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Equity Commonwealth  
Form 10-Q  
August 06, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

Commission File Number 1-9317

EQUITY COMMONWEALTH

(Exact Name of Registrant as Specified in Its Charter)

Maryland

04-6558834

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

Two North Riverside Plaza, Suite 600, Chicago, IL

60606

(Address of Principal Executive Offices)

(Zip Code)

(312) 646-2800

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of registrant's common shares of beneficial interest, \$0.01 par value per share, outstanding as of July 31, 2015: 129,760,214.

Table of Contents

EQUITY COMMONWEALTH

FORM 10-Q

June 30, 2015

INDEX

	Page
<u>PART I Financial Information</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	1
<u>Condensed Consolidated Statements of Operations</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 4. Controls and Procedures</u>	47
<u>PART II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	48
<u>Item 1A. Risk Factors</u>	52
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
<u>Item 3. Defaults Upon Senior Securities</u>	52
<u>Item 4. Mine Safety Disclosures</u>	52
<u>Item 5. Other Information</u>	52
<u>Item 6. Exhibits</u>	52
<u>Signatures</u>	54

Table of Contents

EXPLANATORY NOTE

References in this Quarterly Report on Form 10-Q to the Company, EQC, we, us or our, refer to Equity Commonwealth and its consolidated subsidiaries as of June 30, 2015, unless the context indicates otherwise.

i

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Table of Contents

## PART I. Financial Information

## Item 1. Financial Statements.

## EQUITY COMMONWEALTH

## CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

(unaudited)

	June 30, 2015	December 31, 2014 (audited)
<b>ASSETS</b>		
Real estate properties:		
Land	\$456,614	\$714,238
Buildings and improvements	3,834,855	5,014,205
	4,291,469	5,728,443
Accumulated depreciation	(913,303)	(1,030,445)
	3,378,166	4,697,998
Properties held for sale	360,781	—
Acquired real estate leases, net	121,912	198,287
Cash and cash equivalents	1,286,902	364,516
Restricted cash	31,351	32,257
Rents receivable, net of allowance for doubtful accounts of \$10,008 and \$6,565, respectively	209,089	248,101
Other assets, net	159,845	220,480
Total assets	\$5,548,046	\$5,761,639
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Senior unsecured debt, net	\$1,460,131	\$1,598,416
Mortgage notes payable, net	513,561	609,249
Liabilities related to properties held for sale	20,336	—
Accounts payable and accrued expenses	128,590	162,204
Assumed real estate lease obligations, net	5,728	26,784
Rent collected in advance	21,860	31,359
Security deposits	10,610	14,044
Total liabilities	2,160,816	2,442,056
Shareholders' equity:		
Preferred shares of beneficial interest, \$0.01 par value: 50,000,000 shares authorized; Series D preferred shares; 6 1/2% cumulative convertible; 4,915,196 and 4,915,497 shares issued and outstanding, respectively, aggregate liquidation preference of \$122,880 and \$122,887, respectively	119,263	119,266
Series E preferred shares; 7 1/4% cumulative redeemable on or after May 15, 2016; 11,000,000 shares issued and outstanding, aggregate liquidation preference \$275,000	265,391	265,391
Common shares of beneficial interest, \$0.01 par value: 350,000,000 shares authorized; 129,760,214 and 129,607,279 shares issued and outstanding, respectively	1,298	1,296
Additional paid in capital	4,495,244	4,487,133
Cumulative net income	2,260,098	2,233,852

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Cumulative other comprehensive loss	(5,963	)	(53,216	)
Cumulative common distributions	(3,111,868	)	(3,111,868	)
Cumulative preferred distributions	(636,233	)	(622,271	)
Total shareholders' equity	3,387,230		3,319,583	
Total liabilities and shareholders' equity	\$5,548,046		\$5,761,639	
See accompanying notes.				

