

COLUMBIA PROPERTY TRUST, INC.
Form 10-Q
October 26, 2017
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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 September 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 number 001-36113

COLUMBIA PROPERTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland

20-0068852

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

One Glenlake Parkway, Suite 1200

Atlanta, GA 30328

(Address of principal executive offices)

(Zip Code)

(404) 465-2200

(Registrant's telephone number, including area code)

(Former name, former address, and former fiscal year, if changed since last report)

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 definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth 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.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares outstanding of the registrant's
only class of common stock, as of October 23, 2017: 119,803,608 shares

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q of Columbia Property Trust, Inc. ("Columbia Property Trust," "the Company," "we," "our," or "us") other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in those acts. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, including known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this report is filed with the U.S. Securities and Exchange Commission ("SEC"). We make no representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this Form 10-Q, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Any such forward-looking statements are subject to risks, uncertainties, and other factors and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual conditions, our ability to accurately anticipate results expressed in such forward-looking statements, including our ability to generate positive cash flow from operations, make distributions to stockholders, and maintain the value of our real estate properties, may be significantly hindered. See Item 1A in Columbia Property Trust's Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of some of the risks and uncertainties that could cause actual results to differ materially from those presented in our forward-looking statements. The risk factors described in our Annual Report are not the only ones we face, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also harm our business.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The information furnished in the accompanying consolidated balance sheets and related consolidated statements of operations, comprehensive income, equity, and cash flows, reflects all normal and recurring adjustments that are, in management's opinion, necessary for a fair and consistent presentation of the aforementioned financial statements. The accompanying consolidated financial statements should be read in conjunction with the condensed notes to Columbia Property Trust's financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q, and with audited consolidated financial statements and the related notes for the year ended December 31, 2016. Columbia Property Trust's results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the operating results expected for the full year.

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CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per-share amounts)

	(Unaudited)	
	September 30, 2017	December 31, 2016
Assets:		
Real estate assets, at cost:		
Land	\$609,110	\$751,351
Buildings and improvements, less accumulated depreciation of \$377,794 and \$435,457, as of September 30, 2017 and December 31, 2016, respectively	1,704,630	2,121,150
Intangible lease assets, less accumulated amortization of \$89,950 and \$112,777, as of September 30, 2017 and December 31, 2016, respectively	164,699	193,311
Construction in progress	49,255	36,188
Real estate assets held for sale, less accumulated depreciation and amortization of \$180,791, as of December 31, 2016	—	412,506
Total real estate assets	2,527,694	3,514,506
Investment in unconsolidated joint ventures	698,105	127,346
Cash and cash equivalents	382,730	216,085
Tenant receivables, net of allowance for doubtful accounts of \$7 and \$31, as of September 30, 2017 and December 31, 2016, respectively	2,814	7,163
Straight-line rent receivable	80,128	64,811
Prepaid expenses and other assets	75,802	24,275
Intangible lease origination costs, less accumulated amortization of \$55,532 and \$74,578, as of September 30, 2017 and December 31, 2016, respectively	28,067	54,279
Deferred lease costs, less accumulated amortization of \$24,716 and \$22,753, as of September 30, 2017 and December 31, 2016, respectively	127,940	125,799
Investment in development authority bonds	120,000	120,000
Other assets held for sale, less accumulated amortization of \$34,152, as of December 31, 2016	—	45,529
Total assets	\$4,043,280	\$4,299,793
Liabilities:		
Line of credit and notes payable, net of unamortized deferred financing costs of \$2,611 and \$3,136, as of September 30, 2017 and December 31, 2016, respectively	\$520,367	\$721,466
Bonds payable, net of discounts of \$1,529 and \$1,664 and unamortized deferred financing costs of \$4,909 and \$5,364, as of September 30, 2017 and December 31, 2016, respectively	693,562	692,972
Accounts payable, accrued expenses, and accrued capital expenditures	129,802	131,028
Dividends payable	—	36,727
Deferred income	15,756	19,694
Intangible lease liabilities, less accumulated amortization of \$19,437 and \$44,564, as of September 30, 2017 and December 31, 2016, respectively	9,891	33,375
Obligations under capital lease	120,000	120,000
Liabilities held for sale, less accumulated amortization of \$1,239, as of December 31, 2016	—	41,763
Total liabilities	1,489,378	1,797,025
Commitments and Contingencies (Note 7)	—	—
Equity:		

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Common stock, \$0.01 par value, 225,000,000 shares authorized, 119,803,608 and 122,184,193 shares issued and outstanding, as of September 30, 2017 and December 31, 2016, respectively	1,198	1,221
Additional paid-in capital	4,485,368	4,538,912
Cumulative distributions in excess of earnings	(1,931,927)	(2,036,482)
Cumulative other comprehensive loss	(737)	(883)
Total equity	2,553,902	2,502,768
Total liabilities and equity	\$4,043,280	\$4,299,793
See accompanying notes.		

