th St	100.0%	176	89.0%	\$ 27.58	\$ 27.58	\$ 4,317
Portland, OR	AmberGlen	76.0%	201	96.0%	\$ 19.17	\$ 21.68	\$ 3,702
Total / Weighted Average - June 30, 2017³			4,373	90.1%	\$ 21.85	\$ 23.33	\$ 86,081

- (1) For Superior Pointe, FRP Ingenuity Drive and Lake Vista Pointe, the annualized base rent per square foot on a triple net basis was increased by \$10, \$8 and \$8 respectively, to estimate a gross equivalent base rent. AmberGlen has a net lease for one tenant which has been grossed-up by \$7 on a pro rata basis. FRP Collection has net leases for three tenants which have been grossed up by \$8 on a pro-rata basis. 2525 McKinnon has net leases for seven tenants which have been grossed up by \$14 on a pro-rata basis.
- (2) Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month ended June 30, 2017 by (ii) 12.
- (3) Averages weighted based on the property's NRA, adjusted for occupancy.

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.

Summary of Significant Accounting Policies

The interim consolidated financial statements follow the same policies and procedures as outlined in the audited consolidated financial statements for the year ended December 31, 2016 included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Results of Operations*Comparison of Three Months Ended June 30, 2017 to June 30, 2016*

Total Revenue. Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Total revenues increased \$9.1 million, or 57%, to \$25.2 million for the three months ended June 30, 2017 compared to \$16.1 million in the corresponding period in 2016. \$0.9 million of this increase was attributed to the acquisition of Carillon Point in June 2016, \$1.3 million from the acquisition of FRP Collection in July 2016, \$2.9 million from the acquisition of Park Tower in November 2016, \$1.2 million from the acquisition of 5090 N 40th St in November 2016, \$1.9 million from the acquisition of SanTan in December 2016 and \$1.4 million from the acquisition of 2525 McKinnon in January 2017. Further contributing to the increase, Washington Group Plaza increased by \$0.8 million due to the downtime in the prior year associated with

tenant improvement work for new tenants at the property replacing a tenant who departed on December 31, 2015. Offsetting these increases, Corporate Parkway decreased by \$0.6 million due to the sale of the property in June 2016, AmberGlen decreased by \$0.2 million primarily due to the sale of two of the five buildings in the complex in May 2017, and Plaza 25 decreased \$0.4 million as a result of lower occupancy. The remaining properties revenues were relatively unchanged, decreased \$0.1 million in comparison to three months ended June 30, 2016.

Table of Contents

Rental Income. Rental income includes net rental income and income from a ground lease. Total rental income increased \$7.4 million, or 52%, to \$21.6 million for the three months ended June 30, 2017 compared to \$14.2 million for the three months ended June 30, 2016. The increase in rental income was primarily due to the acquisitions described above. The acquisitions of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon properties contributed an additional \$0.9 million, \$1.1 million, \$2.5 million, \$1.1 million, \$1.8 million and \$0.9 million in rental income, respectively, to the 2016 period rental income. Washington Group Plaza also increased by \$0.7 million due to the increased occupancy described above. Corporate Parkway decreased by \$0.6 million due to the sale of the property in June 2016, Plaza 25 decreased \$0.3 million as result of lower occupancy.

Expense Reimbursement. Total expense reimbursement increased \$1.3 million, or 87%, to \$2.8 million for the three month period ended June 30, 2017 compared to \$1.5 million for the same period in 2016, primarily due to the acquisition of the FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon properties described above. Offsetting these increases is a decrease in Plaza 25 expense reimbursement income due to reduced occupancy over the prior year.

