

COLUMBIA PROPERTY TRUST, INC.

Form 10-K

February 20, 2014

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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, 2013

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____

Commission file number 000-51262

COLUMBIA PROPERTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland

20-0068852

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification Number)

One Glenlake Parkway, Suite 1200

Atlanta, Georgia 30328

(Address of principal executive offices) (Zip Code)

(404) 465-2200

(Registrant's telephone number, including area code)

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

Title of each class

Name of exchange on which registered
New York Stock Exchange

Common Stock

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 Exchange 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

Large accelerated filer Accelerated filer Non-accelerated filer 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

Aggregate market value of the voting stock held by non-affiliates: _____ Since there was no established trading market for the voting and non-voting common stock as of June 30, 2013, there is no market value for the shares of such stock held by non-affiliates of the registrant as of such date.

Number of shares outstanding of the registrant's

only class of common stock, as of January 31, 2014: 124,856,642 shares

Registrant incorporates by reference portions of the Columbia Property Trust, Inc. Definitive Proxy Statement for the 2014 Annual Meeting of Stockholders (Items 10, 11, 12, 13, and 14 of Part III) to be filed on or about April 30, 2014.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K of Columbia Property Trust, Inc. and its subsidiaries ("Columbia Property Trust," "we," "our," or "us"), other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in those acts. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, including known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this report is filed with the U.S. Securities and Exchange Commission ("SEC"). We do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. See Item 1A herein for a discussion of some of the risks and uncertainties, although not all risks and uncertainties that could cause actual results to differ materially from those presented in our forward-looking statements may be included therein.

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PART I

ITEM 1. BUSINESS

General

Columbia Property Trust, Inc. ("Columbia Property Trust") is a Maryland corporation that operates in a manner as to qualify as a real estate investment trust ("REIT") for federal income tax purposes and engages in the acquisition and ownership of commercial real estate properties, including properties that have operating histories, are newly constructed, or are under construction. Columbia Property Trust was incorporated in 2003, commenced operations in 2004, and conducts business primarily through Columbia Property Trust Operating Partnership, L.P. ("Columbia Property Trust OP"), a Delaware limited partnership. Columbia Property Trust is the general partner and sole owner of Columbia Property Trust OP and possesses full legal control and authority over its operations. Columbia Property Trust OP acquires, develops, owns, leases, and operates real properties directly, through wholly owned subsidiaries, or through joint ventures. References to Columbia Property Trust, "we," "us," or "our" herein shall include Columbia Property Trust and all subsidiaries of Columbia Property Trust, direct and indirect, and consolidated joint ventures. From inception through February 27, 2013, we operated as an externally advised REIT pursuant to an advisory agreement under which a subsidiary of Wells Real Estate Funds ("WREF"), Columbia Property Trust Advisory Services, LLC ("Columbia Property Trust Advisory Services"), performed certain key functions on our behalf, including, among others, managing day-to-day operations, investing capital proceeds, and arranging financings. Also during this period of time, a subsidiary of WREF, Columbia Property Trust Services, LLC ("Columbia Property Trust Services"), provided the personnel necessary to carry out property management services on behalf of Wells Management Company, Inc. ("Wells Management") and its affiliates pursuant to a property management agreement. The advisory agreement and property management agreement are described in Note 10, Related-Party Transactions and Agreements.

On February 28, 2013, we became a self-managed company by terminating the above-mentioned advisory agreement and property management agreement, and acquiring Columbia Property Trust Advisory Services and Columbia Property Trust Services. As a result, the contractual services described above are now performed by our employees. Contemporaneous with this transaction, we entered into a consulting agreement and an investor services agreement with WREF for the remainder of 2013. While no fees were paid for the acquisition of Columbia Property Trust Advisory Services or Columbia Property Trust Services, we paid fees to WREF for consulting and investor services for the remainder of 2013. For additional details about these transactions and the related agreements, please refer to Note 10, Related-Party Transactions and Agreements.

