City Office REIT, Inc.
Form 10-K
March 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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	98-1141883
(State or other jurisdiction	(IRS Employer
of incorporation)	Identification No.)

1075 West Georgia Street

Suite 2010

Vancouver, BC

V6E 3C9

(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange
6.625% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share	New York Stock Exchange

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filter		Accelerated filter	
Non-accelerated filter	(Do not check if a smaller reporting company)	Smaller reporting company	

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

As of June 30, 2016, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $244.3 million, based on the closing sales price of $12.98 per share as reported on the New York Stock Exchange.

As of February 28, 2017 the registrant had 30,172,226 shares of common stock outstanding.

Documents incorporated by reference: Portions of the registrant s Definitive Proxy Statement for the 2017 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant s fiscal year end) are incorporated by reference in this Annual Report on Form 10-K in response to Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14.

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CITY OFFICE REIT, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- adverse economic or real estate developments in the office sector or the markets in which we operate;
- changes in local, regional, national and international economic conditions;
- our inability to compete effectively;
- our inability to collect rent from tenants or renew tenants leases on attractive terms if at all;
- demand for and market acceptance of our properties for rental purposes;
- defaults on or non-renewal of leases by tenants;
- increased interest rates and any resulting increase in financing or operating costs;
- decreased rental rates or increased vacancy rates;
- our failure to obtain necessary financing or access the capital markets on favorable terms or at all;
- changes in the availability of acquisition opportunities;
- availability of qualified personnel;

our inability to successfully complete real estate acquisitions;

our failure to successfully operate acquired properties and operations;

changes in our business strategy;

our failure to generate sufficient cash flows to service our outstanding indebtedness;

environmental uncertainties and risks related to adverse weather conditions and natural disasters;

our failure to qualify and maintain our status as a real estate investment trust (REIT);

government approvals, actions and initiatives, including the need for compliance with environmental requirements;

outcome of claims and litigation involving or affecting us;

financial market fluctuations;

changes in real estate, taxation and zoning laws and other legislation and government activity and changes to real property tax rates and the taxation of REITs in general; and

additional factors discussed under the sections captioned Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business.

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

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PART I

ITEM 1. BUSINESS

Overview

We are an internally-managed Maryland corporation focused on acquiring, owning and operating high-quality office properties located primarily in metropolitan areas in the Southern and Western United States. Our target markets possess a number of attractive demographic and employment characteristics that we believe will lead to capital appreciation and growth in rental income at our properties. Our senior management team has extensive industry relationships and a proven track record in executing this strategy, which we believe provides a competitive advantage to our shareholders.

We believe that our target markets offer the opportunity for attractive risk-adjusted returns due to the following characteristics: favorable economic growth trends, growing populations with above average employment growth forecasts, a large number of government offices, large international, national and regional employers across diversified industries, low-cost centers for business operations, proximity to large universities and increasing office occupancy rates. We also believe that new construction of office properties has been limited in most of our markets since 2008 because rental rates in these markets generally have not supported new development. Within our target markets, we focus primarily on Class A and B properties with a purchase price between $25 million and $100 million and expected stabilized capitalization rates generally between seven and eight percent. We believe that there is a lower level of competition for these properties in our target markets because large institutional investors generally have focused on the gateway markets or transactions larger than $100 million. Competition for our target acquisitions often involve local or regional groups who typically do not benefit from the same access to capital as public REITs.

Our senior management team has extensive experience in real estate markets and is made up of James Farrar, our chief executive officer, Gregory Tylee, our president and chief operating officer and Anthony Maretic, our chief financial officer, each with over 20 years of experience. We use local firms in our markets to manage and lease our geographically diversified portfolio to benefit from their local market knowledge, efficient operations and existing infrastructure without incurring the overhead costs associated with creating our own property management function in each of our markets.

From our initial public offering until February 1, 2016, we were externally managed by City Office Real Estate Management, Inc. (our former advisor). During this time, we relied on our former advisor to provide or obtain on our behalf the personnel and services necessary for us to conduct our business. On February 1, 2016, we closed a transaction to internalize our management (the Internalization), which was negotiated and approved by a committee of independent directors. In connection with the Internalization, we acquired our former advisor and directly employed the former advisor s existing management team and other employees.

At December 31, 2016, we owned 18 office complexes comprised of 37 office buildings with a total of approximately 4.4 million square feet of net rentable area (NRA) in the metropolitan areas of Boise, Dallas, Denver, Orlando, Phoenix, Portland and Tampa. We believe that our properties are high quality assets that provide excellent access to transportation options, are located near affluent neighborhoods, contain extensive amenities and are well-maintained. We also believe that our properties have a stable and diverse tenant base, including federal and state governmental agencies and national and regional businesses. As of December 31, 2016, our portfolio was 91.0% leased and approximately 53.9% of the base rental revenue from our properties was derived from tenants in these markets that are federal or state government agencies or investment grade tenants or their subsidiaries. Our largest tenant is the Colorado Department of Public Health and Environment, whose lease at the Cherry Creek property in Denver expires

in 2026 and represents approximately 6.9% of the base rental revenue of our portfolio at December 31, 2016. Our properties also have a stable, long-term tenancy profile and our occupied and committed leases have staggered expirations and a weighted average remaining

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lease term to maturity of 5.2 years at December 31, 2016. The majority of our leases are modified gross leases pursuant to which our tenants reimburse us for operating expenses, property taxes and insurance in excess of a base amount. This structure helps insulate us from increases in certain operating expenses and provides a more predictable cash flow. Our leases typically include rent escalation provisions designed to provide annual growth in our rental income.

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

As of December 31, 2016, we had 18 employees, all of which were full-time.

Business Objectives and Growth Strategies

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

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

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

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

Lease Currently Vacant Space: As of December 31, 2016, the weighted average in place occupancy rate of our properties was 91.0% and we believe that there is potential to generate additional rental income by leasing space in these properties that is currently unoccupied. We believe that our properties compete for tenants with other landlords that are capital constrained and may not be able to enhance their buildings appeal through capital investments or offer tenants attractive tenant improvement packages.

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

2016 Highlights and Other Recent Developments

For the full year 2016, we completed acquisitions of 10 office buildings, containing an aggregate of approximately 1.3 million square feet of net rentable area, for an aggregate purchase price of approximately $256.9 million.

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In February 2016, we acquired our former advisor and internalized our management.

In April 2016, we completed a follow-on public offering of 8,050,000 shares of our common stock, inclusive of the overallotment option, resulting in gross proceeds to us of approximately $91.8 million.

In June 2016, we sold the Corporate Parkway property in Allentown, Pennsylvania for a sales price of $44.9 million, resulting in an aggregate net gain of $15.9 million.

In September 2016, we entered into an agreement to sell the Washington Group Plaza property in Boise, Idaho for a sales price of $86.5 million. A $5.0 million non-refundable deposit was received in December 2016.

In October 2016, we completed a public offering of 4,480,000 shares of our 6.625% Series A Cumulative Redeemable Preferred Stock, inclusive of the overallotment option, resulting in gross proceeds to us of approximately $112.0 million.

In October 2016, exercised our option under to increase the authorized borrowing capacity under the Secured Credit Facility from $75 million to $100 million.

In January 2017, we completed a follow-on public offering of 5,750,000 shares of our common stock, inclusive of the overallotment option, resulting in gross proceeds to us of approximately $71.3 million.

From January 1, 2017 to February 28, 2017, we completed the acquisition of 2525 McKinnon in Dallas, Texas and completed financing transactions for 5090 N 40th St and SanTan.

Competition

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

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

Segment and Geographic Financial Information

During 2016, we had one reportable segment, our office properties segment. For information about our office property revenues and long-lived assets and other financial information, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

Environmental Matters

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

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

Availability of Reports Filed with the Securities and Exchange Commission

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

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ITEM 1A. RISK FACTORS

Risks Relating to Our Business and Our Properties

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

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

- adverse changes in financial conditions of buyers, sellers and tenants of our properties, including bankruptcies, financial difficulties or lease defaults by our tenants;
- the national, regional and local economy, which may be negatively impacted by concerns about inflation, deflation and government deficit, high unemployment rates, decreased consumer confidence, industry slowdowns, reduced corporate profits, liquidity concerns in our markets and other adverse business concerns;
- local real estate conditions, such as an oversupply of, or a reduction in, demand for office space and the availability and creditworthiness of current and prospective tenants;
- vacancies or ability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options;
- changes in operating costs and expenses, including, without limitation, increasing labor and material costs, insurance costs, energy prices, environmental restrictions, real estate taxes and costs of compliance with laws, regulations and government policies, which we may be restricted from passing on to our tenants;
- fluctuations in interest rates, which could adversely affect our ability, or the ability of buyers and tenants of our properties, to obtain financing on favorable terms or at all, or impact the market price of our properties we own or target for investment;
- competition from other real estate investors with significant capital, including other real estate operating companies, other publicly traded REITs and institutional investment funds;
- inability to refinance our indebtedness, which could result in a default on our obligation and trigger cross default provisions that could result in a default on other indebtedness;

the convenience and quality of competing office properties;

inability to collect rent from tenants;

our ability to secure adequate insurance;

our ability to secure adequate management services and to maintain our properties;

changes in, and changes in enforcement of, laws, regulations and governmental policies, including, without limitation, health, safety, environmental, zoning, immigration and tax laws, government fiscal, monetary and trade policies and tax legislation and the Americans with Disabilities Act of 1990 (the ADA); and

civil unrest, acts of war, terrorist attacks and natural disasters, including earthquakes, wind damage and floods, which may result in uninsured and underinsured losses.

In addition, because the yields available from equity investments in real estate depend in large part on the amount of rental income earned, as well as property operating expenses and other costs incurred, a period of

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

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

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

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

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

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

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

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

As of December 31, 2016, approximately 36.6% of the base rental revenue of our properties was derived from our ten largest tenants. Our largest tenant is the Colorado Department of Public Health and Environment,

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which accounted for approximately 6.9% of base rental revenue of our properties for the year ended December 31, 2016. At any time, our tenants may experience a downturn in their businesses that may significantly weaken their financial condition, whether as a result of general economic conditions or otherwise. As a result, our tenants may fail to make rental payments when due, delay lease commencements, decline to extend or renew leases upon expiration or declare bankruptcy. Any of these actions could result in the termination of the tenants leases or the failure to renew a lease and the loss of rental income attributable to the terminated leases. The occurrence of any of the situations described above could seriously harm our results of operations.

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

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

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

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

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

In order to maintain our qualification as a REIT, we are generally required under the U.S. Internal Revenue Code of 1986, as amended (the Code) to annually distribute at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. In addition, as a REIT, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable

income, including any net capital gains. Because of these distribution requirements, we may

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

- general market conditions;
- the market s view of the quality of our assets;
- the market s perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash distributions; and
- the market price per share of our common stock.

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

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

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

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

Our total consolidated principal indebtedness, as of December 31, 2016, was approximately $374.9 million. We do not anticipate that our internally generated cash flows will be adequate to repay our existing indebtedness upon maturity, and, therefore, we expect to repay our indebtedness through refinancings and future offerings of equity and debt securities, either of which we may be unable to secure on favorable terms or at all. Our substantial outstanding indebtedness, and the limitations imposed on us by our debt agreements, could have other significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;

- we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to capitalize upon emerging acquisition opportunities or meet operational needs;

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- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;

- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;

- we may be forced to enter into financing arrangements with particularly burdensome collateral requirements or restrictive covenants;

- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations or require us to retain cash for reserves;

- we may be unable to hedge floating rate debt, counterparties may fail to honor their obligations under our hedge agreements and these agreements may not effectively hedge interest rate fluctuation risk;

- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans;

- our default under any of our indebtedness with cross default provisions could result in a default on other indebtedness; and

- cross default provisions on properties with minority parties could trigger indemnity obligations.

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

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

As of December 31, 2016, our principal indebtedness represented approximately 56.7% of our total assets. However, our organizational documents contain no limitations on the amount of indebtedness that we may incur. We could alter the balance between our total outstanding indebtedness and the value of our properties at any time. If we become more highly leveraged, the resulting increase in outstanding debt could adversely affect our ability to make debt service payments, to pay our anticipated distributions and to make the distributions required to maintain our qualification as a REIT. The occurrence of any of the foregoing risks could adversely affect our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our securities.

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

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

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

Subject to maintaining our qualification as a REIT, we may enter into hedging transactions to protect us from the effects of interest rate fluctuations on floating rate debt. Our hedging transactions may include entering

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into interest rate swap agreements or interest rate cap or floor agreements, or other interest rate exchange contracts. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition. No hedging activity can completely insulate us from the risks associated with changes in interest rates. Moreover, interest rate hedging could fail to protect us or adversely affect us because, among other things:

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

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

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

Continued concerns regarding the uncertainty over whether the U.S. economy will be adversely affected by inflation, deflation or stagflation, and the systemic impact of increased unemployment and underemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, future policy and fiscal decision of the new administration, the mortgage market in the United States and a distressed real estate market have contributed to increased market volatility and threatened business and consumer confidence. This uncertain operating environment could adversely affect our ability to generate revenues, thereby reducing our operating income and earnings.

In addition, local real estate conditions such as an oversupply of properties or a reduction in demand for properties, competition from other similar properties, our ability to provide or arrange for adequate maintenance, insurance and management and advisory services, increased operating costs (including real estate taxes), the attractiveness, location of the property, changes in market rental rates and region-specific legislation or political initiatives may adversely affect a property s income and value. A rise in energy costs could result in higher operating costs, which may affect our results of operations. In addition, local conditions in the markets in which we own or intend to own properties may significantly affect occupancy or rental rates at such properties. Events that could prevent us from raising or

maintaining rents or cause us to reduce rents include layoffs, plant closings, relocations of significant local employers and other events reducing local employment rates, an oversupply of or a lack of demand for office space, a decline in household formation, the inability or unwillingness of tenants to pay rent increases, and geopolitical developments having a disproportionate effect on the markets in which we operate.

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

We have in the past co-invested, and may in the future co-invest, with third parties through partnerships, joint ventures or other structures, acquiring non-controlling interests in, or sharing responsibility for managing the affairs of, a property, partnership, co-tenancy or other entity. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including potential deadlocks in making major decisions, restrictions on our ability to exit the joint venture, reliance on our joint venture partners and the possibility that joint venture partners might become bankrupt or fail to fund their share of required capital contributions, thus exposing us to liabilities in excess of our share of the investment or take action that could jeopardize our REIT status. The funding of our capital contributions may be dependent on proceeds from asset sales, credit facility advances and/or sales of equity securities. Joint venture partners may have business interests or goals that are inconsistent with our business interests or goals and may be in a position to take actions contrary to our policies or objectives. We may in specific circumstances be liable for the actions of our joint venture partners. In addition, any disputes that may arise between us and joint venture partners may result in litigation or arbitration that would increase our expenses.

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

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

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

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

The liability under such laws may be strict, joint and several, meaning that we may be liable regardless of whether we knew of, or were responsible for, the presence of the contaminants, and the government entity or private party may seek recovery of the entire amount from us even if there are other responsible parties. Liabilities associated with environmental conditions may be significant and can sometimes exceed the value of

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the affected property. The presence of hazardous substances on a property may adversely affect our ability to sell or rent that property or to borrow using that property as collateral.