1

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Table of ContentsEQUITY COMMONWEALTH  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Rental income	\$163,697	\$172,407	\$331,669	\$344,447
Tenant reimbursements and other income	39,997	42,787	85,080	88,007
Total revenues	203,694	215,194	416,749	432,454
Expenses:				
Operating expenses	89,686	92,701	187,557	194,432
Depreciation and amortization	53,637	59,831	116,336	111,480
General and administrative	10,911	24,097	27,469	48,945
Loss on asset impairment	15,258	22,683	17,162	17,922
Acquisition related costs	—	—	—	5
Total expenses	169,492	199,312	348,524	372,784
Operating income	34,202	15,882	68,225	59,670
Interest and other income	728	281	4,176	665
Interest expense (including net amortization of debt discounts, premiums and deferred financing fees of \$(177), \$(300), \$(148) and \$(609), respectively)	(27,973 )	(37,899 )	(57,815 )	(75,834 )
Gain on early extinguishment of debt	10,426	—	9,998	—
Loss on sale of equity investment	—	(33 )	—	(33 )
Gain on issuance of shares by an equity investee	—	16,911	—	17,020
Foreign currency exchange gain	856	—	856	—
(Loss) gain on sale of properties	(2,708 )	—	3,160	—
Income (loss) from continuing operations before income taxes and equity in earnings of investees	15,531	(4,858 )	28,600	1,488
Income tax expense	(2,915 )	(908 )	(2,354 )	(1,463 )
Equity in earnings of investees	—	12,454	—	23,388
Income from continuing operations	12,616	6,688	26,246	23,413
Discontinued operations:				
Income from discontinued operations	—	4,114	—	8,125
Loss on asset impairment from discontinued operations	—	(2,072 )	—	(2,360 )
Loss on early extinguishment of debt from discontinued operations	—	(3,345 )	—	(3,345 )
Net income	12,616	5,385	26,246	25,833
Preferred distributions	(6,981 )	(6,982 )	(13,962 )	(18,133 )
Excess fair value of consideration over carrying value of preferred shares	—	(16,205 )	—	(16,205 )
Net income (loss) attributable to Equity Commonwealth common shareholders	\$5,635	\$(17,802 )	\$12,284	\$(8,505 )
Amounts attributable to Equity Commonwealth common shareholders:				
Income (loss) from continuing operations	\$5,635	\$(16,499 )	\$12,284	\$(10,925 )
Income from discontinued operations	—	4,114	—	8,125
Loss on asset impairment from discontinued operations	—	(2,072 )	—	(2,360 )

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Loss on early extinguishment of debt from discontinued operations	—	(3,345 )	—	(3,345 )
Net income (loss)	\$5,635	\$(17,802 )	\$12,284	\$(8,505 )
Weighted average common shares outstanding — basic	129,733	123,812	129,714	121,121
Weighted average common shares outstanding — diluted	130,537	123,812	130,205	121,121
Basic and diluted earnings per common share attributable to Equity Commonwealth common shareholders:				
Income (loss) from continuing operations	\$0.04	\$(0.13 )	\$0.09	\$(0.09 )
(Loss) income from discontinued operations	\$—	\$(0.01 )	\$—	\$0.02
Net income (loss)	\$0.04	\$(0.14 )	\$0.09	\$(0.07 )
Distributions declared per common share	\$—	\$—	\$—	\$0.25
See accompanying notes.				

2

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Table of Contents

## EQUITY COMMONWEALTH

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands)

(unaudited)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
Net income	\$12,616	\$5,385	\$26,246	\$25,833	
Other comprehensive income, net of tax:					
Unrealized gain (loss) on derivative instruments and other assets	958	627	(1,664	) 1,627	
Foreign currency translation adjustments	65,307	4,961	48,917	15,548	
Equity in unrealized loss of an investee	—	(69	) —	(49	)
Total comprehensive income	\$78,881	\$10,904	\$73,499	\$42,959	

See accompanying notes.