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COLUMBIA PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per-share amounts)

	(Unaudited)		(Unaudited)	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues:				
Rental income	\$55,015	\$87,561	\$193,309	\$280,714
Tenant reimbursements	3,053	17,090	18,609	55,551
Hotel income	—	6,270	1,339	17,484
Asset and property management fee income	1,154	511	2,126	1,655
Other property income	1,140	1,834	1,992	12,371
	60,362	113,266	217,375	367,775
Expenses:				
Property operating costs	18,567	39,101	64,503	120,679
Hotel operating costs	—	4,946	2,085	14,315
Asset and property management fee expenses	188	387	717	1,058
Depreciation	18,501	26,778	60,529	84,517
Amortization	6,870	11,895	24,518	42,902
General and administrative - corporate	7,034	7,467	25,003	25,718
General and administrative - unconsolidated joint ventures	713	—	713	—
	51,873	90,574	178,068	289,189
Real estate operating income	8,489	22,692	39,307	78,586
Other income (expense):				
Interest expense	(14,731)	(17,138)	(44,308)	(52,415)
Interest and other income	2,841	1,839	7,668	5,452
Loss on early extinguishment of debt	(280)	(18,905)	(325)	(18,997)
	(12,170)	(34,204)	(36,965)	(65,960)
Income (loss) before income taxes, unconsolidated joint ventures, and sales of real estate:	(3,681)	(11,512)	2,342	12,626
Income tax benefit (expense)	(3)	(65)	378	(387)
Income (loss) from unconsolidated joint ventures	2,853	(1,937)	(849)	(5,441)
Income (loss) before sales of real estate:	(831)	(13,514)	1,871	6,798
Gain on sales of real estate assets	102,365	50,412	175,518	50,083
Net income	\$101,534	\$36,898	\$177,389	\$56,881
Per-share information – basic:				
Net income	\$0.84	\$0.30	\$1.46	\$0.46
Weighted-average common shares outstanding – basic	120,293	123,215	121,270	123,271
Per-share information – diluted:				
Net income	\$0.84	\$0.30	\$1.46	\$0.46
Weighted-average common shares outstanding – diluted	120,529	123,350	121,458	123,348
Dividends per share	\$0.20	\$0.30	\$0.60	\$0.90

See accompanying notes.

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COLUMBIA PROPERTY TRUST, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (in thousands)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$101,534	\$36,898	\$177,389	\$56,881
Market value adjustments to interest rate swap	148	1,250	146	(5,629)
Comprehensive income	\$101,682	\$38,148	\$177,535	\$51,252

See accompanying notes.

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COLUMBIA PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 (UNAUDITED)
(in thousands, except per-share amounts)

	Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Cumulative Other Comprehensive Income (Loss)	Total Equity
	Shares	Amount				
Balance, December 31, 2016	122,184	\$1,221	\$4,538,912	\$(2,036,482)	\$ (883)	\$2,502,768
Repurchases of common stock	(2,682)	(26)	(57,602)	—	—	(57,628)
Common stock issued to employees and directors, and amortized (net of income tax withholdings)	302	3	4,058	—	—	4,061
Distributions to common stockholders (\$0.60 per share)	—	—	—	(72,834)	—	(72,834)
Net income	—	—	—	177,389	—	177,389
Market value adjustment to interest rate swap	—	—	—	—	146	146
Balance, September 30, 2017	119,804	\$1,198	\$4,485,368	\$(1,931,927)	\$ (737)	\$2,553,902
	Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Cumulative Other Comprehensive Loss	Total Equity
	Shares	Amount				
Balance, December 31, 2015	124,363	\$1,243	\$4,588,303	\$(1,972,916)	\$ (2,436)	\$2,614,194
Repurchases of common stock	(1,105)	(11)	(24,989)	—	—	(25,000)
Common stock issued to employees and directors, and amortized (net of income tax withholdings)	213	2	2,337	—	—	2,339
Distributions to common stockholders (\$0.90 per share)	—	—	—	(111,120)	—	(111,120)
Net income	—	—	—	56,881	—	56,881
Market value adjustment to interest rate swap	—	—	—	—	(5,629)	(5,629)
Balance, September 30, 2016	123,471	\$1,234	\$4,565,651	\$(2,027,155)	\$ (8,065)	\$2,531,665
See accompanying notes.						