We seek to invest in high-quality, income-generating office properties leased to creditworthy companies and governmental entities. As of December 31, 2013, we owned interests in 42 office properties and one hotel, which include 59 operational buildings, comprising approximately 16.8 million square feet of commercial space located in 13 states and the District of Columbia. Of these office properties, 41 are wholly owned and one is owned through a consolidated subsidiary. As of December 31, 2013, our office properties were approximately 92.3% leased.

On October 10, 2013, our shares were listed on the New York Stock Exchange (the "NYSE") under the ticker symbol "CXP." Also on that date, we commenced a modified "Dutch-auction" tender offer to purchase for cash up to \$300.0 million in value of shares of our common stock (the "Tender Offer"). As a result of the Tender Offer, on November 18, 2013, we accepted for purchase 9.4 million shares of common stock at a purchase price of \$25.00 per share, for an aggregate cost to us of \$234.1 million, exclusive of fees and expenses related to the Tender Offer.

Real Estate Investment Objectives

Columbia Property Trust seeks to invest in and manage a commercial real estate portfolio that provides the size, quality, and market specialization needed to deliver both income and long-term growth, as measured in the total return to our shareholders. Our value creation and growth strategies are founded in the following:

Targeted Market Strategy

Our portfolio is comprised of a combination of single and multi-tenant office properties located in Central Business District ("CBD") and suburban areas, which are situated in both primary and secondary markets. The mixed composition of our portfolio has provided diversification within the office sector and stability in our operating cash

flows over time. Going-forward, our investment strategy will shift in emphasis to select primary markets with strong fundamentals and liquidity, including CBD and urban in-fill locations. We believe that the major U.S. office markets provide a greater propensity for producing increasing net income and property values over time. We maintain a long-term goal of increasing our market concentrations in order to leverage our scale, efficiency, and market knowledge.

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New Investment Targets

We look to acquire strategic and premier office assets with quality tenants in our target markets, with an emphasis on value-added opportunities. We pursue high-quality assets that are competitive within the top tier of their markets or can be repositioned as such. Our asset selection criteria include the property's location attributes, physical quality, tenant/lease characteristics, competitive positioning, and pricing level in comparison to long-term, normalized value or replacement cost.

Strong and Flexible Balance Sheet

We are committed to maintaining an investment-grade balance sheet with a strong liquidity profile and proven access to capital. Our low leverage level and other credit metrics provide the financial flexibility to pursue new acquisitions and other growth opportunities that will further our long-term performance objectives.

Capital Recycling

We consistently evaluate our existing portfolio to identify assets in which the value has been optimized and/or those that are considered non-strategic, based on their market location or investment characteristics. The goal of our disposition efforts is to harvest capital from these mature and non-strategic assets, and redeploy it into properties in target markets to maximize growth in net operating income and long-term value.

Proactive Asset Management

We believe our team is well equipped to deliver exceptional operating results in all facets of the management process. Our leasing efforts are founded in understanding the varied and complex needs of tenants in the marketplace today. We aggressively pursue meeting those needs through new and renewal leases, as well as strategic lease restructures that further our long-term goals. We are committed to prudent capital investment in our assets to ensure their competitive positioning and status, and rigorously pursue efficient operations and cost containment at the property level.

18 Property Sale

On November 5, 2013, we closed on the sale of 18 properties (the "18 Property Sale") to an unaffiliated third party for \$521.5 million, exclusive of closing costs. In connection with the disposition, we recognized aggregate impairment losses of \$29.7 million in 2013. After considering the impact of these impairment losses, the 18 Property Sale yielded a net gain of approximately \$1.2 million.

Employees

As of December 31, 2013, we employed 92 people.

Competition

Leasing real estate is highly competitive in the current market; as a result, we experience competition for high-quality tenants from owners and managers of competing projects. Therefore, we may experience delays in re-leasing vacant space, or we may have to provide rent concessions, incur charges for tenant improvements, or offer other inducements to enable us to timely lease vacant space, all of which may have an adverse impact on our results of operations. In addition, we are in competition with other potential buyers for the acquisition of the same properties, which may result in an increase in the amount we must pay to purchase a property. Further, at the time we elect to dispose of our properties, we will also be in competition with sellers of similar properties to locate suitable purchasers.