Environmental laws also:

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

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

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

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

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

We are required by federal regulations with respect to our properties to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials (ACMs) and potential ACMs. We may be subject to an increased risk of personal injury lawsuits by workers and others exposed to ACMs and potential ACMs at our properties as a result of these regulations. The regulations may affect the value of any of our properties containing ACMs and potential ACMs. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and disposal of ACMs and potential ACMs when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a property.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing because exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions.

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

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

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

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

If we experience a loss that is uninsured or exceeds policy limits, we could incur significant costs and lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

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

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

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

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

We may acquire properties in exchange for common units and agree to restrictions on sales or refinancing, called lock-out provisions, which are intended to preserve favorable tax treatment for the owners of such properties who sell them to us. In addition, we may agree to lock-out provisions in connection with obtaining financing for the acquisition of properties. Lock-out provisions could materially restrict us from selling, otherwise disposing of or refinancing

properties. These restrictions could affect our ability to turn our investments into cash and thus affect cash available for distributions to our stockholders. Lock-out provisions could impair our ability to take actions during the lock-out period that would otherwise be in the best interests of

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our stockholders and, therefore, could adversely impact the market value of our common stock. In particular, lock-out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

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

The real estate investments made, and to be made, by us are relatively difficult to sell quickly. As a result, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinancing of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinancing at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, our ability to dispose of one or more properties is subject to weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions, such as the recent economic downturn, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. Furthermore, our ability to dispose of the properties that we acquired through our initial public offering within the four years immediately following the completion of our initial public offering and the related Formation Transactions is subject to certain limitations imposed by our tax protection agreements.

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

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

If we decide to sell any of our properties, we intend to use commercially reasonable efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk of default by the purchasers which would reduce the value of our assets, impair our ability to make distributions to our stockholders and reduce the price of our common stock.

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

The bankruptcy or insolvency of one or more of our tenants may adversely affect the income produced by our properties. We cannot assure you that any tenant that files for bankruptcy protection will continue to pay us rent. If a tenant files for bankruptcy, any or all of the tenant s or a guarantor of a tenant s lease obligations could be subject to a bankruptcy proceeding pursuant to Chapter 11 or Chapter 7 of the U.S. Bankruptcy Code. Such a bankruptcy filing would impose an automatic stay barring all efforts by us to collect pre-bankruptcy rents from these entities or their properties, unless we receive an order from the bankruptcy court lifting the automatic stay to permit us to pursue collections. A tenant or lease guarantor bankruptcy could delay our efforts to collect past due balances under the relevant leases and could ultimately preclude collection of these sums. If a lease is rejected by a tenant in bankruptcy, we would only have a general unsecured claim for damages. This claim could be paid only in the event funds were available and then only in the same percentage as that realized on other unsecured claims. Our claim would be capped at the rent reserved under the lease, without acceleration, for the

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greater of one year or 15% of the remaining term of the lease, but not greater than three years, plus rent already due but unpaid. Therefore, if a lease is rejected, it is possible that we would not receive payment from the tenant or that we would receive substantially less than the full value of any unsecured claims we hold, which would result in a reduction in our rental income, cash flow and the amount of cash available for distribution to our stockholders.

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

As of December 31, 2016, we owned seven properties in which some or all of the tenants are federal government agencies. We may continue to pursue the acquisition of office properties in which substantial space is leased to governmental agencies. As such, lease agreements with these federal government agencies contain certain provisions required by federal law, which require, among other things, that the contractor (which is the lessor or the owner of the property), agree to comply with certain rules and regulations, including, but not limited to, rules and regulations related to anti-kickback procedures, examination of records, audits and records, equal opportunity provisions, prohibition against segregated facilities, certain executive orders, subcontractor cost or pricing data, certain provisions intending to assist small businesses and contractual rights of termination by the tenants. We may be subject to requirements of the Employment Standards Administration s Office of Federal Contract Compliance Programs and requirements to prepare affirmative action plans pursuant to the applicable executive order may be determined to be applicable to us.

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

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

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

Certain tenants have a right to terminate their leases upon payment of a penalty, but others are not required to pay any penalty associated with an early termination. Most of our tenants that are federal or state governmental agencies, which account for approximately 53.9% of the base rental revenue from our properties as of December 31, 2016, may, under certain circumstances, vacate the leased premises before the stated terms of the leases expire with little or no liability to us. There can be no assurance that tenants will continue their activities and continue occupancy of the premises. Any cessation of occupancy by tenants may have an adverse effect on our operations.

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

In recent years, the federal government has instituted green lease policies which allow a government tenant to require leadership in energy and environmental design for commercial interiors, or LEED®-CI,

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certification in selecting new premises or renewing leases at existing premises. In addition, the Energy Independence and Security Act of 2007 allows the General Services Administration to prefer buildings for lease that have received an Energy Star label. Obtaining such certifications and labels may be costly and time consuming, but our failure to do so may result in our competitive disadvantage in acquiring new or retaining existing government tenants.

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

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

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

market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and

we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities for clean-up of undisclosed environmental contamination, claims by tenants or other persons dealing with former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

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

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

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

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

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

Litigation may result in unfavorable outcomes.

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

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

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

- might become bankrupt or fail to fund their share of required capital contributions;
- may have economic or other business interests or goals that are inconsistent with our business interests or goals; and
- may be in a position to take actions contrary to our policies or objectives or exercise rights to buy or sell at an inopportune time for us.

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

- we structure a joint venture or conduct business in a manner that is deemed to be a general partnership with a third party;

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third-party managers incur debt or other liabilities on behalf of a joint venture which the joint venture is unable to pay, and the joint venture agreement provides for capital calls, in which case we could be liable to make contributions as set forth in any such joint venture agreement or suffer adverse consequences for a failure to contribute; or

we agree to cross default provisions or to cross-collateralize our properties with the properties in a joint venture, in which case we could face liability if there is a default relating to those properties in the joint venture or the obligations relating to those properties.

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

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

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

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

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

Some of the members of our board of directors and our executive officers reside in Canada and substantially all of the assets of such persons are located in Canada. As a result, it may be difficult for you to effect service of process within the United States or in any other jurisdiction outside of Canada upon these persons or to enforce against them in any jurisdiction outside of Canada judgments predicated upon the laws of any such jurisdiction, including any judgment predicated upon the federal and state securities laws of the United States.

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Risks Related to Our Status As a REIT

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

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

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

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

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

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

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

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

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To maintain our qualification as a REIT and avoid the payment of income and excise taxes, we may need to borrow funds to meet the REIT distribution requirements. These borrowing needs could result from:

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

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

If our Operating Partnership failed to qualify as a partnership for U.S. federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

We believe that our Operating Partnership will be treated as a partnership for U.S. federal income tax purposes. As a partnership, our Operating Partnership generally will not be subject to U.S. federal income tax on its income. Instead, each of its partners, including us, will be required to pay tax on its allocable share of our Operating Partnership s income. We cannot assure you, however, that the IRS will not challenge the status of our Operating Partnership or any other subsidiary partnership in which we own an interest as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our Operating Partnership or any such other subsidiary partnership as an entity taxable as a corporation for U.S. federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, we would likely cease to qualify as a REIT. Also, the failure of our Operating Partnership or any subsidiary partnerships to qualify as a partnership could cause it to become subject to U.S. federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

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

The maximum income tax rate applicable to qualified dividends payable to non-corporate U.S. stockholders, including individuals, trusts and estates, is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rate. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the market price of our capital stock.

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

A REIT s net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held in inventory primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as inventory held for sale to customers in the ordinary course of our business, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

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

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

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities of any qualified REIT subsidiary or TRS of ours and securities that are qualified real estate assets) generally may not include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities of any qualified REIT subsidiary or TRS of ours and securities that are qualified real estate assets) may consist of the securities of any one issuer. No more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets can be represented by securities of one or more TRSs, and no more than 25% of our assets can be represented by debt of publicly offered REITs (i.e., REITs that are required to file annual and periodic reports with the SEC under the Exchange Act) that is not secured by real property or interests in real property. If we fail to comply with these requirements at the end of any calendar quarter, we must remedy the failure within 30 days or qualify for certain limited statutory relief provisions to avoid losing status as a REIT. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

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

At any time, the U.S. federal income tax laws governing REITs may be amended or the administrative and judicial interpretations of those laws may be changed. We cannot predict when or if any new U.S. federal income tax law, regulation, or administrative and judicial interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative or judicial interpretation, will be adopted, promulgated or become effective, and any such law, regulation, or interpretation may be effective retroactively. In addition, according to publicly released statements, a top legislative priority of the Trump administration and Congress may be significant reform of the Code, including significant changes to taxation of business entities. There is a substantial lack of clarity around both the timing and the details of any such tax reform and the impact of any potential tax reform on an investment in us. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative and judicial interpretation.

Risks Associated With the Internalization

We are subject to risks and uncertainties associated with the Internalization.

We have a limited operating history, particularly as an internally-managed company. Prior to the internalization of our management, we were externally managed by City Office Real Estate Management Inc. Realizing our business objectives depends in large part on the ability of our internal management structure to effectively manage the day-to-day operations of our assets and properties. We cannot assure you that our past performance with external management will be indicative of internal management s ability to function effectively and successfully operate our Company. If our internal management structure is not successful in managing our properties to achieve the investment

returns we anticipate, our operations may be adversely impacted.

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Our commitment to Second City following our internalization may give rise to various conflicts of interest.

We are subject to conflicts of interest arising out of our relationship with Second City and its affiliates. As a result of our Internalization, our management will continue to provide services to Second City under the terms of the Administrative Services Agreement. An example of these potential conflicts of interests includes competition for the time and services of personnel that work for us and our affiliates.

Risks Related to Our Organizational Structure

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

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

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

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

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

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

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

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

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

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

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

- liabilities for clean-up of undisclosed or undiscovered environmental contamination
- claims by tenants, vendors or other persons against the former owners of the properties;
- liabilities incurred in the ordinary course of business; and

claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

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

At December 31, 2016, approximately 18.6%, 16.5% and 14.8% of our annualized cash basis rent is scheduled to expire in 2017, 2018 and 2019, respectively, excluding month-to-month leases. Current tenants may not renew their leases upon the expiration of their terms and may attempt to terminate their leases prior to the expiration of their current terms. If non-renewals or terminations occur, we may not be able to locate qualified replacement tenants and, as a result, we could lose a significant source of revenue while remaining responsible for the payment of our financial obligations. Moreover, the terms of a renewal or new lease, including the

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

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

Despite system redundancy and the implementation of security measures for our IT networks and related systems, our systems are vulnerable to damages from any number of sources, including computer viruses, energy blackouts, natural disasters, terrorism, war, and telecommunication failures. We rely on our IT networks and related systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and keeping of records, which may include personal identifying information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. Any failure to maintain proper function, security and availability of our IT networks and related systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our operations. As such, any of the foregoing events could have a material adverse effect on our results of operations.

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

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

Our tax protection agreements could limit our ability to sell or otherwise dispose of certain properties.

In connection with our initial public offering and the related Formation Transactions, our Operating Partnership entered into tax protection agreements that provide that if we dispose of any interest in our initial properties in a taxable transaction prior to the fourth anniversary of the completion of our initial public offering, subject to certain exceptions, we will indemnify certain contributors of properties in our Formation Transactions for their tax liabilities attributable to the built-in gain that exists with respect to our properties as of the time of our initial public offering and their tax liabilities incurred as a result of such tax protection payment. Therefore, although it may be in our stockholders best interests that we sell one of these properties, it may be economically prohibitive for us to do so because of these obligations. Moreover, as a result of these potential tax liabilities, certain of our officers may have a conflict of interest with respect to our determination as to these properties.

Our tax protection agreements may require our Operating Partnership to maintain certain debt levels that otherwise would not be required to operate our business.

Under our tax protection agreements, our Operating Partnership is required to maintain a minimum level of indebtedness throughout the four years immediately following our initial public offering and the related Formation Transactions, regardless of whether such debt levels are otherwise required to operate our business. Moreover, our

Operating Partnership may be required to provide certain contributors of properties in our Formation Transactions with the opportunity to guarantee debt upon a future repayment, retirement, refinancing

or other reduction of currently outstanding debt prior to the fourth anniversary of the completion of our initial public offering. After such fourth anniversary, our Operating Partnership will be required to use commercially reasonable efforts to provide the protected parties with an opportunity to guarantee its debt, provided that it will not be required to incur any debt that it otherwise would not have incurred. If we fail to make such opportunities available, we will be required to make a cash payment intended to approximate the sum of the tax liabilities resulting from our failure to make such opportunities available or to maintain the minimum level of indebtedness and the tax liabilities incurred as a result of such tax protection payment. We agreed to these provisions in order to assist the contributors and their owners in deferring the recognition of taxable gain as a result of and after our initial public offering and the related Formation Transactions. These obligations may require us to maintain more or different indebtedness than we would otherwise require for our business.

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

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

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

Certain provisions of Maryland law could delay, defer or prevent a change of control transaction. Certain provisions of the Maryland General Corporation Law (MGCL) may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control. In some cases, such an acquisition or change of control could provide you with the opportunity to realize a premium over the then-prevailing market price of your shares. These MGCL provisions include:

- business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder for certain periods. An interested stockholder is generally any person who beneficially owns 10% or more of the voting power of our shares or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more

of the voting power of our then-outstanding voting stock. A person is not an interested stockholder under the statute if our board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. Business combinations with an interested stockholder are prohibited for five years after the most recent date on which the stockholder becomes an interested stockholder. After that period, the MGCL imposes two super-majority voting requirements on such combinations; and

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control share provisions that provide that holders of control shares of our Company acquired in a control share acquisition have no voting rights with respect to the control shares unless holders of two-thirds of our voting stock (excluding interested shares) consent. Control shares are shares that, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors. A control share acquisition is the direct or indirect acquisition of ownership or control of control shares from a party other than the issuer.

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

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

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

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

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

Although we are not required to maintain any particular leverage ratio, we intend, when appropriate, to employ prudent amounts of leverage and to use debt as a means of providing additional funds for the acquisition of our target assets and the diversification of our portfolio. Our organizational documents do not limit the amount or percentage of debt that we may incur, nor do they limit the types of properties that we may acquire or develop. The amount of leverage we will deploy for particular investments in our target assets will depend upon our management team s assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the target assets in our investment portfolio, the potential for losses, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and commercial mortgage markets, our outlook for the level, slope and volatility of interest rates, the credit quality of our target assets and the collateral underlying our target assets. Our board of directors may alter or eliminate our current guidelines on investing and financing at any time without stockholder approval. Changes in our strategy or in our investing and financing guidelines could expose us to greater credit risk and interest rate risk and could also result in a more leveraged balance sheet. These factors could result in an increase in our debt service and could adversely affect our cash flow and our ability to make expected distributions to you. Higher leverage also increases the risk that we would default on our debt.

