Rexford Industrial Realty, Inc.
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-36008

Rexford Industrial Realty, Inc.
(Exact name of registrant as specified in its charter)

MARYLAND	46-2024407
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11620 Wilshire Boulevard, Suite 1000, Los Angeles, California	90025
(Address of principal executive offices)	(Zip Code)

(310) 966-1680
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares of common stock outstanding at July 31, 2017 was 71,092,052.

REXFORD INDUSTRIAL REALTY, INC.
QUARTERLY REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2017
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REXFORD INDUSTRIAL REALTY, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited and in thousands – except share and per share data)

	June 30, 2017	December 31, 2016
ASSETS		
Land	$763,622	$683,919
Buildings and improvements	923,760	811,614
Tenant improvements	43,717	38,644
Furniture, fixtures and equipment	167	174
Construction in progress	25,792	17,778
Total real estate held for investment	1,757,058	1,552,129
Accumulated depreciation	(153,163)	(135,140)
Investments in real estate, net	1,603,895	1,416,989
Cash and cash equivalents	13,118	15,525
Note receivable, net	—	5,934
Rents and other receivables, net	2,644	2,749
Deferred rent receivable, net	13,628	11,873
Deferred leasing costs, net	9,448	8,672
Deferred loan costs, net	2,239	847
Acquired lease intangible assets, net	41,087	36,365
Acquired indefinite-lived intangible	5,156	5,170
Interest rate swap asset	4,399	5,594
Other assets	7,388	5,290
Acquisition related deposits	2,250	—
Total Assets	$1,705,252	$1,515,008
LIABILITIES & EQUITY		
Liabilities		
Notes payable	$561,530	$500,184
Interest rate swap liability	1,094	2,045
Accounts payable, accrued expenses and other liabilities	14,298	13,585
Dividends payable	10,642	9,282
Acquired lease intangible liabilities, net	10,785	9,130
Tenant security deposits	16,721	15,187
Prepaid rents	5,204	3,455
Total Liabilities	620,274	552,868
Equity		
Rexford Industrial Realty, Inc. stockholders' equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; 5.875% series A cumulative redeemable preferred stock, liquidation preference $25.00 per share, 3,600,000 shares outstanding at June 30, 2017 and December 31, 2016	86,651	86,651
Common Stock, $0.01 par value 490,000,000 shares authorized and 71,122,902 and 66,454,375 shares outstanding at June 30, 2017 and December 31, 2016, respectively	708	662
Additional paid in capital	1,027,282	907,834

Cumulative distributions in excess of earnings	(56,992)	(59,277)
Accumulated other comprehensive income	3,216	3,445
Total stockholders’ equity	1,060,865	939,315
Noncontrolling interests	24,113	22,825
Total Equity	1,084,978	962,140
Total Liabilities and Equity	$ 1,705,252	$ 1,515,008

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

REXFORD INDUSTRIAL REALTY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands – except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
RENTAL REVENUES				
Rental income	$31,132	$26,119	$60,746	$49,618
Tenant reimbursements	5,172	4,119	10,327	7,677
Other income	115	259	347	572
TOTAL RENTAL REVENUES	36,419	30,497	71,420	57,867
Management, leasing and development services	145	111	271	245
Interest income	218	—	445	—
TOTAL REVENUES	36,782	30,608	72,136	58,112
OPERATING EXPENSES				
Property expenses	9,536	7,959	18,758	15,502
General and administrative	5,123	4,521	10,209	8,123
Depreciation and amortization	14,515	12,610	28,114	23,824
TOTAL OPERATING EXPENSES	29,174	25,090	57,081	47,449
OTHER EXPENSES				
Acquisition expenses	20	635	405	1,110
Interest expense	4,302	3,716	8,300	6,970
TOTAL OTHER EXPENSES	4,322	4,351	8,705	8,080
TOTAL EXPENSES	33,496	29,441	65,786	55,529
Equity in income from unconsolidated real estate entities	—	62	11	123
Loss on extinguishment of debt	—	—	(22)	—
Gains on sale of real estate	16,569	11,563	19,237	11,563
NET INCOME	19,855	12,792	25,576	14,269
Less: net income attributable to noncontrolling interest	(531)	(418)	(663)	(470)
NET INCOME ATTRIBUTABLE TO REXFORD INDUSTRIAL REALTY, INC.	19,324	12,374	24,913	13,799
Less: preferred stock dividends	(1,322)	—	(2,644)	—
Less: earnings allocated to participating securities	(156)	(75)	(247)	(153)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$17,846	$12,299	$22,022	$13,646
Net income attributable to common stockholders per share - basic and diluted	$0.26	$0.19	$0.33	$0.23
Weighted average shares of common stock outstanding - basic	67,920,773	64,063,337	67,135,319	59,666,468
Weighted average shares of common stock outstanding - diluted	68,331,234	64,304,713	67,483,100	59,860,831
Dividends declared per common share	$0.145	$0.135	$0.290	$0.270