Other. Other revenue includes parking, signage and other miscellaneous income. Total other revenues increased \$0.4 million, or 133%, to \$0.7 million for the three month period ended June 30, 2017 compared to \$0.3 million for the same period in 2016. Nominal other income was generated by City Center, Central Fairwinds, Plaza 25, Logan Tower, DTC Crossroads and Park Tower with the largest contribution from City Center and Park Tower parking income.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, as well as acquisition costs, general and administrative expenses and depreciation and amortization. Total operating expenses increased by \$7.0 million, or 49%, to \$21.4 million for the three months ended June 30, 2017, from \$14.4 million for the same period in 2016, primarily due to acquisitions described above. Total operating expenses increased by \$0.7 million, \$1.5 million, \$2.3 million, \$0.9 million, \$1.7 million and \$1.0 million, respectively, from the acquisitions of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon. Corporate Parkway decreased operating expenses by \$0.5 million due to the sale of the property in June 2016. Washington Group Plaza operating expenses decreased by \$0.4 million as a result of two offsetting changes. Depreciation decreased by \$0.9 million as the property was designated as held for sale during the quarter at which point the property ceased depreciation offset by higher property operating expenses incurred due to the higher occupancy at the property. The remaining property operating expenses were relatively unchanged, in comparison to the prior year.

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and releasing costs. Property operating expenses increased \$4.5 million, or 72%, to \$10.7 million for the three months ended June 30, 2017 from \$6.2 million for the same period in 2016. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisition of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon properties contributed an additional \$0.4 million, \$0.5 million, \$1.2 million, \$0.4 million, \$0.7 million and \$0.6 million in additional property operating expenses, respectively.

Acquisition Costs. Acquisition costs were \$0 for the three month period ended June 30, 2017 compared to \$0.1 million in the prior year. The company early adopted ASU 2017-01 and therefore costs associated with acquisitions are capitalized for the three months ended June 30, 2017 as part of the acquisition costs as required under the

accounting for an asset acquisition.

Table of Contents

General and Administrative. General and administrative expenses comprise of normal public company reporting costs and the compensation of our management team and board of directors as well as non-cash stock-based compensation expenses. General and administrative expenses were relatively unchanged at \$1.5 million for the three month period ended June 30, 2017 compared to the same period in 2016. Expense growth including payroll and other costs were offset by lower stock compensation costs. Included in general and administrative expense for the three months ended June 30, 2017 was \$0.4 million of non-cash stock-based compensation expense. Certain prior year amounts related to stock-based compensation expenses have been reclassified to general and administrative expenses to conform to current period presentation.

Depreciation and Amortization. Depreciation and amortization increased \$2.6 million, or 40%, to \$9.1 million for the three month period ended June 30, 2017 compared to \$6.5 million for the same period in 2016, primarily due to the addition of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon properties offset by a decrease at Washington Group Plaza which ceased depreciation during the quarter due to the classification as held for sale and Corporate Parkway which decreased by \$0.5 million due to the sale of the property in June 2016.

Other Expense (Income)

Interest Expense, Net. Interest expense increased \$1.3 million, or 38%, to \$4.7 million for the three month period ended June 30, 2017, compared to \$3.4 million for the corresponding period in 2016. The increase was primarily due to interest expense related to acquisitions. Interest expense for the Carillon Point, FRP Collection, 5090 N 40th St, SanTan and 2525 McKinnon property level debt increased by \$0.2 million, \$0.3 million, \$0.2 million, \$0.4 million and \$0.3 million respectively in 2017. Offsetting these increase, Corporate Parkway interest expense decreased \$0.2 million due to the sale of the property in June 2016 and operating line interest decreased by \$0.1 million due to the capital raise which occurred in January 2017.

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

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

Comparison of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2016

Total Revenue. Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Total revenues increased \$18.2 million, or 56%, to \$50.6 million for the six month period ended June 30, 2017 compared to \$32.4 million in the corresponding period in 2016. \$1.8 million of this increase was attributed to the acquisition of Carillon Point in June 2016, \$3.1 million from the acquisition of FRP Collection in July 2016, \$5.6 million from the acquisition of Park Tower in November 2016, \$2.3 million from the acquisition of 5090 N 40th St in November 2016, \$3.8 million from the acquisition of SanTan in December 2016 and \$2.4 million from the acquisition of 2525 McKinnon in January 2017. Further contributing to the increase, Washington Group Plaza increased by \$1.4 million due to the downtime in the prior year associated with tenant improvement work for new tenants at the property replacing a tenant who departed on December 31, 2015. Offsetting these increases, Corporate Parkway decreased by \$1.3 million due to the sale of the property in June 2016, and Plaza 25 decreased \$0.6 million as a result of lower occupancy. The remaining properties revenues were relatively unchanged, decreased \$0.2 million in comparison to three months ended June 30, 2016.