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

Maryland law provides that a director or officer generally has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and

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with the care that an ordinarily prudent person in a like position would use under similar circumstances. As permitted by the MGCL, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

actual receipt of an improper benefit or profit in money, property or services; or

active and deliberate dishonesty established by a final judgment and which is material to the cause of action.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

As of December 31, 2016, we owned 18 office complexes comprised of 37 office buildings with a total of approximately 4.4 million square feet of NRA in the metropolitan areas of Boise, Dallas, Denver, Orlando, Phenix, Portland and Tampa. The following table presents an overview of our portfolio as of December 31, 2016.

Metropolitan Area	Property	Economic Interest	NRA (000s Square Feet)	In Place Occupancy	Annualized Base Rent per Square Foot	Annualized Gross Rent per Square Foot[1]	Annualized Base Rent[2]
Tampa, FL	Park Tower	95.0%	473	85.1%	$ 20.78	$ 20.78	$ 8,359
	City Center	95.0%	241	98.4%	$ 24.01	$ 24.01	$ 5,695
	Intellicenter	100.0%	204	100.0%	$ 22.37	$ 22.37	$ 4,552
	Carillon Point	100.0%	124	100.0%	$ 26.13	$ 26.13	$ 3,245
Denver, CO	Cherry Creek	100.0%	356	100.0%	$ 17.61	$ 17.61	$ 6,262
	Plaza 25	100.0%	196	68.1%	$ 20.32	$ 20.32	$ 2,704
	DTC Crossroads	100.0%	191	92.4%	$ 25.12	$ 25.12	$ 4,431
	Superior Pointe	100.0%	149	82.5%	$ 16.13	$ 26.13	$ 1,983
	Logan Tower	100.0%	70	95.5%	$ 19.06	$ 19.06	$ 1,276
Boise, ID	Washington Group Plaza	100.0%	581	83.7%	$ 17.32	$ 17.32	$ 8,421
Orlando, FL	FRP Collection	95.0%	272	93.5%	$ 25.03	$ 27.41	$ 6,354
	Central Fairwinds	90.0%	170	89.8%	$ 26.00	$ 26.00	$ 3,960
	FRP Ingenuity Drive	100.0%	125	100.0%	$ 20.50	$ 28.50	$ 2,552
Dallas, TX	190 Office Center	100.0%	303	89.6%	$ 23.46	$ 23.46	$ 6,372
	Lake Vista Pointe	100.0%	163	100.0%	$ 14.50	$ 22.50	$ 2,368
Phoenix, AZ	SanTan	100.0%	267	100.0%	$ 25.03	$ 25.03	$ 6,670
	5090 N 40th St	100.0%	176	90.4%	$ 26.09	$ 26.09	$ 4,145
Portland, OR	AmberGlen	76.0%	353	89.1%	$ 18.01	$ 19.44	$ 5,670
Total / Weighted Average	**December 31, 2016[3]**		**4,414**	**91.0%**	**$ 21.18**	**$ 22.32**	**$ 85,019**

(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 $10.00, $8.00 and $8.00 respectively, to estimate a gross equivalent base rent. AmberGlen has a net lease for one tenant which has been grossed-up by $7.00 on a pro rata basis. FRP Collection has net leases for three tenants which have been grossed up by $8.00 on a pro-rata basis.

(2)

Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month ended December 31, 2016 by (ii) 12.

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

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Lease Maturity Profile

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

Lease Maturity Schedule[1]

(1) Percentage represents the NRA of the leases divided by the total NRA of the portfolio, as of December 31, 2016
The following table sets forth the lease expirations for leases in place in our properties as of December 31, 2016, plus available space, for each of the calendar years ending December 31, 2017 to December 31, 2026, and thereafter. The information set forth in the table assumes that tenants exercise no renewal options and do not exercise early termination rights. Leases in place have a weighted average term to maturity of 5.2 years.

Year of Lease Expiration	Number of Leases Expiring	NRA of Expiring Leases (000s)	Percentage of Properties NRA	Annualized Base Rent[1]	Percentage of Properties Annualized Rent	Annualized Rent per Leased Square Foot Expiring[2]	Annualized Base Rent (including Rent Abatement)	Annualized Rent per Leased Square Foot Expiring (Including Rate Abatement)
Vacant and Contracted[3]		399	9.0%		0.0%			
2017	47	397	9.0%	9,355	11.0%	23.58	9,331	23.52
2018	47	484	11.0%	9,832	11.6%	20.32	9,832	20.32
2019	52	376	8.5%	8,616	10.1%	22.91	8,530	22.68
2020	27	236	5.4%	5,365	6.3%	22.73	5,308	22.49
2021	39	684	15.5%	14,053	16.5%	20.56	13,789	20.17
2022	22	360	8.2%	7,331	8.6%	20.37	5,237	14.55
2023	3	216	4.9%	5,175	6.1%	23.93	5,175	23.93
2024	11	261	5.9%	6,037	7.1%	23.14	6,014	23.05
2025	4	32	0.7%	666	0.8%	20.82	666	20.82
2026	9	703	15.9%	13,372	15.7%	19.03	13,372	19.03
Thereafter	2	266	6.0%	5,217	6.2%	19.59	5,217	19.59
Total	**263**	**4,414**	**100.0%**	**$ 85,019**	**100.0%**	**$ 21.18**	**$ 82,471**	**$ 20.55**

(1) Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month ended December 31, 2016, by (ii) 12.
(2) Annualized rent per leased square foot expiring reflects actual rental rate for the month ended December 31, 2016, divided by the square feet under lease as of December 31, 2016.
(3) 12,407 square feet of contracted NRA related to two tenants collectively at Superior Pointe and Park Tower.

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ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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

	High	Low	Last	Distributions
2015				
First quarter	$ 13.11	$ 12.15	$ 12.73	$ 0.235
Second quarter	$ 13.50	$ 12.32	$ 12.40	$ 0.235
Third quarter	$ 12.81	$ 10.09	$ 11.36	$ 0.235
Fourth quarter	$ 12.55	$ 10.61	$ 12.18	$ 0.235
2016				
First quarter	$ 13.08	$ 10.65	$ 11.40	$ 0.235
Second quarter	$ 13.00	$ 11.01	$ 12.98	$ 0.235
Third quarter	$ 13.93	$ 12.30	$ 12.73	$ 0.235
Fourth quarter	$ 13.25	$ 11.87	$ 13.17	$ 0.235

On February 28, 2017, the closing sale price of our common stock on the NYSE was $13.03. American Stock Transfer & Trust Company, LLC is the transfer agent and registrar for our common stock. On February 28, 2017, we had 44 holders of record of our common stock. This figure does not represent the actual number of beneficial owners of our common stock because shares of our common stock are frequently held in street name by securities dealers and others for the benefit of beneficial owners who may vote the shares.

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

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Stock Performance Graph

The following graph sets forth the cumulative stockholder return (assuming reinvestment of dividends) to our stockholders during the period April 21, 2014, the date our common stock began trading on the NYSE, through December 31, 2016, as well as the corresponding returns on an overall stock market index (Russell 2000 Index) and a peer group index (MSCI US REIT Index). The stock performance graph assumes that $100 was invested on April 21, 2014. Historical total stockholder return is not necessarily indicative of future results. The MSCI US REIT Index consists of equity REITs that are included in the MSCI US Investible Market 2500 Index, except for specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. We have included the MSCI US REIT Index because we believe that it is representative of the industry in which we compete and, therefore, is relevant to an assessment of our performance.

Unregistered Sales of Equity Securities

There has been no material change in our planned use of proceeds from our public offering as described in the final prospectus filed with the SEC pursuant to Rule 424(b).

ITEM 6. SELECTED FINANCIAL DATA

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

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

We had no business operations prior to completion of our initial public offering and the related Formation Transactions. As a result, the summary historical consolidated and combined financial and operating data as of December 31, 2016, 2015, 2014, 2013 and 2012 have been derived from our audited financial statements

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subsequent to our IPO and our audited historical financial statements of the Predecessor prior to our IPO. In April 2015, the FASB issued ASU 2015-3, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. In 2016, we adopted ASU 2015-3 and retrospectively reclassified debt issuance costs from deferred financing costs, net, to long term debt.

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

City Office REIT, Inc. and Predecessor

(In thousands, except share and per share data)

	Year Ended December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
Statement of Operations Data					
Revenues:					
Rental income	$ 63,702	$ 48,009	$ 33,236	$ 18,428	$ 9,992
Expense reimbursement	7,140	5,808	2,869	1,316	1,053
Other	1,619	1,235	791	747	471
Total Revenues	$ 72,461	$ 55,052	$ 36,896	$ 20,491	$ 11,516
Operating Expenses:					
Property operating expenses	28,305	20,420	14,332	8,465	6,049
Acquisition costs	692	2,959	2,133	1,480	213
General and administrative	6,429	3,728	2,405		
Base management fee	109	1,302	682		
External advisor acquisition	7,045	492			
Depreciation and amortization	30,178	21,624	14,729	7,775	3,956
Total Operating Expenses	72,758	50,525	34,281	17,720	10,218
Operating (loss)/income	(297)	4,527	2,615	2,771	1,298
Interest expense, net	(14,761)	(11,353)	(10,952)	(5,368)	(3,686)
Change in fair value of earn-out	(500)	(841)	(1,048)		
Gain on equity investment			4,475		
Net gain on sale of real estate property	15,934				
Equity in income of unconsolidated entity				403	506
Canadian offering costs				(1,983)	
Net income/(loss)	376	(7,667)	(4,910)	(4,177)	(1,882)
Less:					
	(354)	(500)	(82)	44	286

Net (income)/loss attributable to non-controlling interests in properties					
Net income attributable to Predecessor			(1,973)		
Net loss attributable to Predecessor				**$ (4,133)**	**$ (1,595)**
Net (income)/loss attributable to Operating Partnership unitholders non-controlling interest	(865)	1,576	1,955		
Net loss attributable to the Company	(843)	(6,591)	(5,010)		
Preferred stock distributions	(1,781)				
Net loss attributable to common stockholders	**$ (2,624)**	**$ (6,591)**	**$ (5,010)**		
Net loss per common share and unit	$ (0.13)	$ (0.53)	$ (0.59)		
Dividend distributions declared per common share and unit	$ (0.94)	$ (0.94)	$ (0.65)		

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	Year Ended December 31,				
	2016	2015	2014	2013	2012
Balance Sheet Data (as of end of period):					
Real estate properties, net of accumulated depreciation	$ 550,324	$ 354,880	$ 211,828	$ 100,126	$ 42,172
Investments in unconsolidated entity				4,338	4,883
Total assets	661,494	440,207	298,605	142,472	60,424
Debt	370,057	341,278	187,039	108,749	52,665
Total liabilities	405,435	366,487	207,370	114,764	54,414
Stockholders and predecessor equity	254,202	66,845	80,111	26,624	6,149
Operating partnership unitholders non-controlling interests	108	8,550	11,878		
Non-controlling interest in properties	1,749	(675)	(745)	1,084	(140)
Total equity	256,059	73,720	91,235	27,708	6,010
Other Data					
Cash flows from/(to):					
Operating activities	$ 19,147	$ 14,163	$ 7,787	$ 1,460	$ 3,891
Investing activities	(216,776)	(175,471)	(94,580)	(75,106)	(17,110)
Financing activities	203,194	134,584	114,527	77,667	14,858

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

The following discussion and analysis is based on, and should be read in conjunction with, the consolidated and combined financial statements and the related notes thereto of the City Office REIT, Inc. and the Predecessor (as defined in this section) for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

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. References to the Predecessor are to the real estate activity and holdings of the entities that own the historical interests in the AmberGlen, Central Fairwinds, City Center, Cherry Creek, Corporate Parkway and Washington Group Plaza properties.

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

Overview

Company

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

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

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

On February 1, 2016, the Company closed on the previously announced management internalization (the Internalization). The Company had previously entered into a Stock Purchase Agreement (Stock Purchase Agreement) with certain stockholders of the Company s 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). The Company paid an

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additional $3.5 million in cash in the first quarter of 2016 representing payments to be made to the Sellers upon reaching certain fully diluted market capitalization thresholds prior to December 31, 2016, which, together with the initial payment, resulted in a total cost of $7.0 million in the year ended December 31, 2016. The amount was recorded as an expense in the accompanying condensed consolidated and combined 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 11 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 Samuel Belzberg, who served as a member of our Board of Directors until March 1, 2017. The Administrative Services Agreement has a three year term and pursuant to the agreement, the Company will provide various administrative services and support to the related entities managing the Second City funds. The Company s subsidiary will receive annual payments for these services under the Administrative Services Agreement as follows: first 12 months $1.5 million, second 12 months $1.15 million and third 12 months $0.625 million, for a total of $3.275 million over the three-year term.

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

On June 15, 2016, the Company sold the Corporate Parkway property in Allentown, Pennsylvania for a sales price of $44.9 million, resulting in an aggregate net gain of $15.9 million, net of $2.0 million in costs, which has been classified as net gain on sale of real estate property in the 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. Proceeds from the sale were applied subsequently in a like-kind exchange so as to qualify for tax-deferred treatment under Section 1031 of the Code.

On June 29, 2016, the Company, through a wholly-owned subsidiary of the Operating Partnership, closed on the acquisition of Carillon Point, a 124,187 square foot Class A office building in Tampa, Florida for $26.3 million.

On July 12, 2016, the Company, through two joint ventures, closed on the acquisition of the FRP Collection located in Orlando, Florida for $49.8 million, exclusive of closing costs and working capital adjustments. The Company acquired a 95% interest in the FRP Collection, with the remaining 5% interest held by the joint venture partners. One of the Company s subsidiaries is acting as the general partner of each joint venture.

On July 14, 2016, the Company issued a total of 3,126,084 shares of its common stock to certain members of Second City in connection with Second City s redemption of a total of 3,126,084 common units of limited partnership interest in the Operating Partnership.

In September 2016, the Company entered into an agreement to sell the Washington Group Plaza property in Boise, Idaho for a sales price of $86.5 million which is scheduled to close in April 2018. A $5.0 million non-refundable

deposit was received in December 2016, $0.25 million in the form of earnest money deposit and $4.75 million as an irrevocable letter of credit.

On October 4, 2016, the Company completed a public preferred stock offering pursuant to which we sold 4,000,000 shares of our 6.625% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share (Series A Preferred Stock) to the public at a price of $25.00 per share. The Company raised $100.0 million in

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gross proceeds, resulting in net proceeds to the Company of approximately $96.5 million after deducting $3.5 million in underwriting discounts and expenses related to the offering. On October 28, 2016, the Company issued an additional 480,000 shares of Series A Preferred Stock pursuant to the partial exercise of the underwriters overallotment option, raising an additional $12.0 million in gross proceeds before underwriting discounts and expenses.

On November 2, 2016, the Company, in a joint venture with Tampa Street Feldman Tower, LLC, a Florida limited liability company, closed on the acquisition of Park Tower, a 472,596 square foot tower located in Tampa, Florida, for $79.8 million, exclusive of closing costs. The Company acquired a 95% interest in the Joint Venture.

On November 30, 2016, the Company, through a wholly-owned subsidiary of the Operating Partnership, closed on the acquisition of 5090 N 40th St, a 175,835 square foot Class A multi-tenant property in Phoenix, Arizona for $42.6 million.

On December 15, 2016, the Company, through two wholly-owned subsidiaries the Operating Partnership, closed on the acquisition of SanTan, a 266,531 square foot, two-building Class A office complex located in Phoenix, Arizona, for $58.5 million, exclusive of closing costs.