Concentration of Credit Risk

We are dependent upon the ability of our current tenants to pay their contractual rent amounts as they become due. The inability of a tenant to pay future rental amounts would have a negative impact on our results of operations. We are not aware of any reason why our current tenants will not be able to pay their contractual rental amounts as they become due in all material respects. Situations preventing our tenants from paying contractual rents could result in a material adverse impact on our results of operations. Based on our 2013 annualized lease revenue, no single tenant accounts for more than 10% of our portfolio.

Website Address

Access to copies of each of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and other documents filed with, or furnished to, the SEC, including amendments to such filings, may be

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obtained free of charge from our website, <http://www.columbiapropertytrust.com>, or through a link to the <http://www.sec.gov> website. These filings are available promptly after we file them with, or furnish them to, the SEC.

ITEM 1A. RISK FACTORS

Below are some of the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to our business, operating results, prospects, and financial condition. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.

Risks Related to Our Business and Properties

If we are unable to find suitable investments or pay too much for properties, we may not be able to achieve our investment objectives, and the returns on our investments will be lower than they otherwise would be.

We are competing for real estate investments with other REITs; real estate limited partnerships, pension funds and their advisors; bank and insurance company investment accounts; individuals; and other entities. The market for high-quality commercial real estate assets is highly competitive given how infrequently those assets become available for purchase. As a result, many real estate investors, including us, have built up their cash positions and face aggressive competition to purchase quality office real estate assets. A significant number of entities and resources competing for high-quality office properties support relatively high acquisition prices for such properties, which may reduce the number of acquisition opportunities available to, or affordable for, us and could put pressure on our profitability and our ability to pay distributions to stockholders. We cannot be sure that we will be successful in obtaining suitable investments on financially attractive terms or that, if we make investments, our objectives will be achieved.

Economic conditions may cause the creditworthiness of our tenants to deteriorate and occupancy and market rental rates to decline.

Although U.S. macroeconomic conditions have shown signs of improvement, during 2013, 2012, and 2011, several economic factors continued to adversely affect the financial condition and liquidity of many businesses, as well as the demand for office space generally. Should economic conditions worsen or fail to recover fully, our tenants' ability to honor their contractual obligations may suffer. Further, it may become increasingly difficult to maintain our occupancy rate and achieve future rental rates comparable to the rental rates of our currently in-place leases as we seek to re-lease space and/or renew existing leases.

Our office properties were approximately 92.3% leased at December 31, 2013, and provisions for uncollectible tenant receivables, net of recoveries, were less than 0.1% of total revenues for the year then ended. As a percentage of 2013 annualized lease revenue, approximately 2% of leases expire in 2014, 7% of leases expire in 2015, and 14% of leases expire in 2016 (see Item 2, Properties). No assurances can be given that economic conditions will not have a material adverse effect on our ability to re-lease space at favorable rates or on our ability to maintain our current occupancy rate and our low provisions for uncollectible tenant receivables.

Changes in general economic conditions and regulatory matters germane to the real estate industry may cause our operating results to suffer and the value of our real estate properties to decline.

Our operating results are subject to risks generally incident to the ownership of real estate, including:

- changes in general or local economic conditions;
- changes in supply of or demand for similar or competing properties in an area;
- changes in interest rates and availability of permanent mortgage funds, which may render the sale of a property difficult or unattractive;
- changes in tax, real estate, environmental, and zoning laws; and
- periods of high interest rates and tight money supply.

In addition, market and economic conditions in the metropolitan areas in which we derive a substantial portion of our revenue such as the greater Washington, D.C. area; Atlanta, Georgia; San Francisco, California; and Newark, New Jersey, may have a greater impact on our overall occupancy levels and rental rates and therefore our profitability. Furthermore, our business strategy involves continued focus on select core markets, which will increase the impact of

the local economic conditions in such markets on our results of operations in future periods. These and other reasons may prevent us from being profitable or from realizing growth or maintaining the value of our real estate properties.

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We depend on tenants for our revenue, and lease defaults or terminations could negatively affect our financial condition and results of operations and limit our ability to make distributions to our stockholders.