Rental Income. Rental income includes net rental income and income from a ground lease. Total rental income increased \$15.6 million, or 55%, to \$43.9 million for the six month period ended June 30, 2017 compared to \$28.3 million for the six months ended June 30, 2016. The increase in rental income was primarily due to the acquisitions described above. The acquisitions of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon properties contributed an additional \$1.7 million, \$2.6 million, \$4.9 million, \$2.2 million, \$3.7 million and \$1.6 million in rental income, respectively, to the 2016 period rental income. Washington Group Plaza also increased by \$1.3 million due to the increased occupancy described above. Corporate Parkway decreased by \$1.3 million due to the sale of the property in June 2016, Plaza 25 decreased \$0.5 million as result of lower occupancy.

Table of Contents

Expense Reimbursement. Total expense reimbursement increased \$1.8 million, or 54%, to \$5.1 million for the six month period ended June 30, 2017 compared to \$3.3 million for the same period in 2016, primarily due to the acquisition of the FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon properties described above. Offsetting these increases is a decrease in Plaza 25 expense reimbursement income due to reduced occupancy over the prior year.

Other. Other revenue includes parking, signage and other miscellaneous income. Total other revenues increased \$0.8 million, or 114%, to \$1.5 million compared to \$0.7 million for the same period in 2016. Nominal other income was generated by City Center, Central Fairwinds, Plaza 25, Logan Tower, DTC Crossroads and Park Tower with the largest contribution from City Center and Park Tower parking income.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, as well as acquisition costs, base management fees, stock-based compensation, external advisor acquisition costs, general and administrative expenses and depreciation and amortization. Total operating expenses increased by \$8.2 million, or 23%, to \$43.7 million for the six month period ended June 30, 2017, from \$35.5 million for the same period in 2016, primarily due to the property acquisitions described above offset by the external advisor acquisition costs of \$7.0 million which occurred on February 1, 2016. Total operating expenses increased by \$1.4 million, \$3.0 million, \$4.6 million, \$1.7 million, \$3.2 million and \$1.7 million, respectively, from the acquisitions of Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon. Corporate Parkway decreased operating expenses by \$1.1 million due to the sale of the property in June 2016. The remaining property operating expenses were relatively unchanged, in comparison to the prior year. The remaining increase relates to increases in general and administrative expenses including stock-based compensation related to our growth over the prior year.

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and releasing costs. Property operating expenses increased \$7.9 million, or 64%, to \$20.3 million for the six month period ended June 30, 2017 from \$12.4 million for the same period in 2016. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisition of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon properties contributed an additional \$0.7 million, \$1.1 million, \$2.4 million, \$0.8 million, \$1.3 million and \$0.8 million in additional property operating expenses, respectively.

Acquisition Costs. Acquisition costs were \$0 for the six month period ended June 30, 2017 compared to \$0.1 million in the prior year. The company early adopted ASU 2017-01 and therefore costs associated with acquisitions are capitalized for the six months ended June 30, 2017 as part of the acquisition costs as required under the accounting for an asset acquisition.

Base Management Fee. Base Management Fee was \$0 for the six month period ended June 30, 2017 compared to \$0.1 million for the six months ended June 30, 2016 representing the fee paid to our former external advisor. Effective February 1, 2016, with the acquisition of the external advisor, no base management fees will be paid going forward.

General and Administrative. General and administrative expenses increased \$1.0 million, or 36%, to \$3.8 million for the six month period ended June 30, 2017 compared to the same period in 2016. The increase is primarily attributable to payroll and other costs which the external advisor paid prior to February 1, 2016 and which the Company will pay

going forward following the Internalization. Included in general and administrative expense for the six months ended June 30, 2017 was \$1.2 million of non-cash stock-based compensation expense. Certain prior year amounts related to stock-based compensation expenses have been reclassified to general and administrative expenses to conform to current period presentation.