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

On January 13, 2017, the Company completed a public offering pursuant to which the Company sold 5,750,000 shares of its common stock to the public at a price of $12.40 per share, inclusive of the overallotment option. The Company raised $71.3 million in gross proceeds, resulting in net proceeds to us of approximately $68.1 million after deducting $3.2 million in underwriting discounts and other expenses related to the offering.

Indebtedness

On September 2, 2016, the Company closed on a $30.9 million loan secured by a first mortgage lien on the FRP Collection property, in Orlando, Florida. The loan matures in September 2023 and provides for monthly payments of principal and interest. Interest is payable at a fixed rate of 3.85% per annum.

On October 12, 2016, the Company closed on a $17.1 million loan secured by a first mortgage lien on the Carillon Point property in Tampa, Florida. The loan matures in October 2023 and provides for monthly payments of principal and interest. Interest is payable at a fixed rate of 3.5% per annum.

On October 26, 2016, the Company exercised its option under its Amended and Restated Credit Agreement (the Secured Credit Facility) to utilize the accordion feature to increase the authorized borrowing capacity under the Secured Credit Facility from $75 million to $100 million.

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 and provides for monthly payments of principal and interest. 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 and provides for monthly payments of principal and interest. Interest is payable at a fixed rate of 4.56% per annum.

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

Revenue Base

As of December 31, 2016, we owned 18 properties comprised of 37 office buildings with a total of approximately 4.4 million square feet of net rentable area (NRA). As of December 31, 2016, our properties were approximately 91.0% leased.

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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. We are also a lessor for a fee simple ground lease at the AmberGlen property. Most of our remaining leases are full-service gross leases.

Factors That May Influence Our Operating Results and Financial Condition

Business and Strategy

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

Rental Revenue and Tenant Recoveries

The amount of net rental revenue generated by our properties will depend principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space that becomes available from lease terminations. As of December 31, 2016, our properties were approximately 91.0% leased. The amount of rental revenue generated also depends on our ability to maintain or increase rental rates at our properties. We believe that the average rental rates for our portfolio of properties are generally in-line or slightly below the current average quoted market rates. Negative trends in one or more of these factors could adversely affect our rental revenue in future periods. Future economic downturns or regional downturns affecting our markets or submarkets or downturns in our tenants industries that impair our ability to renew or re-let space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties. In addition, growth in rental revenue will also partially depend on our ability to acquire additional properties that meet our investment criteria.

Operating Expenses

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

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Conditions in Our Markets

Positive or negative changes in economic or other conditions in the markets we operate in, including state budgetary shortfalls, employment rates, natural hazards and other factors, may impact our overall performance. While we generally expect a trend of positive economic growth and increasing interest rates to continue, there is no way for us to predict whether these trends will continue, especially in light of the potential changes in tax policy, fiscal policy and monetary policy that may result from the US election held on November 8, 2016, and any effect these developments may have on us.

Summary of Significant Accounting Policies

Basis of Preparation

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

The Predecessor represents a combination of certain entities holding interests in real estate that were commonly controlled prior to the Formation Transactions. Due to their common control, the financial statements of the separate entities which own the properties are presented on a combined basis in the Predecessor financial statements.

Use of Estimates

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

Business Combinations

The fair value of the real estate acquired, which includes the impact of fair value adjustments for assumed mortgage debt related to property acquisitions, is allocated to the acquired tangible assets, consisting of land, building and improvements and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and value of tenant relationships, based in each case on their fair values. Acquisition costs are expensed as incurred in the accompanying combined statement of income. Also, non-controlling interests acquired are recorded at estimated fair market value.

The fair value of the tangible assets of an acquired property (which includes land, building and improvements and fixtures and equipment) is determined by valuing the property as if it were vacant. The as-if-vacant value is then allocated to land and building and improvements based on our determination of relative fair values of these assets.

Factors considered by us in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. We also estimate costs to execute similar leases including leasing commissions.

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

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

Revenue Recognition

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

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

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

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

Impairment of Real Estate Properties

Long-lived assets currently in use are reviewed periodically for possible impairment and will be written down to fair value if considered impaired. Long-lived assets to be disposed of are written down to the lower of cost or fair value less the estimated cost to sell. We review our real estate properties for impairment when there is an event or a change in circumstances that indicates that the carrying amount may not be recoverable. We measure and record impairment losses and reduce the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases in which we do not expect to recover our carrying costs on properties held for use, we reduce our carrying costs to fair value. We do not believe that the values of our properties are impaired as of December 31, 2016.

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Recently Issued or Adopted Accounting Standards

Adopted in the Current Year

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. ASU 2015-3 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. ASU 2015-3 is effective for annual reporting periods beginning after December 15, 2015. The new guidance must be applied retrospectively to each prior period presented. The Company adopted ASU 2015-3 on January 1, 2016 and retrospectively reclassified $3.4 million of debt issuance costs as of December 31, 2015 from deferred financing costs, net, to long term debt.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The update requires that acquiring entities in a business combination recognize adjustments to provisional amounts identified in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount, as if the accounting had been completed at the acquisition date. Adjustments related to previous reporting periods must be disclosed by income statement line item, either on the face of the income statement or in the notes, in the period for which the adjustment was identified. ASU 2015-16 was adopted January 1, 2016. There was no impact to the Company s 2016 financial statements upon adopting ASU 2015-16.

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, 2017 and allows for either full retrospective or modified retrospective adoption. 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 January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for the annual periods beginning after December 31, 2017 and for annual periods and interim periods within those years. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation: Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), to amend and simplify several aspects of the accounting for share-based payment award transactions, including: (i) income tax consequences, (ii) classification of awards as equity or liabilities and (iii) classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

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

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

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 screen requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within those periods, with early adoption permitted. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

JOBS Act

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

Results of Operations

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

Revenue

Total Revenue. Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Total revenues increased $17.5 million, or 32%, to $72.5 million for the year ended December 31, 2016 compared to $55.0 million in the corresponding period in 2015. $1.8 million of this increase was attributed to the acquisition of Carillon Point in June 2016, $2.9 million from the acquisition of FRP Collection in July 2016, $1.8 million from the acquisition of Park Tower in November 2016, $0.4 million from the acquisition of 5090 N 40th St in November 2016 and $0.3 million from the acquisition of SanTan in December 2016. Revenue in 2016 increased by $0.2 million from the acquisition of Logan Tower in February 2015, $1.6 million from the acquisition of Superior Pointe in June 2015, $2.4 million from the acquisition of DTC Crossroads in June 2015, $5.1 million from the acquisition of 190 Office Center in September 2015 and $3.7 million from the acquisition of Intellicenter in September 2015. Central Fairwinds increased by $0.5 million due to increased occupancy at the property over the prior year. Offsetting these increases, Washington Group Plaza and AmberGlen decreased by $1.2 million and $0.7 million, respectively, due to the downtime associated with tenant improvement work for new tenants at each property replacing tenants who departed on December 31, 2015. Corporate

Parkway decreased by $1.7 million due to the sale of the property in June 2016. The remaining properties revenues were relatively unchanged, increased $0.4 million in comparison to the prior year.

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

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

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

Operating Expenses

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

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and

marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and

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re-leasing costs. Property operating expenses increased $7.9 million, or 39%, to $28.3 million for the year ended December 31, 2016 from $20.4 million for the same period in 2015. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisitions of the Carillon Point, FRP Collection, Park Tower, 5090 N 40th St and SanTan properties contributed an additional $0.6 million, $0.9 million, $0.7 million, $0.1 million and $0.1 million in additional property operating expenses, respectively.

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

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

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

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

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

Other Expense (Income)

Interest Expense, Net. Interest expense increased $3.4 million, or 30%, to $14.8 million for the year ended December 31, 2016, compared to $11.4 million for the corresponding period in 2015. The increase was primarily due to interest expense related to acquisitions. Interest expense for the Carillon Point and FRP Collection property level debt increased by $0.1 million and $0.4 million respectively in 2016, and the interest expense on the secured line of credit increased by $0.2 million in 2016. Interest expenses in 2016 increased by $0.4 million from the additional interest on DTC Crossroads in June 2015, $1.4 million from the acquisition of 190 Office Center in September 2015 and $1.1 million from the acquisition of Intellicenter in September 2015. Also in June 2015, property level debt was placed on Plaza 25 which contributed a $0.3 million increase in 2016. Corporate Parkway interest expense decreased $0.5 million due to the sale of the property in June 2016.

Change in Fair Value of Earn-Out. The estimated fair value of the earn-out liability decreased from $5.7 million at December 31, 2015 to $2.4 million at December 31, 2016 primarily due to a $3.8 million payment

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in March 2016, satisfied through the issuance of common stock, partially offset by an increase in the fair value of the remaining liability at December 31, 2016 of approximately $0.5 million.

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

Cash Flows

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

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

Cash flow from operating activities. Net cash provided by operating activities increased by $4.9 million to $19.1 million for the year ended December 31, 2016 compared to $14.2 million for the same period in 2015. The slight increase was primarily attributable to an increase in operating cash flows from new acquisitions.

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

Cash flow from financing activities. Net cash provided by financing activities increased by $68.6 million to $203.2 million for the year ended December 31, 2016 compared to $134.6 million for the same period in 2015. Cash flow from financing activities increased primarily due to proceeds from public offerings of common and preferred stock that closed in April and October 2016, respectively, which were partially offset by the repayment of borrowings from the Secured Credit Facility and decreased loan proceeds in 2016.

Results of Operations

Comparison of Year Ended December 31, 2015 to Year Ended December 31, 2014

The year ended December 31, 2015 includes our consolidated results whereas the comparable period in 2014 are the combined results which includes the Predecessor from January 1, 2014 until April 20, 2014 and our results from April 21, 2014 through December 31, 2014 and accordingly may not be directly comparable due to the impact of the IPO and the Formation Transactions on April 21, 2014 and the absence of any public company and related costs prior to that time. In the discussion below, we have highlighted the impact of the IPO and Formation Transactions where applicable.

Revenue

Total Revenue. Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Total revenues increased $18.2 million, or 49%, to $55.1 million for the year ended December 31, 2015 compared to $36.9 million in the corresponding period in 2014. Revenue in 2015 increased by $2.0 million from the acquisition of the Plaza 25 property in June 2014, $2.0 million from the acquisition of the Lake Vista Pointe property in July 2014 and $2.6 million from the acquisition of Florida Research Park in November 2014, $1.4 million from the acquisition of Logan Tower in February 2015, $1.9 million

from the acquisition of Superior Pointe in June 2015, $2.2 million from the acquisition of DTC Crossroads in June 2015, $2.6 million from the acquisition of 190 Office Center in September 2015 and $1.7 million from the acquisition of Intellicenter in September 2015. City Center and Central Fairwinds increased total revenues by $1.0 million, and $0.4 million, respectively due to the increased

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occupancy at the property over the prior year period. AmberGlen rental revenues increased by $0.4 million over the prior year due to a combination of increased occupancy and increased operating expense recoveries. Corporate Parkway, Washington Group Plaza and Cherry Creek revenues were relatively unchanged in comparison to the prior year.

Rental Income. Rental income includes net rental income, income from a ground lease and lease termination income. Total rental income increased $14.8 million, or 44%, to $48.0 million for the year ended December 31, 2015 compared to $33.2 million for the year ended December 31, 2014. The increase in rental income was primarily due to the acquisitions described above. The acquisition of the Plaza 25, Lake Pointe Vista, Florida Research Park, Logan Tower, Superior Pointe, DTC Crossroads, 190 Office Center and Intellicenter properties contributed an additional $1.6 million, $1.3 million, $2.2 million, $1.2 million, $1.1 million, $2.1 million, $2.3 million and $1.6 million in rental income, respectively to the 2015 period rental income. City Center, Central Fairwinds and AmberGlen increased total rental income by $0.7 million, $0.4 million and $0.3 million due to the increased occupancy at the property over the prior year period.

Expense Reimbursement. Total expense reimbursement increased $2.9 million, or 102%, to $5.8 million for the year ended December 31, 2015 compared to $2.9 million for the same period in 2014, primarily due to the acquisitions described above.

Other. Other revenue includes parking, signage and other miscellaneous income. Total other revenues increased $0.4 million, or 56%, to $1.2 million for the year ended December 31, 2015 compared to $0.8 million for the same period in 2014. Nominal other income was generated by City Center, Central Fairwinds, Plaza 25, Logan Tower and DTC Crossroads with the largest contribution from City Center parking income.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, as well as acquisition costs, base management fees, stock-based compensation, external advisor acquisition costs, general and administrative expenses and depreciation and amortization. Total operating expenses increased by $16.2 million, or 47%, to $50.5 million for the year ended December 31, 2015, from $34.3 million for the same period in 2014, primarily due to the acquisitions described above. Total operating expenses increased by $1.7 million, $1.4 million, $1.2 million, $1.5 million, $2.1 million, $2.0 million, $2.8 million and $1.6 million, respectively, from the acquisition of the Plaza 25 property in June 2014, the acquisition of the Lake Vista Pointe property in July 2014, the acquisition of Florida Research Park property in November 2014, the acquisition of the Logan Tower property in February 2015, the Superior Pointe acquisition in June 2015, the DTC Crossroads acquisition in June 2015, the 190 Office Center acquisition in September 2015 and Intellicenter acquisition in September 2015. AmberGlen, Central Fairwinds, Corporate Parkway, Washington Group Plaza and Cherry Creek operating expenses were relatively unchanged in comparison to the prior year. The year ended December 31, 2015 also includes $0.5 million of costs related to the acquisition of the external advisor. The remaining increase relates to acquisition costs, stock-based compensation, base management fees and general and administrative expenses following the closing of the IPO and Formation Transactions on April 21, 2014.

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and re-leasing costs. Property operating expenses increased $6.1 million, or 42%, to $20.4 million for the year ended

December 31, 2015 from $14.3 million for the same period in 2014. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisition of the Plaza 25, Florida Research Park, Lake Vista Pointe, Logan Tower, Superior Pointe, DTC Crossroads, 190 Office Center and Intellicenter properties contributed an additional $1.0 million, $0.7 million, $0.4 million, $0.6 million, $0.9 million, $1.0 million, $1.0 million and $0.5 million in additional property operating expenses, respectively.

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Acquisition Costs. Acquisition costs increased $0.8 million, or 39%, to $2.9 million for the year ended December 31, 2015 compared to $2.1 million for the prior year. The acquisition costs in the 2015 period are related to the Logan Tower, Superior Pointe, DTC Crossroads, 190 Office Center and Intellicenter acquisitions whereas in the prior year period, the acquisition costs were primarily related to Cherry Creek, Plaza 25, Lake Vista Pointe and Florida Research Park.

Base Management Fee. Base Management Fee increased $0.6 million or 91%, to $1.3 million for the year ended December 31, 2015 compared to $0.7 million for the prior year representing the fee paid to our Advisor. No management fees were payable by the Predecessor for the 2014 period prior to the IPO and the Formation Transactions in April 2014.

