

City Office REIT, Inc.
Form 10-Q
August 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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
(State or other jurisdiction
of incorporation)

98-1141883
(IRS Employer

Identification No.)

1075 West Georgia Street

Suite 2010

Vancouver, BC

V6E 3C9

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer

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

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

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at August 3, 2016 was 24,355,556.

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Table of Contents**City Office REIT, Inc.****Condensed Consolidated Balance Sheets (Note 1)****(Unaudited)***(In thousands, except par value and share data)*

	June 30, 2016	December 31, 2015
Assets		
Real estate properties, cost		
Land	\$ 91,478	\$ 90,205
Building and improvement	252,138	256,317
Tenant improvement	41,535	35,069
Furniture, fixtures and equipment	210	198
	385,361	381,789
Accumulated depreciation	(30,050)	(26,909)
	355,311	354,880
Cash and cash equivalents	7,656	8,138
Restricted cash	52,981	15,176
Rents receivable, net	14,525	14,382
Deferred leasing costs, net of accumulated amortization	4,565	5,074
Acquired lease intangibles assets, net	38,457	40,990
Prepaid expenses and other assets	2,587	1,567
Total Assets	\$ 476,082	\$ 440,207
Liabilities and Equity		
Liabilities:		
Debt	\$ 289,841	\$ 341,278
Accounts payable and accrued liabilities	9,956	8,745
Deferred rent	1,926	2,653
Tenant rent deposits	2,031	2,178
Acquired lease intangibles liability, net	2,017	2,292
Dividend distributions payable	5,736	3,663
Earn-out liability	1,900	5,678
Total Liabilities	313,407	366,487
Commitments and Contingencies (Note 9)		
Equity:		
	212	125

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Common stock, \$0.01 par value, 100,000,000 shares authorized, 21,209,472 and 12,517,777 shares issued and outstanding		
Additional paid-in capital	187,538	95,318
Accumulated deficit	(35,124)	(29,598)
Total Stockholders Equity	152,626	65,845
Operating Partnership unitholders non-controlling interests	10,789	8,550
Non-controlling interests in properties	(740)	(675)
Total Equity	162,675	73,720
Total Liabilities and Equity	\$ 476,082	\$ 440,207

Subsequent Events (Note 11)

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

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City Office REIT, Inc.

Condensed Consolidated Statements of Operations (Note 1)

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Rental income	\$ 14,203	\$ 10,196	\$ 28,276	\$ 20,237
Expense reimbursement	1,562	1,145	3,344	2,036
Other	327	293	750	621
Total Revenues	16,092	11,634	32,370	22,894
Operating Expenses:				
Property operating expenses	6,236	4,127	12,398	8,243
Acquisition costs	87	882	87	1,091
Stock based compensation	615	507	1,157	916
General and administrative	929	495	1,630	902
Base management fee		327	109	659
External advisor acquisition			7,045	
Depreciation and amortization	6,520	4,494	13,071	8,900
Total Operating Expenses	14,387	10,832	35,497	20,711
Operating income/(loss)	1,705	802	(3,127)	2,183
Interest Expense:				
Contractual interest expense	(3,139)	(2,103)	(6,885)	(4,112)
Amortization of deferred financing costs	(250)	(185)	(471)	(354)
	(3,389)	(2,288)	(7,356)	(4,466)
Change in fair value of earn-out		(600)		(600)
Net gain on sale of real estate property	15,934		15,934	
Net income/(loss)	14,250	(2,086)	5,451	(2,883)
Less:				
Net income attributable to noncontrolling interests in properties	(110)	(134)	(177)	(255)
Net (income)/loss attributable to Operating Partnership unitholders noncontrolling interests	(2,613)	422	(874)	598
Net income/(loss) attributable to stockholders	\$ 11,527	\$ (1,798)	\$ 4,400	\$ (2,540)

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Net income/(loss) per share:				
Basic	\$ 0.56	\$ (0.15)	\$ 0.26	\$ (0.21)
Diluted	\$ 0.48	\$ (0.15)	\$ 0.22	\$ (0.21)
Weighted average common shares outstanding:				
Basic	20,729	12,365	16,746	12,328
Diluted	24,235	12,365	20,237	12,328
Dividends/distributions declared per common share and unit				
	\$ 0.235	\$ 0.235	\$ 0.235	\$ 0.235

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

Table of Contents**City Office REIT, Inc.****Condensed Consolidated Statement of Changes in Equity (Note 1)****(Unaudited)***(In thousands)*

	Number of shares of common stock	Common stock	Additional paid-in capital	Accumulated deficit	Total stockholders' equity	Operating Partners non-controlling interests	Non-controlling interests in properties	Total equity
Balance December 31, 2015	12,518	\$ 125	\$ 95,318	\$ (29,598)	\$ 65,845	\$ 8,550	\$ (675)	\$ 73,720
Conversion of common units to shares	45		131		131	(131)		
Restricted stock award grants and vesting	152	2	1,155		1,157			1,157
Internalization payment in shares	297	3	3,461		3,464			3,464
Earn out payment in shares	147	2	767		769	3,009		3,778
Net proceeds from sale of common stock	8,050	80	86,706		86,786			86,786
Dividend distributions declared				(9,926)	(9,926)	(1,513)		(11,439)
Distributions							(242)	(242)
Net income				4,400	4,400	874	177	5,451
Balance June 30, 2016	21,209	\$ 212	\$ 187,538	\$ (35,124)	\$ 152,626	\$ 10,789	\$ (740)	\$ 162,675

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

Table of Contents**City Office REIT, Inc.****Condensed Consolidated Statements of Cash Flows (Note 1)****(Unaudited)***(In thousands)*

	Six Months Ended June 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net income/(loss)	\$ 5,451	\$ (2,883)
Adjustments to reconcile net income/loss to net cash provided by operating activities:		
Depreciation and amortization	13,071	8,900
Amortization of deferred financing costs	471	354
Amortization of above/below market leases	120	280
Increase in straight-line rent	(2,911)	(71)
Non-cash stock compensation	1,157	916
Change in fair value of earn-out		600
Internalization shares issued	3,464	
Net gain on sale of real estate property	(15,934)	