Table of Contents

Depreciation and Amortization. Depreciation and amortization increased \$6.5 million, or 50%, to \$19.6 million for the six month period ended June 30, 2017 compared to \$13.1 million for the same period in 2016, primarily due to the addition of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, SanTan and 2525 McKinnon properties offset by a decrease at Washington Group Plaza which ceased depreciation during the quarter due to the classification as held for sale and Corporate Parkway which decreased by \$1.1 million due to the sale of the property in June 2016.

Other Expense (Income)

Interest Expense, Net. Interest expense increased \$1.7 million, or 23%, to \$9.1 million for the six month period ended June 30, 2017, compared to \$7.4 million for the corresponding period in 2016. The increase was primarily due to interest expense related to acquisitions. Interest expense for the Carillon Point, FRP Collection, 5090 N 40th St, SanTan and 2525 McKinnon property level debt increased by \$0.3 million, \$0.6 million, \$0.4 million, \$0.7 million and \$0.4 million respectively in 2017. Offsetting these increase, Corporate Parkway interest expense decreased \$0.4 million due to the sale of the property in June 2016 and operating line interest decreased by \$0.6 million due to the capital raise which occurred in January 2017.

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

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

Cash Flows

Comparison of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2016

Cash and cash equivalents were \$68.1 million and \$7.7 million as of June 30, 2017 and June 30, 2016, respectively.

Cash flow from operating activities. Net cash provided by operating activities increased by \$10.3 million to \$11.9 million for the six months ended June 30, 2017 compared to \$1.6 million for the same period in 2016. The increase was mainly attributable to an increase in operating cash flows from the new acquisitions, offset by payment of the fair value of earn-out.

Cash flow to investing activities. Net cash used in investing activities increased by \$45.3 million to \$34.9 million used for the six months ended June 30, 2017 compared to \$10.4 million provided by investing activities for the same period in 2016. The increase was primarily due to the of the acquisition of 2525 McKinnon.

Cash flow from financing activities. Net cash provided by financing activities increased by \$89.9 million to \$77.4 million for the six months ended June 30, 2017 compared to \$12.5 million used for the same period in 2016. Cash flow from financing activities increased primarily due to proceeds from a public offering of our common stock that closed in January 2017, and proceeds from new mortgage payables, offset by repayment of borrowings from Secured Credit Facility

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

Edgar Filing: City Office REIT, Inc. - Form 10-Q

We had approximately \$68.1 million of cash and cash equivalents and \$24.0 million of restricted cash as of June 30, 2017.

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

Table of Contents

On January 12, 2017, the Company, through a wholly-owned subsidiary of the Operating Partnership closed on the acquisition of 2525 McKinnon, an approximately 111,000 square foot tower located in Dallas, Texas, for \$46.8 million, exclusive of closing costs.

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

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

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

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

On June 5, 2017, the Company closed on a \$15.2 million loan secured by a first mortgage lien on the Central Fairwinds property in Orlando, Florida. The loan matures in June 2024. Interest is payable at a fixed rate of 4.00% per annum. In connection with the financing Central Fairwinds was removed as collateral on the Secured Credit Facility.

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

Pursuant to the Sales Agreements, the Shares may be offered and sold through the Sales Agents in transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange or, with the prior consent of the Company, in privately negotiated transactions. The Sales Agents will be entitled to compensation of up to 2.0% of the gross proceeds of Shares sold through the Sales Agents from time to time under the Sales Agreements. The Company has no obligation to sell any of the Shares under the Sales Agreements and may at any time suspend solicitations and offers under, or terminate, the Sales Agreements.

During the six month period ended June 30, 2017, we did not sell any Shares under the ATM Program.

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

including under our ATM program, and borrowings under our mortgage loans and Secured Credit Facility.

Table of Contents

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

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

Consolidated Indebtedness as of June 30, 2017

As of June 30, 2017, we had approximately \$415.9 million of outstanding consolidated indebtedness, 100% of which is fixed rate debt. The following table sets forth information as of June 30, 2017 with respect to our outstanding indebtedness (in thousands).