General and Administrative. General and administrative expenses are comprised of normal public company reporting compensation and the costs of our management team and board of directors as well as non-cash Stock Based Compensation expenses. General and administrative expenses increased $1.3 million or 54% to $3.7 million for the year ended December 31, 2015 compared to $2.4 million for the prior year representing public company costs following completion of the IPO. The Predecessor did not have any general and administrative costs. In addition to the fee payable to our former external advisor pursuant to the terms of the Advisory Agreement, we paid $1.9 million and $1.1 million of stock-based compensation expense for the years ended December 31, 2015 and 2014, respectively. Certain prior year amounts have been reclassified to conform to current period presentation.

Depreciation and Amortization. Depreciation and amortization increased $6.9 million, or 47%, to $21.6 million for the year ended December 31, 2015 compared to $14.7 million for the same period in 2014, primarily due to the addition of the Plaza 25, Lake Vista Pointe, Florida Research Park, Logan Tower, Superior Pointe, 190 Office Center and Intellicenter properties.

Other Expense (Income)

Interest Expense, Net. Interest expense, net is comprised of interest expense, amortization of deferred financing fees and the loss on early extinguishment of certain debts in the prior year. Interest expense, net increased $0.4 million, or 4%, to $11.4 million for the year ended December 31, 2015, compared to $11.0 million for the prior year. Interest expense increased by $2.8 million over the prior year primarily as a result of new debt associated with the acquisitions described above. Amortization of deferred financing fees decreased by $0.7 million over the prior year. The decrease was composed of the accelerated amortization on the Cherry Creek bridge loan incurred by the Predecessor in the prior year of $0.9 million and an offsetting increase of $0.2 million primarily as a result of new debt associated with the acquisitions in the period. A loss on the early extinguishment of certain debts was incurred in the prior year of $1.7 million due to the refinancing of certain property level debts upon completion of the IPO and Formation Transactions.

Change in Fair Value of Earn-Out. The estimated fair value of the earn-out liability decreased from $8.0 million at December 31, 2014 to $5.7 million at December 31, 2015 primarily due to a $3.2 million payment in August 2015, satisfied through the issuance of common stock, partially offset by an increase in the fair value of the remaining liability during the year ended December 31, 2015 of approximately $0.9 million.

As part of the Formation Transactions and contribution agreement with respect to the Central Fairwinds property, the Company is obligated to make additional payments to Second City (each, an Earn-Out Payment) for up to a five year period commencing on the initial IPO date of April 21, 2014. Earn-Out Payments are contingent on the property reaching certain specified occupancy levels through new leases to qualified tenants and exceeding a net operating income threshold, which grows annually. Second City will be entitled to receive an Earn-Out Payment (net of the

associated leasing costs and inclusive of leasing commissions and tenant improvements/allowances and free rent) as and when the occupancy of Central Fairwinds reaches each of 70%, 80% and 90% (each, an Earn-Out Threshold) based on the incremental cash flow generated by new leases and

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a 7.75% stabilized capitalization rate. The Company will make any additional Earn-Out Payment within 30 days of the end of the Earn-Out Term based on new qualified leases entered into since the achievement of the last Earn-Out Threshold. Earn-Out Payments will be subject to a claw-back if a qualified tenant defaults in the payment of rent and is not replaced with another qualified tenant.

During the year ended December 31, 2015, the 70% and 80% earn-out occupancy and net operating income thresholds were met. This triggered a payment of approximately $3.2 million which was made on August 6, 2015 and a second payment of approximately $3.8 million which was made in March 2016.

Gain on Equity Investment. Gain on equity investment is related to the purchase in January 2014 of the remaining 57.7% of Cherry Creek property that the Predecessor did not already own. As a result of this transaction, a gain of $4.5 million was recorded in the 2014 period.

Cash Flows

Comparison of Period Ended December 31, 2015 to Period Ended December 31, 2014

Cash and cash equivalents were $8.1 million and $34.9 million as of December 31, 2015 and December 31, 2014, respectively.

Cash flow from operating activities. Net cash provided by operating activities increased by $6.4 million to $14.2 million for the year ended December 31, 2015 compared to $7.8 million for the same period in 2014. The increase was primarily attributable to an increase in operating cash flows from new acquisitions.

Cash flow to investing activities. Net cash used in investing activities increased by $80.9 million to $175.5 million for the year ended December 31, 2015 compared to $94.6 million for the same period in 2014. The net cash used in investing activities in the 2015 period was used to acquire the Logan Tower, Superior Pointe, DTC Crossroads, 190 Office Center and Intellicenter properties and enhance capital assets.

Cash flow from financing activities. Net cash from financing activities increased by $20.1 million to $134.6 million for the year ended December 31, 2015 compared to a $114.5 million for the same period in 2014. Cash flow from financing activities increased primarily due to the Plaza 25, 190 Office Center and Intellicenter mortgage loan and borrowings from the Secured Credit Facility.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

We had approximately $13.7 million of cash and cash equivalents and $15.9 million of restricted cash as of December 31, 2016.

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 and proceeds from our January Common Stock offering.

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.

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While there are signs that slow and steady economic growth will continue to persist in the United States, uncertainty continues to dominate credit and capital markets. We believe that the general business environment may continue to be challenging for the rest of 2017. Our growth outlook and strategy are dependent, in part, on the strength of financial markets, the impact of fiscal and monetary policy actions by the United States and other countries and liquidity in the financial system. We believe we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity securities. However, we cannot assure you that this is or will continue to be the case. Our ability to incur additional debt is dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets is dependent on a number of factors as well, including general market conditions for REITs and market perceptions about us.

Consolidated Indebtedness as of December 31, 2016

As of December 31, 2016, we had approximately $374.9 million of outstanding consolidated principal indebtedness, 86% of which is fixed rate debt. The following table sets forth information as of December 31, 2016 with respect to our outstanding indebtedness (in thousands).

Debt	December 31, 2016	Interest Rate as of December 31, 2016	Maturity Date
Secured Credit Facility[1]	$ 52,500	LIBOR[2] +2.25%	June 2018
Washington Group Plaza[3]	32,995	3.85	July 2018
AmberGlen Mortgage Loan[4]	24,280	4.38	May 2019
Midland Life Insurance[5]	90,124	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][7]	41,250	4.79	October 2025
Intellicenter[7]	33,563	4.65	October 2025
FRP Collection[7]	30,737	3.85	September 2023
Carillon Point[7]	17,000	3.50	October 2023
Total	$ 374,909		

(1) At December 31, 2016 the Secured Credit Facility had $100 million authorized and $52.5 million drawn. 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 December 31, 2016, the Secured Credit Facility was cross-collateralized by Central Fairwinds, Logan Tower, Superior Pointe and Park Tower. On October 26, 2016, the Company exercised its option under the Secured Credit Facility to utilize the accordion feature to increase the authorized borrowing capacity under the Secured Credit Facility from $75 million to $100 million. During 2015 the authorized borrowing capacity was increased from $30 million to $75 million.

(2) As of December 31, 2016, the one month LIBOR rate was 0.70%

(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.
(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 and 1.35x respectively for each of Plaza 25, 190 Office Center, Intellicenter, FRP Collection and Carillon Point.

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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 and provides for monthly payments of principal and interest. Interest is payable at a fixed rate of 3.92% per annum.

On February 09, 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 and provides for monthly payments of principal and interest. Interest is payable at a fixed rate of 4.56% per annum.

Contractual Obligations and Other Long-Term Liabilities

The following table provides information with respect to our commitments as of December 31, 2016, including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extension options.

	Payments Due by Period (in thousands)				
Contractual Obligations	**Total**	**2017**	**2018-2019**	**2020-2021**	**More than 5 years**
Principal payments on mortgage loans	$ 374,909	$ 3,853	$ 116,017	$ 91,590	$ 163,449
Interest payments[(1)]	118,951	14,524	24,022	18,515	61,890
Tenant-related commitments	2,319	1,166	1,139	14	
Total	$ 496,179	$ 19,543	$ 141,178	$ 110,119	$ 225,339

(1) Contracted interest on the floating rate debt was calculated based on the Secured Credit Facility balance and interest rate at December 31, 2016.

Off-Balance Sheet Arrangements

As of December 31, 2016, we did not have any off-balance sheet arrangements.

Inflation

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

We believe that we are less susceptible to the negative economic effects that inflation may have on our industry than many of our competitors because 86.0% of our outstanding consolidated indebtedness had a fixed contractual interest rate at December 31, 2016.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We have

used, and will use, derivative financial instruments to manage or hedge interest rate risks related to borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. We have entered, and we will only enter into, contracts with major financial institutions based on their credit rating and other factors. As of December 31, 2016, our Company did not have any outstanding derivatives.

As of December 31, 2016, approximately $322.4 million, or 86.0%, of our debt had fixed interest rates and approximately $52.5 million, or 14.0%, had variable interest rates. The variable rate indebtedness relates to borrowings under the Secured Credit Facility.

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The variable rate component of our consolidated indebtedness is LIBOR-based. Assuming no increase in the amount of our variable rate debt as of December 31, 2016, if LIBOR were to increase by 100 basis points, the increase in interest expense on our variable rate debt would decrease our future earnings and cash flows by approximately $0.5 million annually. If LIBOR were to decrease by 100 basis points, interest expense on our variable rate debt would decrease by approximately $0.5 million annually.

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.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated and combined financial statements and supplementary data required by this Item 8 are included as a separate section of this Annual Report on Form 10-K commencing on page 57 and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

We have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of December 31, 2016, the end of the period covered by this Annual Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded, as of December 31, 2016, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (i) is processed, recorded, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) is accumulated and communicated to our management, including our

Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance

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regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of Company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2016.

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

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to our definitive Proxy Statement for our 2017 annual stockholders meeting.

ITEM 11. EXECUTIVE AND DIRECTOR COMPENSATION

The information required by Item 10 is incorporated by reference to our definitive Proxy Statement for our 2017 annual stockholders meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 10 is incorporated by reference to our definitive Proxy Statement for our 2017 annual stockholders meeting.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 10 is incorporated by reference to our definitive Proxy Statement for our 2017 annual stockholders meeting.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Registered Public Accounting Firm

The information required by Item 10 is incorporated by reference to our definitive Proxy Statement for our 2017 annual stockholders meeting.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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CITY OFFICE REIT, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of City Office REIT, Inc., as described in note 1, as of December 31, 2016 and December 31, 2015 and the related consolidated and combined statements of operations, changes in equity and cash flows for each of the years in the three year period ended December 31, 2016. In connection with our audit of the consolidated and combined financial statements, we also have audited the financial statement Schedule III for the year ended December 31, 2016. These consolidated and combined financial statements and financial statement Schedule III are the responsibility of City Office REIT, Inc. management. Our responsibility is to express an opinion on these consolidated and combined financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of City Office REIT, Inc. as of December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2016, in conformity with US generally accepted accounting principles. Also in our opinion, the related financial statement Schedule III, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Chartered Professional Accountants

Vancouver, Canada

March 1, 2017

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City Office REIT, Inc.

Consolidated Balance Sheets (Note 1)

(In thousands, except par value and share data)

	December 31, 2016	December 31, 2015
Assets		
Real estate properties		
Land	$ 115,634	$ 90,205
Building and improvement	423,707	256,317
Tenant improvement	49,813	35,069
Furniture, fixtures and equipment	222	198
	589,376	381,789
Accumulated depreciation	(39,052)	(26,909)
	550,324	354,880
Cash and cash equivalents	13,703	8,138
Restricted cash	15,948	15,176
Rents receivable, net	17,257	14,382
Deferred leasing costs, net of accumulated amortization	5,422	5,074
Acquired lease intangibles assets, net	56,214	40,990
Prepaid expenses and other assets	2,626	1,567
Total Assets	**$ 661,494**	**$ 440,207**
Liabilities and Equity		
Liabilities:		
Debt	$ 370,057	$ 341,278
Accounts payable and accrued liabilities	12,976	8,745
Deferred rent	5,558	2,653
Tenant rent deposits	2,621	2,178
Acquired lease intangibles liability, net	4,302	2,292
Dividend distributions payable	7,521	3,663
Earn-out liability	2,400	5,678
Total Liabilities	**405,435**	**366,487**
Commitments and Contingencies (Note 10)		
Equity:		
6.625% Series A Preferred stock, $0.01 par value per share, 100,000,000 shares authorized, 4,480,000 and 0 issued and outstanding as of December 31, 2016 and December 31, 2015, respectively	112,000	

Common stock, $0.01 par value, 100,000,000 shares authorized, 24,382,226 and 12,517,777 shares issued and outstanding as of December 31, 2016 and December 31, 2015, respectively	244	125
Additional paid-in capital	195,566	95,318
Accumulated deficit	(53,608)	(29,598)
Total Stockholders Equity	**254,202**	**65,845**
Operating Partnership unitholders non-controlling interests	108	8,550
Non-controlling interests in properties	1,749	(675)
Total Equity	**256,059**	**73,720**
Total Liabilities and Equity	**$ 661,494**	**$ 440,207**

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

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City Office REIT, Inc. and Predecessor

Consolidated and Combined Statements of Operations (Note 1)

(In thousands, except per share data)

	Years Ended December 31,		
	2016	**2015**	**2014**
Revenues:			
Rental income	$ 63,702	$ 48,009	$ 33,236
Expense reimbursement	7,140	5,808	2,869
Other	1,619	1,235	791
Total Revenues	**72,461**	**55,052**	**36,896**
Operating Expenses:			
Property operating expenses	28,305	20,420	14,332
Acquisition costs	692	2,959	2,133
General and administrative	6,429	3,728	2,405
Base management fee	109	1,302	682
External advisor acquisition	7,045	492	
Depreciation and amortization	30,178	21,624	14,729
Total Operating Expenses	**72,758**	**50,525**	**34,281**
Operating (loss)/income	(297)	4,527	2,615
Interest Expense:			
Contractual interest expense	(13,804)	(10,607)	(7,854)
Amortization of deferred financing costs	(957)	(746)	(1,443)
Loss on early extinguishment of Predecessor debt			(1,655)
	(14,761)	(11,353)	(10,952)
Change in fair value of earn-out	(500)	(841)	(1,048)
Gain on equity investment			4,475
Net gain on sale of real estate property	15,934		
Net income/(loss)	**376**	**(7,667)**	**(4,910)**
Less:			
Net income attributable to non-controlling interests in properties	(354)	(500)	(82)
Net income attributable to Predecessor			(1,973)
Net (income)/loss attributable to Operating Partnership unitholders non-controlling interests	(865)	1,576	1,955
Net loss attributable to the Company	**(843)**	**(6,591)**	**(5,010)**
Preferred stock distributions	(1,781)		

Net loss attributable to common stockholders	**$ (2,624)**	**$ (6,591)**	**$ (5,010)**
Net loss per common share and unit:			
Basic and diluted	$ (0.13)	$ (0.53)	$ (0.59)
Weighted average common shares outstanding:			
Basic and diluted	20,460	12,409	8,476
Dividend distributions declared per common share and unit	$ 0.940	$ 0.940	$ 0.653

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

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City Office REIT, Inc. and Predecessor

Consolidated Statements of Changes in Equity (Note 1)

(In thousands)