The success of our investments materially depends on the financial stability of our tenants. A default or termination by a significant tenant on its lease payments to us would cause us to lose the revenue associated with such lease and require us to find an alternative source of revenue to meet mortgage payments and prevent a foreclosure if the property is subject to a mortgage. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. If a tenant defaults on or terminates a significant lease, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss. In addition, significant expenditures for our properties, such as mortgage payments, real estate taxes, and insurance and maintenance costs are generally fixed and do not decrease when revenues at the related property decreases. Therefore, these events could have a material adverse effect on our results of operations or cause us to reduce the amount of distributions to stockholders.

Future acquisitions may fail to perform in accordance with our expectations and may require renovation costs exceeding our estimates.

In the normal course of business, we typically evaluate potential acquisitions, enter into nonbinding letters of intent, and may, at any time, enter into contracts to acquire additional properties. Acquired properties may fail to perform in accordance with our expectations due to lease-up risk, renovation cost risks, and other factors. In addition, the renovation and improvement costs we incur in bringing an acquired property up to market standards may exceed our estimates. We may not have the financial resources to make suitable acquisitions or renovations on favorable terms or at all.

Our inability to sell a property when we plan to do so could limit our operational and financial flexibility, including our ability to pay cash distributions to our stockholders.

Purchasers may not be willing to pay acceptable prices for properties that we wish to sell. General economic conditions, availability of financing, interest rates, and other factors, including supply and demand, all of which are beyond our control, affect the real estate market. Therefore, we may be unable to sell a property for the price, on the terms, or within the time frame that we want. That inability could reduce our cash flow and cause our results of operations to suffer, limiting our ability to make distributions to our stockholders. Furthermore, our properties' market values depend principally upon the value of the properties' leases. A property may incur vacancies either by the default of tenants under their leases or the expiration of tenant leases. If vacancies occur and continue for a prolonged period of time, it may become difficult to locate suitable buyers for any such property, and property resale values may suffer, which could result in lower returns for our stockholders.

Uninsured losses relating to real property or excessively expensive premiums for insurance coverage could reduce our net income, or materially and adversely affect our business or financial condition.

We may incur losses from time to time that are uninsurable or not economically feasible to insure, or may be insured subject to limitations, such as large deductibles or co-payments. Some of these losses could be catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution, or environmental matters.

Insurance risks associated with potential terrorist acts could sharply increase the premiums we pay for coverage against property and casualty claims. Additionally, mortgage lenders in some cases insist that commercial property owners purchase coverage against terrorism as a condition of providing mortgage loans. Such insurance policies may not be available at a reasonable cost, if at all, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. In addition, we may not have adequate coverage for losses. If any of our properties incur a loss that is not fully insured, the value of that asset will be reduced by such uninsured loss.

Furthermore, other than any working capital reserves or other reserves that we may establish, or our existing line of credit, we do not have sources of funding specifically designated for repairs or reconstruction of any our properties. To the extent we incur significant uninsured losses, or are required to pay unexpectedly large amounts for insurance, our results of operations or financial condition could be adversely effected.

We are currently evaluating the need for significant repairs to the outer walls of one of our properties located in suburban Pittsburgh, Pennsylvania, and leased to Westinghouse Electric Company, LLC, which we believe relates to the original design or construction of the property. We have engaged consultants to help us determine the scope of the repairs and to develop various remediation strategies. We are evaluating whether there is insurance coverage or other potential sources of recovery for the necessary remediation. In the event such funds are not available, we expect to incur significant costs in connection with the remediation of this property.

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If we are unable to fund the future capital needs of our properties, cash distributions to our stockholders and the value of our investments could decline.

When tenants do not renew their leases or otherwise vacate their space, we will often need to expend substantial funds for tenant improvements to the vacated space in order to attract replacement tenants. In addition, although we expect that our leases with tenants will require tenants to pay routine property maintenance costs, we will likely be responsible for any major structural repairs, such as repairs to the foundation, exterior walls, and rooftops.