Table of Contents

EQUITY COMMONWEALTH  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (amounts in thousands)  
 (unaudited)

	Six Months Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$26,246	\$25,833
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	86,374	80,512
Net amortization of debt discounts, premiums and deferred financing fees	(148)	(612)
Straight line rental income	(1,611)	(7,201)
Amortization of acquired real estate leases	20,413	27,806
Other amortization	12,782	9,579
Share-based compensation	8,110	3,354
Loss on asset impairment	17,162	20,282
(Gain) loss on early extinguishment of debt	(9,998)	3,345
Equity in earnings of investees	—	(23,388)
Loss on sale of equity investments	—	33
Gain on issuance of shares by an equity investee	—	(17,020)
Distributions of earnings from investees	—	20,680
Net gain on sale of properties	(3,160)	—
Other non-cash expenses	—	15,048
Change in assets and liabilities:		
Restricted cash	(2,917)	641
Rents receivable and other assets	(20,462)	(19,856)
Accounts payable and accrued expenses	(847)	(7,833)
Rent collected in advance	(8,539)	(2,339)
Security deposits	597	241
Due to related persons	—	47
Cash provided by operating activities	124,002	129,152
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Real estate improvements	(28,623)	(60,437)
Principal payments received from direct financing lease	3,789	3,612
Proceeds from sale of properties, net	962,003	185,179
Proceeds from sale of securities	27,068	—
Proceeds from sale of equity investments, net	—	5,776
Increase in restricted cash	(2,313)	(3,661)
Cash provided by investing activities	961,924	130,469
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on borrowings	(141,908)	(15,998)
Deferred financing fees	(7,143)	—
Distributions to common shareholders	—	(29,597)
Distributions to preferred shareholders	(13,962)	(11,151)
Cash used in financing activities	(163,013)	(56,746)
Effect of exchange rate changes on cash	(527)	757
Increase in cash and cash equivalents	922,386	203,632

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Cash and cash equivalents at beginning of period	364,516	217,032
Cash and cash equivalents at end of period	\$1,286,902	\$420,664
See accompanying notes.		

4

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Table of Contents

EQUITY COMMONWEALTH  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
 (amounts in thousands)  
 (unaudited)

	Six Months Ended June 30,	
	2015	2014
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$62,094	\$77,120
Taxes paid	3,088	2,732
<b>NON-CASH INVESTING ACTIVITIES:</b>		
Increase in capital expenditures recorded as liabilities	\$523	\$13,368

See accompanying notes.

Table of Contents

EQUITY COMMONWEALTH

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of EQC have been prepared without audit. Certain information and footnote disclosures required by U.S. generally accepted accounting principles, or GAAP, for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in our Annual Report on Form 10-K (Annual Report) for the year ended December 31, 2014. Capitalized terms used, but not defined in this Quarterly Report, have the same meanings as in our Annual Report.

In the opinion of our management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. All intercompany transactions and balances with or among our subsidiaries have been eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. Reclassifications have been made to the prior years' financial statements to conform to the current year's presentation.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect reported amounts. Actual results could differ from those estimates. Significant estimates in the condensed consolidated financial statements include the allowance for doubtful accounts, purchase price allocations, useful lives of fixed assets and impairment of real estate and intangible assets.

Share amounts are presented in whole numbers, except where noted.

Note 2. Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, or ASU 2014-08. ASU 2014-08 changes the criteria for reporting a discontinued operation. Under the new pronouncement, a disposal of a part of an organization that has a major effect on its operations and financial results is a discontinued operation. We adopted ASU 2014-08 on January 1, 2015, and determined that our individual 2015 dispositions and properties held for sale as of June 30, 2015 do not represent a strategic shift, as defined by the standard, that has or will have a major effect on our operations and financial results.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. This update is effective for interim and annual reporting periods beginning after December 15, 2017. We are currently in the process of evaluating the impact, if any, the adoption of this ASU will have on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. We do not expect that the adoption of this standard will have a material impact on our condensed consolidated financial statements.

Note 3. Board of Trustees

On March 18, 2014, Related Fund Management, LLC (Related) and Corvex Management LP (Corvex) together, (Related/Corvex), delivered written consents which they represented were from a sufficient number of holders of our outstanding common shares to remove all of our then Trustees (former Trustees) and any other person or persons elected or appointed to our Board of Trustees prior to the effective time of the Related/Corvex removal proposal. After inspection, our then Board of Trustees determined that holders of more than two-thirds of our outstanding common shares as of the February 18, 2014 record date consented to the Related/Corvex proposal, reaching the threshold required to remove all of our then Trustees and any other person or persons appointed as a Trustee prior to the effective time of the Related/Corvex removal proposal. Accordingly, on March 25, 2014, all of our former Trustees certified their removal as Trustees of EQC.