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COLUMBIA PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	\$ 177,389	\$ 56,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Straight-line rental income	(20,964)	(15,470)
Depreciation	60,529	84,517
Amortization	24,115	39,271
Noncash interest expense	2,239	2,765
Loss on early extinguishment of debt	325	18,997
Loss from unconsolidated joint ventures	849	5,441
Gain on sales of real estate assets	(175,518)	(50,083)
Stock-based compensation expense	5,509	3,512
Changes in assets and liabilities, net of acquisitions and dispositions:		
Decrease in tenant receivables, net	3,957	4,646
Decrease in prepaid expenses and other assets	1,340	5,776
Decrease in accounts payable and accrued expenses	(25,488)	(3,799)
Decrease in deferred income	(7,167)	(2,750)
Net cash provided by operating activities	47,115	149,704
Cash Flows from Investing Activities:		
Net proceeds from the sales of real estate	737,631	482,089
Prepaid earnest money	(52,000)	—
Capital improvement and development costs	(59,022)	(34,447)
Deferred lease costs paid	(14,437)	(19,713)
Investments in unconsolidated joint ventures	(123,149)	(12,351)
Distributions from unconsolidated joint ventures	1,411	—
Net cash provided by investing activities	490,434	415,578
Cash Flows from Financing Activities:		
Financing costs paid	(628)	(3,111)
Prepayments to settle debt	—	(17,921)
Proceeds from lines of credit and notes payable	—	435,000
Repayments of lines of credit and notes payable	(201,625)	(745,070)
Proceeds from issuance of bonds payable	—	348,691
Repayment of bonds payable	—	(250,000)
Distributions paid to stockholders	(109,561)	(148,474)
Redemptions of common stock	(59,090)	(26,186)
Net cash used in financing activities	(370,904)	(407,071)
Net increase in cash and cash equivalents	166,645	158,211
Cash and cash equivalents, beginning of period	216,085	32,645
Cash and cash equivalents, end of period	\$ 382,730	\$ 190,856
See accompanying notes.		

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COLUMBIA PROPERTY TRUST, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(unaudited)

1. Organization

Columbia Property Trust, Inc. ("Columbia Property Trust") (NYSE: CXP) is a Maryland corporation that operates as a real estate investment trust ("REIT") for federal income tax purposes and owns and operates commercial real estate properties. Columbia Property Trust was incorporated in 2003, commenced operations in 2004, and conducts business primarily through Columbia Property Trust Operating Partnership, L.P. ("Columbia Property Trust OP"), a Delaware limited partnership. Columbia Property Trust is the general partner and sole owner of Columbia Property Trust OP and possesses full legal control and authority over its operations. Columbia Property Trust OP acquires, develops, owns, leases, and operates real properties directly, through wholly owned subsidiaries, or through unconsolidated joint ventures. Unless otherwise noted, references to Columbia Property Trust, "we," "us," or "our" herein shall include Columbia Property Trust and all subsidiaries of Columbia Property Trust, direct and indirect.

Columbia Property Trust typically invests in high-quality, income-generating office properties. As of September 30, 2017, Columbia Property Trust owned 16 operating properties, of which 12 were wholly owned and four were owned through unconsolidated joint ventures. These properties are located primarily in New York, San Francisco, Washington, D.C., and Atlanta, contain a total of 8.2 million rentable square feet, and were approximately 95.1% leased as of September 30, 2017. In October 2017, Columbia Property Trust acquired two wholly owned properties in New York and a 55.0% interest in an additional property in Washington, D.C. See Note 3, Real Estate Transactions, for additional information.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Columbia Property Trust have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), including the instructions to Form 10-Q and Article 10 of Regulation S-X, and do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, the statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods. Results for these interim periods are not necessarily indicative of a full year's results. For additional information on our unconsolidated joint ventures, which are accounted for using the equity method of accounting, see Note 4, Unconsolidated Joint Ventures. Columbia Property Trust's consolidated financial statements include the accounts of Columbia Property Trust, Columbia Property Trust OP, and any variable-interest entity in which Columbia Property Trust or Columbia Property Trust OP was deemed the primary beneficiary. With respect to entities that are not variable interest entities, Columbia Property Trust's consolidated financial statements also include the accounts of any entity in which Columbia Property Trust, Columbia Property Trust OP, or their subsidiaries own a controlling financial interest and any limited partnership in which Columbia Property Trust, Columbia Property Trust OP, or their subsidiaries own a controlling general partnership interest. All intercompany balances and transactions have been eliminated in consolidation. For further information, refer to the financial statements and footnotes included in Columbia Property Trust's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K").