	Number of shares of preferred stock	Preferred stock	Number of shares of common stock	Common stock	Additional paid-in capital	Accu-mulated deficit	Predecessor equity	Total stockholders and Predecessor equity	Operating Partnership unitholders non-controlling interests	Non-controlling interests in properties	Total equity
decessor											
ance January 1, 4		$		$	$	$	$ 26,624	$ 26,624	$	$ 1,084	$ 27,70
ntributions							3,844	3,844		62	3,90
tributions							(1,347)	(1,347)		(153)	(1,50
income/(loss)							1,973	1,973		(29)	1,94
ance April 20, 4							31,094	31,094		964	32,05
y Office REIT, .											
proceeds from e of common res			6,582	66	72,405			72,471			72,47
mation nsaction			1,611	16	(27,568)		(31,094)	(58,646)	17,684	(1,658)	(42,62
proceeds from ondary public ering			4,086	41	45,380			45,421	(1,806)		43,61
tricted stock rd grants					1,091			1,091			1,09
idend ributions declared						(6,310)		(6,310)	(2,045)		(8,35
tributions										(171)	(17
loss						(5,010)		(5,010)	(1,955)	111	(6,85
ance December 31, 4			12,279	123	91,308	(11,320)		80,111	11,878	(754)	91,23
nversion of OP s to shares			12		47			47	(47)		
tricted stock rd grants			137	1	1,906			1,907			1,90
n out payment in res			90	1	2,057			2,058	1,105		3,16

idend ributions declared					(11,687)	(11,687)	(2,810)		(14,49
tributions								(421)	(42
loss					(6,591)	(6,591)	(1,576)	500	(7,66
ance December 31, 5		12,518	125	95,318	(29,598)	65,845	8,550	(675)	73,72
nversion of OP s to shares		3,206	32	10,754		10,786	(10,786)		
stricted stock ard grants and ting		164	2	2,434		2,436			2,43
ernalization ment in shares		297	3	3,461		3,464			3,46
n out payment in res		147	2	767		769	3,009		3,77
proceeds from e of common stock		8,050	80	86,705		86,785			86,78
proceeds from e of preferred ck	4,480	112,000		(3,873)		108,127			108,12
mmon stock idend distributions lared					(21,386)	(21,386)	(1,530)		(22,91
ferred stock idend distributions lared					(1,781)	(1,781)			(1,78
ntributions								2,525	2,52
tributions								(455)	(45
(loss)/income					(843)	(843)	865	354	37
ance December 31, 6	4,480	$ 112,000	24,382	$ 244	$ 195,566	$ (53,608)	$ 254,202	$ 108	$ 1,749	$ 256,05

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

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City Office REIT, Inc. and Predecessor

Consolidated and Combined Statements of Cash Flows (Note 1)

(In thousands)

	Years ended December 31,		
	2016	**2015**	**2014**
Cash Flows from Operating Activities:			
Net income/(loss)	$ 376	$ (7,667)	$ (4,910)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation and amortization	30,178	21,624	14,729
Amortization of deferred financing costs	957	746	1,443
Amortization of above/below market leases	299	349	541
Increase in straight-line rent	(3,751)	(1,895)	(1,315)
Non-cash stock compensation	2,436	1,907	1,091
Change in fair value of earn-out	500	841	1,048
Loss on early extinguishment of debt			885
Gain on equity investment			(4,475)
Internalization shares issued	3,464		
Net gain on sale of real estate property	(15,934)		
Changes in non-cash working capital:			
Rents receivable, net	(4,331)	(4,506)	(1,986)
Prepaid expenses and other assets	(587)	(648)	(399)
Accounts payable and accrued liabilities	3,135	2,988	(88)
Deferred rent	2,743	440	723
Tenant rent deposits	(338)	(16)	500
Net Cash Provided By Operating Activities	**19,147**	**14,163**	**7,787**
Cash Flows to Investing Activities:			
Additions to real estate properties	(8,729)	(5,466)	(4,156)
Acquisition of real estate, net of cash assumed	(248,957)	(166,788)	(89,565)
Net proceeds from sale of real estate	42,984		
Deferred leasing costs	(2,074)	(3,217)	(859)
Net Cash Used In Investing Activities	**(216,776)**	**(175,471)**	**(94,580)**
Cash Flows from Financing Activities:			
Net proceeds from sale of preferred stock	108,127		
Net proceeds from sale of common stock	86,785		122,142
Formation transactions			(35,245)
Redemption of common stock and common units held by Operating Partnership non-controlling interests			(6,056)
Debt issuance and extinguishment costs	(2,414)	(1,239)	(4,063)

Proceeds from mortgage loans payable	47,938	105,813	205,860
Proceeds of Secured Credit Facility	2,500	50,000	
Repayment of mortgage loans payable	(20,199)	(1,082)	(161,837)
Contributions from partners and members			3,844
Contributions from non-controlling interests in properties	2,525		62
Distributions to partners and members			(1,347)
Distributions to non-controlling interests in properties	(455)	(421)	(324)
Dividend distributions paid to stockholders and Operating Partnership unitholders	(20,841)	(14,404)	(4,784)
Change in restricted cash	(772)	(4,083)	(3,725)
Net Cash Provided By Financing Activities	**203,194**	**134,584**	**114,527**

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	Years ended December 31,		
	2016	2015	2014
Net Increase (Decrease) in Cash and Cash Equivalents	**5,565**	**(26,724)**	**27,734**
Cash and Cash Equivalents, Beginning of Year	**8,138**	**34,862**	**7,128**
Cash and Cash Equivalents, End of Year	**$ 13,703**	**$ 8,138**	**$ 34,862**
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$ 13,621	$ 10,030	$ 7,826
Earn-out payment in common stock	$ 3,778	$ 3,163	$

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

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City Office REIT, Inc. and Predecessor

Notes to Consolidated and Combined 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.

Pursuant to the Jumpstart Our Business Startups Act (the JOBS Act), the Company qualifies as an emerging growth company (EGC). An EGC may choose to take advantage of the extended private company transition period provided for complying with new or revised accounting standards that may be issued by the Financial Accounting Standards Board (FASB) or the Securities and Exchange Commission (the SEC). The Company has elected to opt out of such extended transition period. This election is irrevocable.

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). The Company paid an additional $3.5 million in cash in the first quarter of 2016 representing payments to be made to the Sellers upon reaching certain fully diluted market capitalization thresholds prior to December 31, 2016, which, together with the initial payment, resulted in a total cost of $7.0 million in the year ended December 31, 2016. The amount was recorded as an expense in the accompanying condensed consolidated and combined 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 11 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

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Second City Capital II Corporation and Second City Real Estate II Corporation, related entities controlled by Samuel Belzberg, who served as a member of our Board of Directors until March 1, 2017. 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.

Initial Public Offering and Formation Transactions

The Company s operations are carried on primarily through the Operating Partnership and wholly owned subsidiaries of the Operating Partnership. Both the Company and the Operating Partnership commenced operations upon completion of the IPO and certain related Formation Transactions.

On April 21, 2014, the Company closed the IPO, pursuant to which it sold 5,800,000 shares of common stock to the public at a public offering price of $12.50 per share. The Company raised $72.5 million in gross proceeds, resulting in net proceeds to us of approximately $63.4 million after deducting approximately $5.1 million in underwriting discounts and approximately $4.0 million in other expenses relating to the IPO. On May 9, 2014, the underwriters of the IPO exercised their overallotment option to purchase an additional 782,150 shares of the Company s common stock at the IPO price of $12.50 a share resulting in additional gross proceeds of approximately $9.8 million. The net proceeds to the Company were $9.1 million after deducting approximately $0.7 million in underwriting discounts. The Company s common stock began trading on the New York Stock Exchange under the symbol CIO on April 15, 2014.

The Company contributed the net proceeds of the IPO to the Operating Partnership in exchange for common units in the Operating Partnership. The Operating Partnership utilized a portion of the net proceeds of the IPO to pay fees in connection with the assumption of the indebtedness, pay expenses incurred in connection with the IPO and Formation Transactions and repay loans that were made to several of the contributing entities by certain investors in such entities. The remaining funds were used for general working capital purposes and to fund acquisitions.

Pursuant to the Formation Transactions and exercise of the underwriters overallotment option, the Operating Partnership acquired a 100% interest in each of the Washington Group Plaza, Cherry Creek and Corporate Parkway properties and acquired an approximate 76% economic interest in the AmberGlen property, 90% interest in the Central Fairwinds property and 95% interest in the City Center property. These initial property interests were contributed in exchange for 3,731,209 common units, 1,858,860 common stock and $19.4 million of cash. On May 9, 2014, subsequent to the exercise of the underwriters overallotment option, 479,305 common units and 248,095 common stock were redeemed for $9.1 million in cash.

In connection with the IPO and Formation Transactions, the Company, through its Operating Partnership, extinguished the loan on the Central Fairwinds property and completed a refinancing of three properties (Cherry Creek, City Center and Corporate Parkway) with a new $95 million non-recourse mortgage loan and proceeds from the IPO. The loan bears a fixed interest rate of 4.34% and matures on May 6, 2021.

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The following is a summary of the Predecessor Statements of Operations for the period from January 1, 2014 through April 20, 2014, and the Company s Statement of Operations for the period from April 21, 2014 through December 31, 2014. These amounts are included in the consolidated and combined statement of operations herein for the year ended December 31, 2014.

(in thousands)

	Predecessor January 1, 2014 through April 20, 2014	City Office REIT, Inc. April 21, 2014 through December 31, 2014
Revenues:		
Rental income	$ 8,865	$ 24,371
Expense reimbursement	555	2,314
Other	343	448
Total Revenues	**9,763**	**27,133**
Operating Expenses:		
Property operating expenses	3,775	10,557
Acquisition costs	806	1,327
Stock-based compensation		1,091
General and administrative	79	1,235
Base management fees		682
Depreciation and amortization	3,862	10,867
Total Operating Expenses	**8,522**	**25,759**
Operating income	1,241	1,374
Interest expense, net	(3,772)	(7,180)
Change in fair value of earn-out		(1,048)
Gain on equity investment	4,475	
Net income / (loss)	**1,944**	**(6,854)**
Net loss / (income) attributable to non-controlling interests in properties	29	(111)
Net income attributable to Predecessor	**1,973**	
Net loss attributable to Operating Partnership unitholders non-controlling interests		1,955

Net loss attributable to common stockholders	**(5,010)**

2. Summary of Significant Accounting Policies

Basis of Preparation and Summary of Significant Accounting Policies

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

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The Predecessor represents a combination of certain entities holding interests in real estate that were commonly controlled prior to the Formation Transactions. Due to their common control, the financial statements of the separate entities which own the properties are presented on a combined basis in the Predecessor financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include allocation of the purchase price of acquired real estate properties among tangible and intangible assets, determination of the useful life of real estate properties and other long lived assets and the valuation of the earn-out liability on the Central Fairwinds property. Such estimates are based on management s best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from management s estimates.

Cash and Cash Equivalents

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

Restricted Cash

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

Rent Receivable, Net

The Company continuously monitors collections from tenants and makes a provision for estimated losses based upon historical experience and any specific tenant collection issues that the Company has identified. As of December 31, 2016 and 2015, the Company s allowance for doubtful accounts was not significant.

Business Combinations

When a property is acquired, management considers the substance of the agreement in determining whether the acquisition represents an asset acquisition or a business combination. Upon acquisitions of properties that constitutes a business, the fair value of the real estate acquired, which includes the impact of fair value adjustments for assumed mortgage debt related to property acquisitions, is allocated to the acquired tangible assets, consisting of land, buildings and improvements and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and value of tenant relationships, based in each case on their fair values. Acquisition costs are expensed as incurred in the accompanying combined statements of operations. Also, non-controlling interests acquired are recorded at estimated fair market value.

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

rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions.

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

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

Revenue Recognition

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

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

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

Real Estate Properties

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

	Years
Buildings and improvement	29-50
Furniture, fixtures and equipment	4-7

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

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Impairment of Real Estate Properties

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

Concentration of Credit Risk

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

Income Taxes

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

For periods prior to the completion of the IPO and the Formation Transactions on April 21, 2014, no provision was made for U.S. federal, state or local income taxes because profits and losses of the Predecessor flowed through to its respective partners, members and shareholders who were individually responsible for reporting such amounts.

For periods subsequent to the completion of the IPO and the Formation Transactions, the taxable REIT subsidiaries are subject to U.S. federal, state and local corporate income taxes to the extent there is taxable income.

Non-controlling Interests

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

Upon completion of the IPO and Formation Transactions and exercise of the underwriters overallotment option, the Operating Partnership issued 3,251,904 common units of limited partnership interest to the Predecessor s prior investors as partial consideration for the contribution of their interest in the Predecessor to the Operating Partnership. Non-controlling interest in the Company represents common units of the Operating Partnership held by the

Predecessor s prior investors.

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On July 14, 2016, the Company issued a total of 3,126,084 shares of its common stock to certain limited partners of the Operating Partnership. The shares of common stock were issued in connection with Second City s redemption of a total of 3,126,084 common units pursuant to the terms of the Operating Partnership s limited partnership agreement, as amended and restated.

As of December 31, 2016 and 2015, the Company held a 99.8% and 80.3% interest, respectively, in the Operating Partnership. As the sole general partner and the majority interest holder, the Company consolidates the financial position and results of operations of the Operating Partnership.

Equity-Based Compensation

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

Earnings per Common Share

The Company calculates net income per common share based upon the weighted average shares outstanding for the year ended December 31, 2016, December 31, 2015 and for the period from April 21 December 31, 2014. Diluted earnings per share is calculated after giving effect to all potential dilutive shares outstanding during the period. There were 40,001, 3,070,405, and 2,915,709 potentially dilutive shares outstanding related to the issuance of common units held by non-controlling interests during the year ended December 31, 2016, 2015 and 2014 respectively; however, the shares were excluded from the computation of diluted shares as their impact would have been anti-dilutive. As a result, the number of diluted outstanding common shares was equal to the number of basic outstanding common shares.

Derivative Instruments and Hedging Activities

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

Fair Value of Financial Instruments

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

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity s own assumptions, as there is little,

if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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Deferred Leasing Costs

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

Accumulated amortization of deferred leasing costs as of December 31, 2016 and 2015 was $3.2 million and $2.3 million, respectively.

Segment Reporting

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

New Accounting Pronouncements

Adopted in the Current Year

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. ASU 2015-3 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. ASU 2015-3 is effective for annual reporting periods beginning after December 15, 2015. The new guidance must be applied retrospectively to each prior period presented. The Company adopted ASU 2015-3 on January 1, 2016 and retrospectively reclassified $3.4 million of debt issuance costs as of December 31, 2015 from deferred financing costs, net, to long term debt.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The update requires that acquiring entities in a business combination recognize adjustments to provisional amounts identified in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount, as if the accounting had been completed at the acquisition date. Adjustments related to previous reporting periods must be disclosed by income statement line item, either on the face of the income statement or in the notes, in the period for which the adjustment was identified. ASU 2015-16 was adopted January 1, 2016. There was no impact to the Company s 2016 financial statements upon adopting ASU 2015-16.

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, 2017 and allows for either full retrospective or modified retrospective adoption. The new standard will be effective for the Company on January 1, 2018. We are currently evaluating the impact of the adoption of Topic 606 will have on our financial statements.