Table of Contents

## EQUITY COMMONWEALTH

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On May 23, 2014, at a special meeting of our shareholders (Special Meeting), the following seven individuals were elected to serve on our Board of Trustees: Sam Zell, who serves as the Chairman of the new Board of Trustees, James S. Corl, Edward A. Glickman, David A. Helfand, Peter Linneman, James L. Lozier, Jr. and Kenneth Shea. Each of the foregoing individuals was nominated to serve on the new Board of Trustees by Related/Corvex. On July 31, 2014, our shareholders re-elected the seven individuals listed above and elected Martin L. Edelman, Mary Jane Robertson, Gerald A. Spector and James A. Star to serve on our Board of Trustees, bringing our total number of Trustees to eleven (new Board of Trustees). At the 2015 annual meeting of shareholders held on June 16, 2015, our shareholders re-elected each of our eleven Trustees to serve on our Board of Trustees for the 2015-2016 term.

## Note 4. Real Estate Properties

During the six months ended June 30, 2015 and 2014, we made improvements to our properties totaling \$27.8 million and \$47.0 million, respectively.

## Properties Held For Sale:

We classify all properties that meet the criteria outlined in the Property, Plant and Equipment Topic of the FASB Accounting Standards Codification (Codification) as held for sale on our condensed consolidated balance sheets. As of June 30, 2015, we classified Illinois Center and 16th and Race Street (together, two properties and three buildings), with a combined 2,698,787 square feet, as held for sale. On August 4, 2015 we sold Illinois Center (see Note 18). The sale of 16th and Race Street is projected to close in the third quarter of 2015, subject to customary closing conditions. There is no certainty that these conditions will be met or that this transaction will close. As of December 31, 2014, we had no properties classified as held for sale.

Summarized balance sheet information for all properties classified as held for sale is as follows (in thousands):

	June 30, 2015
Real estate properties	\$341,263
Acquired real estate leases	13,238
Other assets, net	6,280
Properties held for sale	\$360,781
Accounts payable and accrued expenses	\$12,387
Assumed real estate lease obligations	6,516
Rent collected in advance	113
Security deposits	1,320
Liabilities related to properties held for sale	\$20,336

During March 2014, the former management team ceased to actively market two CBD properties (two buildings) and 29 suburban properties (65 buildings) with a combined 5,641,450 square feet that we had previously classified as held for sale as of December 31, 2013. These properties were not under agreement for sale when our former Trustees were removed in March 2014. These properties were reclassified to properties held and used in operations because they no longer met the requirements under GAAP for classification as held for sale. Operating results for these properties

were reclassified from discontinued operations to continuing operations for all periods presented herein. In connection with this reclassification, we reversed previously recorded impairment losses totaling \$4.8 million, which included the elimination of estimated costs to sell.

Table of Contents

## EQUITY COMMONWEALTH

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Property Dispositions:

During the six months ended June 30, 2015, we disposed of the following properties (dollars in thousands):