Debt	Interest Rate as of		Maturity Date
	June 30, 2017	June 30, 2017	
Secured Credit Facility ⁽¹⁾	\$	LIBOR ⁽²⁾ +2.25%	June 2018
Washington Group Plaza ⁽³⁾	32,644	3.85	July 2018
AmberGlen Mortgage Loan ⁽⁴⁾		4.38	May 2019
Midland Life Insurance ⁽⁵⁾	89,361	4.34	May 2021
Lake Vista Pointe ⁽³⁾	18,460	4.28	August 2024
FRP Ingenuity Drive ⁽³⁾⁽⁶⁾	17,000	4.44	December 2024
Plaza 25 ⁽³⁾⁽⁷⁾	17,000	4.10	July 2025
190 Office Center ⁽⁷⁾	41,250	4.79	October 2025
Intellicenter ⁽⁷⁾	33,563	4.65	October 2025
FRP Collection ⁽⁷⁾	30,458	3.85	September 2023
Carillon Point ⁽⁷⁾	16,837	3.50	October 2023
5090 N 40 th St	22,000	3.92	January 2027
SanTan ⁽⁷⁾	35,100	4.56	March 2027
2525 McKinnon	27,000	4.24	April 2027
AmberGlen ⁽⁷⁾	20,000	3.69	May 2027
Central Fairwinds ⁽⁷⁾	15,240	4.00	June 2024
Total	\$ 415,913		

- (1) At June 30, 2017 the Secured Credit Facility had \$100 million authorized and was undrawn. In addition, the Secured Credit Facility has an accordion feature that will permit us to borrow up to \$150 million, subject to additional collateral availability and lender approval. The Credit Agreement has a maturity date of June 26, 2018, which may be extended to June 26, 2019 at our option upon meeting certain conditions. The Secured Credit

Facility requires us to maintain a fixed charge coverage ratio of no less than 1.60x. At June 30, 2017, the Secured Credit Facility was cross-collateralized by Logan Tower, Superior Pointe and Park Tower. During 2016 the authorized borrowing capacity was increased from \$75 million to \$100 million.

Table of Contents

- (2) As of June 30, 2017, the one month LIBOR rate was 1.22%.
- (3) Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization.
- (4) We are required to maintain a minimum net worth of \$25 million and a minimum liquidity of \$2 million. On May 2, 2017, in conjunction with the sale of the 1400 and 1600 buildings at the AmberGlen property, the Company repaid the outstanding debt secured on the property of \$24.1 million plus closing costs and subsequently closed on a \$20 million loan secured by a first mortgage lien on the remaining buildings.
- (5) The mortgage loan is cross-collateralized by DTC Crossroads, Cherry Creek and City Center. Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization. The loan bears a fixed interest rate of 4.34% and matures on May 6, 2021. Upon the sale of Corporate Parkway on June 15, 2016, \$4 million of the loan was paid down and DTC Crossroads was substituted as collateral property.
- (6) We are required to maintain a minimum net worth of \$17 million, minimum liquidity of \$1.7 million and a debt service coverage ratio of no less than 1.15x.
- (7) We are required to maintain a debt service coverage ratio of no less than 1.45x, 1.15x, 1.20x, 1.40x, 1.35x, 1.20x, 1.15x and 1.35x respectively for each of Plaza 25, 190 Office Center, Intellicenter, FRP Collection, Carillon Point, SanTan, AmberGlen and Central Fairwinds.

Contractual Obligations and Other Long-Term Liabilities

The following table provides information with respect to our commitments as of June 30, 2017, including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extension options.

Contractual Obligation	Payments Due by Period (in thousands)				More than 5 years
	Total	2017	2018-2019	2020-2021	
Principal payments on debt	\$ 415,913	\$ 1,962	\$ 41,256	\$ 94,198	\$ 278,497
Interest payments	116,081	8,853	33,153	29,423	44,652
Tenant-related commitments ⁽¹⁾	7,885	6,715	1,156	14	
Total	\$ 539,879	\$ 17,530	\$ 75,565	\$ 123,635	\$ 323,149

(1) Consists principally of commitments for tenant improvements.