In January of 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for the annual periods beginning after December 31, 2017 and for annual periods and interim periods within those years. The Company is currently

assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The update amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and

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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 March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation: Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), to amend and simplify several aspects of the accounting for share-based payment award transactions, including: (i) income tax consequences, (ii) classification of awards as equity or liabilities and (iii) classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our 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.

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.

In January of 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new standard provides an initial screening test to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within those periods, with early adoption permitted. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

3. Rents Receivable, Net

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

	December 31, 2016	December 31, 2015
Billed receivables	$ 2,024	$ 588
Straight-line receivables	15,233	13,794
Total rents receivable	**$ 17,257**	**$ 14,382**

Substantially all of these assets have been pledged as collateral for mortgage loans payable (see Note 6).

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4. Real Estate Investments

Acquisitions

During the years ended December 31, 2016, 2015 and 2014 the Company acquired the following properties:

Property	Date Acquired	Percentage Owned
SanTan	December 2016	100%
5090 N 40th St	November 2016	100%
Park Tower	November 2016	95%
FRP Collection	July 2016	95%
Carillon Point	June 2016	100%
Intellicenter	Sept 2015	100%
190 Office Center	Sept 2015	100%
DTC Crossroads	June 2015	100%
Superior Pointe	June 2015	100%
Logan Tower	Feb 2015	100%
FRP Ingenuity Drive	Nov 2014	100%
Lake Vista Pointe	July 2014	100%
Plaza 25	June 2014	100%
Cherry Creek	January 2014	100%

The above acquisitions have been accounted for as business combinations.

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

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

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

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

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

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On January 2, 2014, the Predecessor acquired the remaining 57.7% interest it did not already own in ROC-SCCP Cherry Creek I, LP (Cherry Creek) for approximately $12.0 million. The acquisition was financed through a new $50 million mortgage loan, the proceeds of which were used to repay $36 million of existing debt of Cherry Creek, fund the payment of $12.0 million to the seller, pay $1.2 million of deferred financing costs and $0.8 million in transactions costs.

The Company recognized expenses relating to the Cherry Creek acquisition of $806,344 for the year ended December 31, 2014. A gain of $4.5 million was recognized from the fair value adjustment associated with the Predecessor s original ownership due to a change in control, calculated as follows (in thousands):

Fair value of assets and liabilities acquired	$ 56,833
Less existing mortgage in Cherry Creek	(36,000)
	20,833
Less cash paid to seller	(12,021)
Fair value of 42.3% equity interest	8,812
Carrying value of investment in Cherry Creek	(4,337)
Gain on existing 42.3% equity interest	$ 4,475

The following table summarizes the Company s allocations of the purchase price of assets acquired and liabilities assumed during the year ended December 31, 2014 (in thousands):

	Cherry Creek	Plaza 25	Lake Vista Pointe	FRP Ingenuity Drive	Total December 31, 2014
Land	$ 25,745	$ 1,764	$ 4,115	$ 4,415	$ 36,039
Buildings and improvements	15,771	18,487	17,562	16,376	68,196
Tenant improvements	4,372	2,076	3,038	1,399	10,885
Acquired intangible assets	12,009	2,924	3,685	4,309	22,927
Prepaid expenses and other assets		2	30	104	136
Accounts payable and other liabilities	(815)	(641)	(1,733)	(41)	(3,230)
Lease intangible liabilities	(249)	(328)			(577)
Total Consideration	**$ 56,833**	**$ 24,284**	**$ 26,697**	**$ 26,562**	**$ 134,376**

The operating results of the acquired properties, during the years ended December 31, 2016, 2015 and 2014, since the date of acquisition have been included in the Company s consolidated and combined financial statements. The following table represents the results of the properties operations from the date of acquisition for properties acquired during the year that is presented. (in thousands):

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Operating revenues	$ 7,215	$ 10,047	$ 11,282
Operating expenses	(7,433)	(9,957)	(10,007)
Interest	(589)	(1,192)	(3,987)
	$ (807)	$ (1,102)	$ (2,712)

Sale of Real Estate Property

On June 15, 2016, the Company sold the Corporate Parkway property in Allentown, Pennsylvania, and its related assets and liabilities, for a sales price of $44.9 million, resulting in an aggregate net gain of $15.9 million,

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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. Proceeds from the sale were applied subsequently in a like-kind exchange so as to qualify for tax-deferred treatment under Section 1031 of the Code.

In September 2016, the Company entered into an agreement to sell the Washington Group Plaza property in Boise, Idaho for a sales price of $86.5 million which is scheduled to close in April 2018. A $5.0 million non-refundable deposit was received in December 2016, $0.25 million in the form of earnest money deposit and $4.75 million as an irrevocable letter of credit.

The following table presents the unaudited revenues and income from continuing operations for Logan Tower, Superior Pointe, DTC Crossroads, 190 Office Center, Intellicenter, Carillon Point, FRP Collection, Park Tower, 5090 N 40th St, and SanTan on a pro forma basis as if the Company had completed the acquisition of the properties as of January 1, 2015 (in thousands):

	Year ended December 31, 2016	Year ended December 31, 2015
Total revenues as reported by City Office REIT, Inc. and Predecessor	$ 72,461	$ 55,052
Plus: Logan Tower		143
Superior Pointe		1,666
DTC Crossroads		1,904
190 Office Center		3,798
Intellicenter		3,196
Carillon Point	1,736	3,350
FRP Collection	3,003	5,877
Park Tower	9,252	10,231
5090 N 40th St	4,395	4,795
SanTan	6,224	5,719
Proforma total revenues	**$ 97,071**	**$ 95,731**
Total operating (loss)/income as reported by the City Office REIT, Inc. and Predecessor	$ (296)	$ 4,527
Property acquisition costs	567	(567)
Plus: Logan Tower		(13)
Superior Pointe		(86)
DTC Crossroads		(59)
190 Office Center		(233)
Intellicenter		930
Carillon Point	398	738
FRP Collection	(1,034)	(1,126)
Park Tower	1,385	944
5090 N 40th St	612	667

SanTan	208	(552)
Proforma operating (loss)/income	**$ 1,840**	**$ 5,170**

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5. Lease Intangibles

Lease intangibles and the value of assumed lease obligations as of December 31, 2016 and 2015 were comprised as follows (in thousands):

December 31, 2016	Above Market Leases	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease	Total
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)

December 31, 2015	Above Market Leases	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease	Total
Cost	$ 5,616	$ 44,478	$ 17,530	$ 67,624	$ (2,928)	$ (138)	$ (3,066)
Accumulated Amortization	(2,830)	(17,641)	(6,163)	(26,634)	750	24	774
	$ 2,786	$ 26,837	$ 11,367	$ 40,990	$ (2,178)	$ (114)	$ (2,292)

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

2017	$ 15,641
2018	10,845
2019	9,071
2020	7,438
2021	5,410
Thereafter	3,507
	$ 51,912

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6. Debt

The following table summarizes the secured indebtedness as of December 31, 2016 and 2015 (in thousands):

Property	December 31, 2016	December 31, 2015	Interest Rate as of December 31, 2016	Maturity
Secured Credit Facility [1]	$ 52,500	$ 50,000	LIBOR +2.25%[2]	June 2018
Washington Group Plaza [3]	32,995	33,669	3.85	July 2018
AmberGlen Mortgage Loan [4]	24,280	24,729	4.38	May 2019
Midland Life Insurance [5]	90,124	95,000	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]	30,737		3.85	September 2023
Carillon Point [7]	17,000		3.50	October 2023
Term Loan [8]		14,000	LIBOR+6.00%[2]	
Total Principal	374,909	344,671		
Deferred financing costs, net	(4,852)	(3,393)		
Total	$ 370,057	$ 341,278		

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

(1) At December 31, 2016 the Secured Credit Facility had $100 million authorized and $52.5 million drawn. 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 December 31, 2016, the Secured Credit Facility was cross-collateralized by Central Fairwinds, Logan Tower, Superior Pointe and Park Tower. On October 26, 2016, the Company exercised its option under the Secured Credit Facility to utilize the accordion feature to increase the authorized borrowing capacity under the Secured Credit Facility from $75 million to $100 million. During 2015 the authorized borrowing capacity was increased from $30 million to $75 million.

(2) As of December 31, 2016, the one month LIBOR rate was 0.70%
(3) Interest on mortgage loan is payable monthly plus principal based on 360 months of amortization.
(4) The Company is required to maintain a minimum net worth of $25 million and a minimum liquidity of $2 million.
(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 and 1.35x respectively for each of Plaza 25, 190 Office Center, Intellicenter, FRP Collection and Carillon Point.
(8) The Term Loan was repaid in April 2016.

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The scheduled principal repayments of mortgage payable as of December 31, 2016 are as follows (in thousands):

2017	$ 3,853
2018	88,509
2019	27,508
2020	4,829
2021	86,761
Thereafter	163,449
Total	$ 374,909

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.

7. Fair Value of Financial Instruments

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

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

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

Level 3 Inputs unobservable inputs

As of December 31, 2016 and 2015, the Company did not have any hedges or derivatives.

The estimated fair value of the earn-out liability decreased from $5.7 million at December 31, 2015 to $2.4 million at December 31, 2016. A $3.8 million payment was made in March 2016, satisfied through the issuance of common stock and common units. Subsequent to year-end, the Company entered into a Termination and Mutual Release Agreement which increased the liability by $0.5 million to a final cash payment of $2.4 million (see Note 10).

Level 3 sensitivity analysis:

The Company applies judgment in determining unobservable inputs used to calculate the fair value of Level 3 instruments. Level 3 instruments held by the Company include the earn-out. The unobservable inputs used in the valuation of the earn-out primarily include the net effective rent assumptions. A sensitivity analysis has been performed to determine the potential gain or loss by varying the significant unobservable inputs by increasing or decreasing them by 10%. The impact of applying these other reasonably possible inputs is a potential loss of $0.5 million and a potential gain of $0.5 million. This potential gain or loss would be recorded through profit and loss.

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.

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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 $323.7 million and $285.9 million as of December 31, 2016 and December 31, 2015, 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.

8. Related Party Transactions

Equity Transactions

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

On July 14, 2016, the Company issued a total of 3,126,084 shares of its common stock to certain limited partners of the Operating Partnership. The shares of common stock were issued in connection with Second City s redemption of a total of 3,126,084 common units pursuant to the terms of the Operating Partnership s limited partnership agreement, as amended and restated.

Property Management Fees

Five of the properties (City Center, Central Fairwinds, AmberGlen, FRP Collection and Park Tower) 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 three properties totaled $0.6 million, $0.5 million and $0.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Advisory and Transaction Fees

During the year ended December 31, 2016, 2015, and 2014, the Company incurred $0.1 million, $3.0 million, and $1.5 million, respectively, in advisory and transaction fees payable to the Advisor.

Earn-Out Payment

During the year ended December 31, 2016, a payment of approximately $3.8 million was made to Second City in March 2016 under the Earn-Out provision described in Note 10.

9. Future Minimum Rent Schedule

Future minimum lease payments to be received as of December 31, 2016 under noncancellable operating leases for the next five years and thereafter are as follows (in thousands):

2017	$ 76,581
2018	67,837
2019	60,793
2020	53,872
2021	46,616
Thereafter	104,940
	$ 410,639

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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.

Thirteen state government tenants currently have the exercisable right to terminate their lease if the state does not appropriate rent in its annual budgets. The Company has determined that the occurrence of the government tenant not appropriating the rent in its annual budget is a remote contingency and accordingly recognizes lease revenue on a straight-line basis over the respective lease term. These tenants represent approximately 15.0% of the Company s total future minimum lease payments as of December 31, 2016.

10. Commitments and Contingencies

Earn-Out

As part of the Formation Transactions and contribution agreement with respect to the Central Fairwinds property, the Company was obligated to make additional payments to Second City (each, an Earn-Out Payment) for up to a five year period commencing on the initial IPO date of April 21, 2014. Earn-Out Payments were contingent on the property reaching certain specified occupancy levels through new leases to qualified tenants and exceeding a net operating income threshold, which grows annually. Second City will be entitled to receive an Earn-Out Payment (net of the associated leasing costs and inclusive of leasing commissions and tenant improvements/allowances and free rent) as and when the occupancy of Central Fairwinds reaches each of 70%, 80% and 90% (each, an Earn-Out Threshold) based on the incremental cash flow generated by new leases and a 7.75% stabilized capitalization rate. The Company will make any additional Earn-Out Payment within 30 days of the end of the Earn-Out Term based on new qualified leases entered into since the achievement of the last Earn-Out Threshold. Subsequent to year-end, the Company entered into a Termination and Mutual Release Agreement and a final cash payment of $2.4 million was made to Second City in February 2017.

The estimated fair value of the earn-out liability decreased from $5.7 million at December 31, 2015 to $2.4 million at December 31, 2016. A $3.8 million payment was made in March 2016, satisfied through the issuance of common stock and common units. Subsequent to year-end, the Company entered into a Termination and Mutual Release Agreement which increased the liability by $0.5 million to a final cash payment of $2.4 million.

Tax Protection Agreements

In connection with our initial public offering and the related Formation Transactions, our Operating Partnership entered into tax protection agreements that provide that if we dispose of any interest in our initial properties in a taxable transaction prior to the fourth anniversary of the completion of our initial public offering, subject to certain exceptions, we will indemnify certain contributors of properties in our Formation Transactions for their tax liabilities attributable to the built-in gain that exists with respect to our properties as of the time of our initial public offering and their tax liabilities incurred as a result of such tax protection payment.

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.

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

The Company is involved from time to time in lawsuits and other disputes which arise in the ordinary course of business. As of December 31, 2016 management believes that these matters will not have a material adverse effect, individually or in the aggregate, on the Company s financial position or results of operations.

11. Stockholder s Equity

The Company issued 5,800,000 shares in conjunction with the IPO resulting in net proceeds of $63.4 million after deducting the underwriters discount and offering expenses. The underwriters of the IPO exercised their overallotment option to purchase an additional 782,150 shares of the Company s common stock resulting in additional net proceeds to us of $9.1 million after deducting underwriting discounts.

On December 10, 2014, the Company completed a follow-on public offering pursuant to which the Company sold 3,750,000 of our common stock to the public at a price of $12.50 per share. The Company raised $46.9 million in gross proceeds, resulting in net proceeds to us of approximately $43.6 million after deducting approximately $2.6 million in underwriting discounts and approximately $0.7 million in other expenses relating to the offering. On December 23, 2014, the underwriters of the offering exercised their overallotment option to purchase an additional 512,664 shares of our common stock at the offering price of $12.50 a share resulting in additional gross proceeds to us of approximately $6.4 million resulting in net proceeds to us of $6.1 million after deducting approximately $0.3 million in underwriting discounts. The net proceeds were used entirely to redeem 336,195 common units and 176,469 common stock held by the Operating Partnerships non-controlling interest.

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

On July 14, 2016, the Company issued a total of 3,126,084 shares of its common stock to certain members of Second City in connection with Second City s redemption of a total of 3,126,084 common units of limited partnership interest in the Operating Partnership.