Asset	Date Disposed	Segment	Number of Properties	Number of Buildings	Square Footage	Gross Sales Price	Gain (Loss) on Sale
<b>Properties</b>							
11350 North Meridian Street	January 2015	Suburban	1	1	72,264	\$4,200	\$766
333 Laurel Oak Drive(1)	March 2015	Suburban	—	1	27,164	2,450	251
1921 E. Alton Avenue	March 2015	Suburban	1	1	67,846	14,533	4,851
46 Inverness Center Parkway	April 2015	Suburban	—	—	—	2,000	1,857
225 Water Street(2)	May 2015	CBD	1	1	318,997	—	—
Sorrento Valley Business Park	June 2015	Suburban	1	4	105,003	23,500	11,896
<b>Portfolio of properties</b>							
7450 Campus Drive	May 2015	Suburban	1	1	77,411		
129 Worthington Ridge Road	May 2015	Suburban	1	1	227,500		
599 Research Parkway	May 2015	Suburban	1	1	48,249		
181 Marsh Hill Road	May 2015	Suburban	1	1	162,036		
101 Barnes Road	May 2015	Suburban	1	1	45,755		
15 Sterling Drive	May 2015	Suburban	1	1	173,015		
35 Thorpe Avenue	May 2015	Suburban	1	1	79,862		
50 Barnes Industrial Road North	May 2015	Suburban	1	1	154,255		
5-9 Barnes Industrial Road	May 2015	Suburban	1	1	38,006		
860 North Main Street	May 2015	Suburban	1	1	31,165		
One Barnes Industrial Road South	May 2015	Suburban	1	1	30,170		
Village Lane	May 2015	Suburban	1	2	58,185		
100 Northfield Drive	May 2015	Suburban	1	1	116,986		
905 Meridian Lake Drive	May 2015	Suburban	1	1	74,652		
1717 Deerfield Road	May 2015	Suburban	1	1	141,186		
1955 West Field Court	May 2015	Suburban	1	1	59,130		
5015 S. Water Circle	May 2015	Suburban	1	1	113,524		
Adams Place	May 2015	Suburban	1	2	230,259		
Cabot Business Park	May 2015	Suburban	1	2	252,755		
2300 Crown Colony Drive	May 2015	Suburban	1	1	45,974		
Myles Standish Industrial Park	May 2015	Suburban	1	2	74,800		
340 Thompson Road	May 2015	Suburban	1	1	25,000		
100 South Charles Street	May 2015	CBD	1	1	159,616		
6710 Oxon Hill	May 2015	Suburban	1	1	118,336		
8800 Queen Avenue South	May 2015	Suburban	1	1	280,822		
9800 Sherlard Parkway	May 2015	Suburban	1	1	46,765		
Rosedale Corporate Plaza	May 2015	Suburban	1	3	149,116		
1000 Shelard Parkway	May 2015	Suburban	1	1	62,499		



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525 Park Street	May 2015	CBD	1	1	75,636
1900 Meyer Drury Drive	May 2015	Suburban	1	1	65,225
131-165 West Ninth Street	May 2015	Suburban	1	1	75,517
7-9 Vreeland Road	May 2015	Suburban	1	1	155,891
5 Paragon Drive	May 2015	Suburban	1	1	119,089

8

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Table of Contents

## EQUITY COMMONWEALTH

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Asset	Date Disposed	Segment	Number of Properties	Number of Buildings	Square Footage	Gross Sales Price	Gain (Loss) on Sale
1000 Vorhees Drive and 400 Laurel Oak Drive(1)	May 2015	Suburban	1	2	125,415		
1601 Veterans Highway	May 2015	Suburban	1	1	63,608		
Two Corporate Center Drive	May 2015	Suburban	1	1	291,230		
11311 Cornell Park Drive	May 2015	Suburban	1	1	93,413		
5300 Kings Island Drive	May 2015	Suburban	1	1	159,421		
3 Crown Point Court	May 2015	Suburban	1	1	73,987		
515 Pennsylvania Avenue	May 2015	Suburban	1	1	82,000		
443 Gulph Road	May 2015	Suburban	1	1	21,000		
4350 Northern Pike	May 2015	Suburban	1	1	503,885		
Thunderbolt Place	May 2015	Suburban	1	2	100,505		
6160 Kempsville Circle	May 2015	Suburban	1	1	129,565		
448 Viking Drive	May 2015	Suburban	1	1	75,374		
Portfolio of small office and industrial assets			45	53	5,287,790	\$376,000	\$(7,915 )
2501 20th Place South	June 2015	CBD	1	1	125,722		
420 20th Street North	June 2015	CBD	1	1	514,893		
Inverness Center	June 2015	Suburban	1	4	475,951		
701 Poydras Street	June 2015	CBD	1	1	1,256,971		
300 North Greene Street	June 2015	CBD	1	1	324,305		
1320 Main Street	June 2015	CBD	1	1	334,075		
AL, LA, NC, SC office portfolio			6	9	3,031,917	\$417,450	\$41,596
12655 Olive Boulevard	June 2015	Suburban	1	1	98,588		
1285 Fern Ridge Parkway	June 2015	Suburban	1	1	66,510		
St. Louis portfolio			2	2	165,098	\$14,300	\$(2,338 )
310-314 Invermay Road(3)	April 2015	Suburban	1				