If we need significant capital in the future to improve or maintain our properties or for any other reason, we will have to obtain financing from sources such as cash flow from operations, borrowings, property sales, or future equity offerings. These sources of funding may not be available on attractive terms or at all. If we cannot procure the necessary funding for capital improvements, our investments may generate lower cash flows or decline in value, or both, which would limit our ability to make distributions to our stockholders.

Our operating results may suffer because of potential development and construction risks and delays and resultant increased costs.

We may acquire and develop properties, including unimproved real estate, upon which we will construct improvements. We will be subject to uncertainties associated with rezoning for development and our ability to obtain required permits and authorizations; environmental concerns of governmental entities and/or community groups; and our builders' ability to build in conformity with plans, specifications, budgeted costs, and timetables. If a builder fails to perform, we may resort to legal action to rescind the purchase or the construction contract or to compel performance. A builder's performance may also be affected or delayed by conditions beyond the builder's control, and we may incur additional risks when we make periodic progress payments or other advances to builders before they complete construction. Delays in completing construction could also give tenants the right to terminate preconstruction leases. These and other factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. We must rely on rental income and expense projections and estimates of the fair market value of property upon completion of construction when agreeing upon a purchase price at the time we acquire the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer.

We have incurred and are likely to continue to incur mortgage and other indebtedness, which may increase our business risks.

As of February 15, 2014, our total indebtedness was approximately \$1.5 billion, which includes a \$450.0 million term loan, \$249.0 million of bonds, and \$790.0 million of mortgage loans, all with fixed interest rates, or with interest rates that are effectively fixed when considered in connection with an interest rate swap agreement; and no outstanding balance on our variable-rate line of credit. We are likely to incur additional indebtedness to acquire properties, to fund property improvements and other capital expenditures, to pay our distributions, and for other purposes.

Significant borrowings by us increase the risks of an investment in us. If there is a shortfall between the cash flow from properties and the cash flow needed to service our indebtedness, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt on behalf of the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity.

If any mortgages or other indebtedness contain cross-collateralization or cross-default provisions, a default on a single loan could affect multiple properties. Our unsecured credit facility with a syndicate of lenders led by JPMorgan Chase Bank, N.A. ("JPMorgan Chase Bank"), as administrative agent (the "JPMorgan Chase Credit Facility") and our unsecured term loan facility with a syndicate of lenders led by JPMorgan Chase Bank, as administrative agent, each

includes a cross-default provision that provides that a payment default under any recourse obligation of \$50 million or more by us, Columbia Property Trust OP, or any of our subsidiaries, constitutes a default under the line of credit and term loan facility. If any of our properties are foreclosed due to a default, our ability to pay cash distributions to our stockholders will be limited.

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Increases in interest rates could increase the amount of our debt payments and make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income, and the amount of cash distributions we can make.

We expect to incur additional indebtedness in the future, which may include mortgages, unsecured bonds, term loans, or borrowings under a credit facility. Increases in interest rates will increase interest costs on our variable-interest debt instruments, which would reduce our cash flows and our ability to pay distributions. If mortgage debt is unavailable at reasonable interest rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans become due, or of being unable to refinance on favorable terms. In addition, if we need to repay existing debt during periods of higher interest rates, we may need to sell one or more of our investments in order to repay the debt, which sale at that time might not permit realization of the maximum return on such investments. If any of these events occur, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to our stockholders and may hinder our ability to raise capital in the future through additional borrowings or debt or equity offerings. For additional information, please refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, for additional information regarding interest rate risk.

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

When providing financing, a lender may impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we enter into may contain covenants that limit our ability to further mortgage the property or discontinue insurance coverage. These or other limitations may limit our flexibility and our ability to execute on our operating plans.