Off-Balance Sheet Arrangements

As of June 30, 2017, we did not have any off-balance sheet arrangements.

Inflation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We have used, and will use, derivative financial instruments to manage or hedge interest rate risks related to borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. We have entered, and we will only enter into, contracts with major financial institutions based on their credit rating and other factors. As of June 30, 2017, our Company did not have any outstanding derivatives.

The primary market risk to which we are exposed is interest rate risk. Our primary interest rate exposure is LIBOR. We primarily use fixed interest rate financing to manage our exposure to fluctuations in interest rates. We consider our interest rate exposure to be minimal because as of June 30, 2017, approximately \$415.9 million, or 100%, of our debt had fixed interest rates. A 10% increase in LIBOR would not impact our interest costs on debt outstanding as of June 30, 2017, but would decrease the fair value of our outstanding debt, as well as increase interest costs associated with future debt issuances or borrowings under our Secured Credit Facility.

Table of Contents

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 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on the most recent evaluation, the Company's Chief Executive Officer and Chief Financial Officer determined that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) were effective as of June 30, 2017.

Management's Report on Internal Control Over Financial Reporting

There have been no changes to our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We and our subsidiaries are, from time to time, parties to litigation arising from the ordinary course of their business. Our management does not believe that any such litigation will materially affect our financial position or operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the section entitled "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On July 19, 2017, we, through a wholly-owned subsidiary of the Operating Partnership, entered into an Agreement of Purchase and Sale and Joint Escrow Instructions (the "PSA"), the form of which is filed hereto as Exhibit 10.5, to acquire a ten-building portfolio of properties in San Diego, California from an unaffiliated real estate company for \$174.5 million, exclusive of closing costs. As of August 2, 2017, we have waived our due diligence conditions precedent under the PSA and have made a \$10.0 million non-refundable deposit to the seller. The transaction is expected to close at the end of the third quarter of 2017, subject to customary closing conditions.

Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of City Office REIT, Inc., as amended and supplemented (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on March 3, 2017).
3.2	Articles Supplementary to the Articles of Amendment and Restatement of City Office REIT, Inc. designating the Company's 6.625% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share, dated June 16, 2017 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 20, 2017).

Edgar Filing: City Office REIT, Inc. - Form 10-Q

- 3.3 Second Amended and Restated Bylaws of City Office REIT, Inc. (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 of the Company's Registration Statement on Form S-11/A filed with the Commission on February 18, 2014).
- 4.2 Form of certificate representing the 6.625% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed with the Commission on September 30, 2016).
- 10.1 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).
- 10.2 Equity Distribution Agreement, dated June 16, 2017, by and among City Office REIT, Inc., City Office Operating Partnership, L.P. and KeyBanc Capital Markets Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 20, 2017).

Table of Contents

10.3	Equity Distribution Agreement, dated June 16, 2017, by and among City Office REIT, Inc., City Office Operating Partnership, L.P. and Raymond James & Associates, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 20, 2017).
10.4	Equity Distribution Agreement, dated June 16, 2017, by and among City Office REIT, Inc., City Office Operating Partnership, L.P. and BMO Capital Markets Corp. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 20, 2017).
10.5	Form of Agreement of Purchase and Sale and Joint Escrow Instructions, dated July 19, 2017.
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
31.1	Certification by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	INSTANCE DOCUMENT*
101.SCH	SCHEMA DOCUMENT*
101.CAL	CALCULATION LINKBASE DOCUMENT*
101.LAB	LABELS LINKBASE DOCUMENT*
101.PRE	PRESENTATION LINKBASE DOCUMENT*
101.DEF	DEFINITION LINKBASE DOCUMENT*

Filed herewith.

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

Table of Contents

SIGNATURES

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

CITY OFFICE REIT, INC.

Date: August 4, 2017

By: /s/ James Farrar
James Farrar
Chief Executive Officer and Director
(Principal Executive Officer)

Date: August 4, 2017

By: /s/ Anthony Maretic
Anthony Maretic
Chief Financial Officer, Secretary and Treasurer
(Principal Financial Officer and Principal Accounting Officer)