Fair Value Measurements

Columbia Property Trust estimates the fair value of its assets and liabilities (where currently required under GAAP) consistent with the provisions of Accounting Standard Codification 820, Fair Value Measurements ("ASC 820"). Under this standard, fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date, under current market conditions. While various techniques and assumptions can be used to estimate fair value depending on the nature of the asset or liability, the accounting standard for fair value measurements and disclosures provides the following fair value technique parameters and hierarchy, depending upon availability:

Level 1 – Assets or liabilities for which the identical term is traded on an active exchange, such as publicly traded instruments or futures contracts.

Level 2 – Assets or liabilities valued based on observable market data for similar instruments.

Level 3 – Assets or liabilities for which significant valuation assumptions are not readily observable in the market. Such assets or liabilities are valued based on the best available data, some of which may be internally developed. Significant assumptions may include risk premiums that a market participant would consider.

Real Estate Assets

Columbia Property Trust is required to make subjective assessments as to the useful lives of its depreciable assets. To determine the appropriate useful life of an asset, Columbia Property Trust considers the period of future benefit of the asset. These assessments have a direct impact on net income. The estimated useful lives of its assets by class are as follows:

Buildings	40-45 years
Building and site improvements	5-25 years
Tenant improvements	Shorter of economic life or lease term
Intangible lease assets	Lease term

Evaluating the Recoverability of Real Estate Assets

Columbia Property Trust continually monitors events and changes in circumstances that could indicate that the carrying amounts of its real estate and related intangible assets, of both operating properties and properties under construction, may not be recoverable. When indicators of potential impairment are present that suggest that the carrying amounts of real estate assets and related intangible assets and liabilities may not be recoverable, Columbia Property Trust assesses the recoverability of these assets and liabilities by determining whether the respective carrying values will be recovered through the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying values, Columbia Property Trust adjusts the carrying value of the real estate assets and related intangible assets and liabilities to the estimated fair values, pursuant to the property, plant, and equipment accounting standard for the impairment or disposal of long-lived assets, and recognizes an impairment loss. Estimated fair values are calculated based on the following hierarchy of information, depending upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of future cash flows, including estimated residual value. Certain of Columbia Property Trust's assets may be carried at an amount that exceeds that which could be realized in a current disposition transaction. Based on the assessment as described above, Columbia Property Trust has determined that the carrying values of all its real estate assets and related intangible assets are recoverable as of September 30, 2017.

Projections of expected future operating cash flows require that Columbia Property Trust estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. Due to the inherent subjectivity of the assumptions used to project future cash flows, estimated fair values may differ from the values that would be realized in market transactions.

Assets Held for Sale

Columbia Property Trust classifies properties as held for sale according to Accounting Standard Codification 360, Accounting for the Impairment or Disposal of Long-Lived Assets ("ASC 360"). According to ASC 360, properties, having separately identifiable operations and cash flows, are considered held for sale when the following criteria are met:

- Management, having the authority to approve the action, commits to a plan to sell the property.
 - The property is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property.
 - An active program to locate a buyer and other actions required to complete the plan to sell the property have been initiated.
 - The property is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
 - Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
 - The sale of the property is probable (i.e., typically subject to a binding sale contract with a non-refundable deposit), and transfer of the property is expected to qualify for recognition as a completed sale within one year.
- At such time that a property is determined to be held for sale, its carrying amount is adjusted to the lower of its depreciated book value or its estimated fair value, less costs to sell, and depreciation is no longer recognized; and assets and liabilities are required to be classified as held for sale on the accompanying consolidated balance sheet. As of September 30, 2017,