On October 4, 2016, the Company completed a public preferred stock offering pursuant to which the Company sold 4,000,000 shares of our 6.625% Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock), par value $0.01 per share to the public at a price of $25.00 per share. The Company raised $100.0 million in gross proceeds, resulting in net proceeds to the Company of approximately $96.5 million after deducting $3.5 million in underwriting discounts and expenses related to the offering. On October 28, 2016, the Company issued an additional

480,000 shares of Series A Preferred Stock pursuant to the partial exercise of the underwriters overallotment option, raising an additional $12.0 million in gross proceeds before underwriting discounts and expenses. The preferred stock is perpetual and from October 4, 2021, the Company may at its option redeem the Preferred Stock in whole or in part at a redemption price equal to $25.00 per share, plus any

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accrued and unpaid dividends (whether or not declared) to, but not including, the date of redemption. During the year ended December 31, 2016, a pro-rated dividend of $1.8 million was declared and paid subsequently in January 2017.

Non-controlling Interests

Non-controlling interests in the Company represent common units of the Operating Partnership held by the Predecessor s prior investors. As of December 31, 2016 and 2015, non-controlling interests consisted of 40,001 and 3,070,405 Operating Partnership units and represented approximately 0.2% and 19.7% of the Operating Partnership, respectively. Operating Partnership 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. Each limited partner and assignees of limited partners 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 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.

The following table summarizes the non-controlling interests in properties as of December 31, 2016 and December 31, 2015 (in thousands):

	December 31, 2016	December 31, 2015
City Center	$ (65)	$ (5)
Central Fairwinds	571	484
AmberGlen	(1,240)	(1,154)
FRP Collection	995	
Park Tower	1,488	
	$ 1,749	$ (675)

Common Stock and Common Unit Distributions

During the year ended December 31, 2016, the Company declared aggregate cash distributions to common stockholders and common unitholders of $22.9 million. The Company paid aggregate cash distributions of $20.8 million for the year-ended December 31, 2016 and $5.7 million was payable as of December 31, 2016.

During the year ended December 31, 2016, the Company declared the following distributions per share and unit:

Period	Distribution per Common Share/ Unit	Declaration Date	Record Date	Payment Date
January 1, 2016 March 31, 2016	$ 0.235	March 15, 2016	April 5, 2016	April 19, 2016
April 1, 2016 June 30, 2016	0.235	June 20, 2016	July 7, 2016	July 21, 2016

July 1, 2016	September 30, 2016	0.235	September 15, 2016	October 11, 2016	October 25, 2016
October 1, 2016	December 31, 2016	0.235	December 21, 2016	January 13, 2017	January 25, 2017
Total		$ 0.940			

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Preferred Stock Distributions

During the year ended December 31, 2016, a pro-rated dividend of $1.8 million was declared and paid subsequently in January 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 twelve months ended December 31, 2016, 78,250 restricted stock units (RSUs) were granted to directors and non-executive employees with a fair value of $1.0 million. The awards will vest in three equal, annual installments on each of the first three anniversaries of the date of grant. For the year ended December 31, 2016 and December 31, 2015, the Company recognized net compensation expense of $2.4 million and $1.9 million related to the RSU s.

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

12. Quarterly Financial Information (unaudited):

The following tables summarize certain selected quarterly financial data for 2016 and 2015 (in thousands, except per share data):

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

	2015 Quarters			
	Fourth	**Third**	**Second**	**First**
Revenue	$ 17,543	$ 14,616	$ 11,634	$ 11,259
Net (loss)	(1,798)	(2,984)	(2,086)	(799)
Net loss attributable to common stockholders	(1,551)	(2,499)	(1,798)	(743)
Net loss per share	(0.12)	(0.20)	(0.15)	(0.06)

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13. Subsequent Events

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 $68.1 million after deducting $3.2 million in underwriting discounts and other expenses related to the offering.

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City Office REIT, Inc. and Predecessor

SCHEDULE III REAL ESTATE PROPERTIES AND ACCUMULATED DEPRECIATION

December 31, 2016

(In Thousands)

on	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried as of December 31, 2016			Accumulated Amortization	Date of Construction	Date Acquired	De I St
		Land	Buildings and Improvements	Improvements	Land	Building and Improvements	Total				
en	$ 24,280	$ 8,790	$ 5,705	$ 4,513	$ 8,790	$ 10,218	$ 19,008	$ 4,973	1984-1998	December 2009	
er	24,265	3,123	10,656	8,761	3,123	19,417	22,540	5,810	1984	December 2010	
airwinds		1,747	9,751	4,261	1,747	14,012	15,759	2,541	1982	May 2012	
on Group	32,995	12,748	20,716	7,485	12,748	28,201	40,949	5,852	1970-1982	June 2013	
reek	49,521	25,745	20,144	472	25,745	20,616	46,361	3,862	1962-1980	January 2014	
	17,000	1,764	20,563	1,313	1,764	21,876	23,640	3,533	1981	June 2014	
a Pointe	18,460	4,115	20,600	55	4,115	20,655	24,770	2,324	2007	July 2014	
nuity	17,000	4,415	17,775	11	4,415	17,786	22,201	1,466	1999	November 2014	
wer		1,305	8,197	274	1,305	8,471	9,776	714	1983	February 2015	
Pointe		3,153	19,834	728	3,153	20,562	23,715	1,304	2000	June 2015	
ssroads	16,337	7,137	23,184	298	7,137	23,482	30,619	1,325	1999	June 2015	
e Center	41,250	7,162	39,690	133	7,162	39,823	46,985	1,708	2001/2008	September 2015	
ter	33,563	5,244	34,278	4	5,244	34,282	39,526	1,468	2008	September 2015	
Point	17,000	5,173	17,316		5,173	17,316	22,489	450	2007	June 2016	
ection	30,737	7,030	38,700	168	7,030	38,868	45,898	1,051	1986-1999	July 2016	
er		3,484	68,656		3,484	68,656	72,140	467	1973/2006	November 2016	
0th St		6,696	32,123	71	6,696	32,194	38,890	74	1988	November 2016	
		6,803	37,187		6,803	37,187	43,990	65	2000/2003	December 2016	
e	52,500			120		120	120	65			
Financing	(4,851)										
	$ 370,057	$ 115,634	$ 445,075	$ 28,667	$ 115,634	$ 473,742	$ 589,376	$ 39,052			

(1) The aggregate cost for federal tax purposes as of December 31, 2016 of our real estate assets was $650,002.

(2) A summary of activity for real estate and accumulated depreciation for the year ended December 31, 2016 and 2015 is as follows:

	2016	2015
Real Estate Properties		
Balance, beginning of year	$ 381,789	$ 227,139
Acquisitions	223,167	149,184
Dispositions	(24,309)	
Capital improvements	8,729	5,466
Balance, end of year	$ 589,376	$ 381,789
Accumulated depreciation		
Balance, beginning of year	$ 26,909	$ 15,311
Depreciation	30,178	11,598
Depreciation on dispositions	(18,035)	
Balance, end of year	$ 39,052	$ 26,909

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SIGNATURES

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

CITY OFFICE REIT, INC.

Date: March 3, 2017

By: /s/ James Farrar
James Farrar
Chief Executive Officer and Director

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

Name	Title	Date
/s/ James Farrar	Chief Executive Officer and Director	March 3, 2017
James Farrar	(Principal Executive Officer)	
/s/ Anthony Maretic	Chief Financial Officer, Secretary and Treasurer	March 3, 2017
Anthony Maretic	(Principal Financial Officer and Principal Accounting Officer)	
/s/ John McLernon	Independent Director, Chairman of	March 3, 2017
John McLernon	Board of Directors	
/s/ Mark Murski	Independent Director	March 3, 2017
Mark Murski		
/s/ Stephen Shraiberg	Independent Director	March 3, 2017
Stephen Shraiberg		
/s/ William Flatt	Independent Director	March 3, 2017
William Flatt		
/s/ Jeffrey Kohn	Independent Director	March 3, 2017
Jeffrey Kohn		

	Independent Director	March 3, 2017
John Sweet		

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EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of the Company, as amended and supplemented.
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 of the Company s Quarterly Report on Form 10-Q filed with the Commission on May 23, 2014).
3.3	First Amendment to Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 of the Company s Current Report on Form 8-K filed with the Commission on March 25, 2015).
4.1	Certificate of Common Stock of City Office REIT, Inc. (incorporated by reference to Exhibit 4.1 of the Company s Registration Statement on Form S-11/A filed with the Commission on February 18, 2014).
4.2	Form of certificate representing the 6.625% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form 8-A filed with the Commission on September 30, 2016).
10.1	Form of Indemnification Agreement by and between City Office REIT, Inc. and its directors and officers (incorporated by reference to Exhibit 10.12 of the Company s Registration Statement on Form S-11/A filed with the Commission on March 25, 2014).
10.2	Amended and Restated Agreement of Limited Partnership of City Office REIT Operating Partnership, L.P., dated as of April 21, 2014 (incorporated by reference to Exhibit 10.1 of the Company s Quarterly Report on Form 10-Q filed with the Commission on May 23, 2014).
10.3	Equity Incentive Plan (incorporated by reference to Exhibit 10.7 of the Company s Quarterly Report on Form 10-Q filed with the Commission on May 23, 2014).
10.4	Joinder Agreement, dated as of February 4, 2015, by and between CIO Logan Tower, Limited Partnership and KeyBank National Association (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed on February 10, 2015).
10.5	Loan Agreement, dated as of June 25, 2015, by and between CIO Plaza 25, Limited Partnership and Guaranty Bank and Trust Company (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed on June 29, 2015).
10.6	Promissory Note, dated June 25, 2015, by CIO Plaza 25, Limited Partnership to Guaranty Bank and Trust Company (incorporated by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K filed on June 29, 2015).
10.7	Guaranty Agreement, dated as of June 25, 2015, by City Office REIT Operating Partnership, L.P. to Guaranty Bank and Trust Company (incorporated by reference of Exhibit 10.3 to the Company s Current Report on Form 8-K filed on June 29, 2015).
10.8	Amended and Restated Credit Agreement, dated as of June 26, 2015, by and between City Office REIT Operating Partnership, L.P., KeyBank National Association, as lender, KeyBank National Association, as agent, and KeyBanc Capital Markets, as sole lead arrange and sole book manager (incorporated by reference to Exhibit 10.4 of the Company s Current Report on Form 8-K filed on

	June 29, 2015).
10.9	First Amendment and Joinder to Amended and Restated Credit Agreement, dated as of July 14, 2015, by and among City Office REIT Operating Partnership, L.P. and certain of its subsidiaries, City Office REIT, Inc., the Lenders named therein, and KeyBank National Association, as agent for the Lenders (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed on July 17, 2015).
10.10	Promissory Note, dated July 14, 2015, by City Office REIT Operating Partnership, L.P. and certain of its subsidiaries, to BMO Harris Bank, N.A. (incorporated by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K filed on July 17, 2015).

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Exhibit Number	Description
10.11	Promissory Note, dated July 14, 2015, by City Office REIT Operating Partnership, L.P. and certain of its subsidiaries, to the Royal Bank of Canada (incorporated by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K filed on July 17, 2015).
10.12	Loan Agreement, dated as of September 3, 2015, by and between CIO 190, Limited Partnership and CIBC Inc. (incorporated by reference to Exhibit 10.2 of the Company s Quarterly Report on Form 10-Q filed with the Commission on November 6, 2015).
10.13	Loan Agreement, dated as of September 3, 2015, by and between CIO Intellicenter, Limited Partnership and KeyBank National Association (incorporated by reference to Exhibit 10.3 of the Company s Current Report on Form 10-Q filed with the Commission on November 6, 2015).
10.14	Stock Purchase Agreement, dated as of November 2, 2015, by and among City Office REIT, Inc., CIO Management Buyer Ltd., Gibralt Capital Corp., James Farrar, Anthony Maretic, Gregory Tylee, JTF Holdco Shareholders, as defined therein, and Tylee Holdco Shareholders, as defined therein (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Commission on November 2, 2015).
10.15	Second Amendment to Advisory Agreement, dated as of November 2, 2015, by and among City Office REIT, Inc., City Office REIT Operating Partnership, L.P. and City Office Real Estate Management, Inc. (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Commission on November 2, 2015).
10.16	Administrative Services Agreement, dated as of February 1, 2016, by and among City Office Management Ltd., Second City Capital II Corporation and Second City Real Estate II Corporation (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Commission on February 5, 2016).
10.17	Third Amendment to Advisory Agreement, dated as of February 1, 2016, by and among the Company, City Office REIT Operating Partnership, L.P. and City Office Real Estate Management, Inc. (incorporated by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K filed with the Commission on February 5, 2016).
10.18	Executive Employment Agreement, dated as of February 1, 2016, by and between City Office Management Ltd. and Anthony Maretic (incorporated by reference to Exhibit 10.4 of the Company s Current Report on Form 8-K filed with the Commission on February 5, 2016).
10.19	Executive Employment Agreement, dated as of February 1, 2016, by and between City Office Management Ltd. and Gregory Tylee (incorporated by reference to Exhibit 10.5 of the Company s Current Report on Form 8-K filed with the Commission on February 5, 2016).
10.20	Executive Employment Agreement, dated as of February 1, 2016, by and between City Office Management Ltd. and James Farrar (incorporated by reference to Exhibit 10.6 of the Company s Current Report on Form 8-K filed with the Commission on February 5, 2016).
10.21	Purchase and Sale Agreement by and between SCCP Central Valley Limited Partnership and Gulf Islamic Investments LLC, dated February 2, 2016 (incorporated by reference to Exhibit 10.1 of the Company s Quarterly Report on Form 10-Q filed on May 5, 2016).
10.22	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Commission on March 9, 2016).

10.23	Loan Agreement, dated September 2, 2016, between the Borrowers and BankUnited, N.A. (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Commission on September 9, 2016).
10.24	Promissory Note, dated September 2, 2016, by the Borrowers to BankUnited, N.A. (incorporated by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K filed with the Commission on September 9, 2016).

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Exhibit Number	Description
10.25	Guaranty of Recourse Obligations and Security Agreement, dated September 2, 2016, between City Office REIT Operating Partnership, L.P. and BankUnited, N.A. (incorporated by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K filed with the Commission on September 9, 2016).
10.26	Purchase and Sale Agreement, dated September 9, 2016, by and between PT Associates L.P. and City Office Development, LLC (incorporated by reference to Exhibit 10.4 of the Company s Quarterly Report on Form 10-Q filed on November 7, 2016).
10.27	Purchase Agreement, dated September 29, 2016, by and between SCCP Boise, Limited Partnership and St. Luke s Health System, Ltd. (incorporated by reference to Exhibit 10.5 of the Company s Quarterly Report on Form 10-Q filed on November 7, 2016).
10.28	First Amendment to the Amended and Restated Agreement of Limited Partnership of City Office REIT Operating Partnership, L.P., dated September 30, 2016 (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Commission on September 30, 2016).
12.1	Statement of Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Dividends
21.1	Subsidiaries of the Company
23.1	Consent of KPMG LLP
31.1	Certification of Annual Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Annual Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	INSTANCE DOCUMENT*
101.SCH	SCHEMA DOCUMENT*
101.CAL	CALCULATION LINKBASE DOCUMENT*
101.LAB	LABELS LINKBASE DOCUMENT*
101.PRE	PRESENTATION LINKBASE DOCUMENT*
101.DEF	DEFINITION LINKBASE DOCUMENT*

Filed herewith.

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