A downgrade in the credit rating of our debt could materially adversely affect our business and financial condition. Our senior unsecured debt is rated investment grade by Standard & Poor's Corporation and Moody's Investors Service. In determining our credit ratings, the rating agencies consider a number of both quantitative and qualitative factors, including earnings, fixed charges, cash flows, total debt outstanding, total secured debt, off balance sheet obligations, total capitalization and various ratios calculated from these factors. The rating agencies also consider predictability of cash flows, business strategy, property development risks, industry conditions and contingencies. Therefore, any deterioration in our operating performance could cause our investment grade rating to come under pressure. Our corporate credit rating at Standard & Poor's Ratings Service is currently BBB- with a stable outlook, and our corporate credit rating at Moody's Investor Service is currently Baa3 with a positive outlook. There can be no assurance that our credit ratings will not be lowered or withdrawn in their entirety. A negative change in our ratings outlook or any downgrade in our current investment-grade credit ratings by rating agencies could adversely affect our cost and access to sources of liquidity and capital. Additionally, a downgrade could, among other things, increase the costs of borrowing under our credit facility and term loan, adversely impact our ability to obtain unsecured debt or refinance our unsecured debt on competitive terms in the future, or require us to take certain actions to support our obligations, any of which would adversely affect our business and financial condition.

We are and may continue to be subject to litigation, which could have a material adverse effect on our financial condition.

We currently are, and are likely to continue to be, subject to a variety of claims arising in the ordinary course of business, including contract claims and claims alleging violations of federal and state law regarding workplace and employment matters, discrimination, and similar matters. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. Although we defend ourselves against any such claims, we cannot be certain of the ultimate outcomes of currently asserted claims or of those that arise in the future. Resolution of these types of matters against us may result in our having to pay significant fines, judgments, or settlements, which, if uninsured, or if the fines, judgments, and settlements exceed insured levels, would adversely impact our earnings and cash flows, thereby impacting our ability to service debt and make distributions to our stockholders.

If we are unable to satisfy the regulatory requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or if our disclosure controls or internal control over financial reporting is not effective, investors could lose confidence in our reported financial information, which could adversely affect the perception of our business and the trading price of our common stock.

Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"), requires that we evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year, and to include a management report assessing the effectiveness of our internal control over financial reporting. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the fiscal year ending December 31, 2014. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed, or operating. Deficiencies, including

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any material weakness, in our internal control over financial reporting that may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in the trading price of our common stock, or otherwise materially adversely affect our business, reputation, results of operations, financial condition, or liquidity.

Costs of complying with governmental laws and regulations may reduce our net income and the cash available for distributions to our stockholders.

All real property and the operations conducted on real property are subject to federal, state, and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on tenants, owners, or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may hinder our ability to sell, rent, or pledge such property as collateral for future borrowings.

Compliance with new laws or regulations, or stricter interpretation of existing laws may require us to incur material expenditures. Future laws, ordinances, or regulations may impose material environmental liability. Additionally, our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground storage tanks or activities of unrelated third parties may affect our properties.

Furthermore, there are various local, state, and federal regulatory requirements, such as fire, health, life-safety, and similar regulations, and the Americans with Disabilities Act, with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines, or damages we must pay will reduce our ability to make distributions.

Discovery of previously undetected environmentally hazardous conditions may decrease our revenues and limit our ability to make distributions.

Under various federal, state, and local environmental laws, ordinances, and regulations, a current or previous real property owner or operator may be liable for the cost to remove or remediate hazardous or toxic substances on, under, or in such property. These costs could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could have an adverse impact on our business and results of operations. If we sell properties and provide financing to purchasers, defaults by the purchasers would decrease our cash flows and limit our ability to make distributions.

In some instances we may sell our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our liquidity and results of operations. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or the reinvestment of proceeds in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced, or otherwise disposed.

We recently transitioned to a self-managed REIT and have limited operating experience being self-managed.

In February 2013, we transitioned to a self-managed REIT. While we no longer bear the costs of the various fees and expense reimbursements previously paid to our external advisor, our expenses now include the compensation and benefits of our officers, employees, and consultants, as well as overhead previously paid by our external advisor or their affiliates. Our employees now provide us services historically provided by our external advisor, and there are no assurances that we will be able to obtain these services at the same level or for the same costs as were previously

provided to us by our external advisor. We are also now subject to potential liabilities that are commonly faced by employers, such as workers' disability and compensation claims, potential labor disputes, and other employ