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

REXFORD INDUSTRIAL REALTY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$19,855	$12,792	$25,576	$14,269
Other comprehensive loss: cash flow hedge adjustment	(996)	(2,650)	(244)	(4,407)
Comprehensive income	18,859	10,142	25,332	9,862
Comprehensive income attributable to noncontrolling interests	(495)	(368)	(648)	(358)
Comprehensive income attributable to Rexford Industrial Realty, Inc.	$18,364	$9,774	$24,684	$9,504

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

REXFORD INDUSTRIAL REALTY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited and in thousands – except share data)

	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Cumulative Distributions in Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2017	$86,651	66,454,375	$662	$907,834	$(59,277)	$3,445	$939,315	$22,825	$962,140
Issuance of common stock	—	4,567,161	45	120,490	—	—	120,535	—	120,535
Offering costs	—	—	—	(2,181)	—	—	(2,181)	—	(2,181)
Share-based compensation	—	84,439	1	1,197	—	—	1,198	1,655	2,853
Shares acquired to satisfy employee tax withholding requirements on vesting restricted stock	—	(17,253)	—	(404)	—	—	(404)	—	(404)
Conversion of units to common stock	—	34,180	—	346	—	—	346	(346)	—
Net income	2,644	—	—	—	22,269	—	24,913	663	25,576
Other comprehensive loss	—	—	—	—	—	(229)	(229)	(15)	(244)
Preferred stock dividends	(2,644)	—	—	—	—	—	(2,644)	—	(2,644)
Common stock dividends	—	—	—	—	(19,984)	—	(19,984)	—	(19,984)
Distributions	—	—	—	—	—	—	—	(669)	(669)
Balance at June 30, 2017	$86,651	71,122,902	$708	$1,027,282	$(56,992)	$3,216	$1,060,865	$24,113	$1,084,978

	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Cumulative Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2016	$ —	55,598,684	$ 553	$ 722,722	$ (48,103)	$ (3,033)	$ 672,139	$ 21,605	$ 693,744
Issuance of common stock	—	10,350,000	103	182,574	—	—	182,677	—	182,677
Offering costs	—	—	—	(8,352)	—	—	(8,352)	—	(8,352)
Share-based compensation	—	71,650	1	964	—	—	965	996	1,961
Shares acquired to satisfy employee tax withholding requirements on vesting restricted stock	—	(11,681)	—	(204)	—	—	(204)	—	(204)
Conversion of units to common stock	—	27,079	—	287	—	—	287	(287)	—
Acquisition of real estate portfolio	—	—	—	—	—	—	—	125	125
Net income	—	—	—	—	13,799	—	13,799	470	14,269
Other comprehensive loss	—	—	—	—	—	(4,295)	(4,295)	(112)	(4,407)
Common stock dividends	—	—	—	—	(16,429)	—	(16,429)	—	(16,429)
Distributions	—	—	—	—	—	—	—	(600)	(600)
Balance at June 30, 2016	$ —	66,035,732	$ 657	$ 897,991	$ (50,733)	$ (7,328)	$ 840,587	$ 22,197	$ 862,784

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

REXFORD INDUSTRIAL REALTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$25,576	$14,269
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in income from unconsolidated real estate entities	(11)	(123)
Provision for doubtful accounts	629	814
Depreciation and amortization	28,114	23,824
Amortization of (below) above market lease intangibles, net	(318)	56
Accretion of loan origination fees	(150)	—
Deferred interest income on notes receivable	84	—
Loss on extinguishment of debt	22	—
Gain on sale of real estate	(19,237)	(11,563)
Amortization of debt issuance costs	563	485
Accretion of premium on notes payable	(94)	(118)
Equity based compensation expense	2,740	1,887
Straight-line rent	(1,952)	(2,017)
Change in working capital components:		
Rents and other receivables	(524)	(774)
Deferred leasing costs	(2,069)	(2,245)
Other assets	(2,364)	(48)
Accounts payable, accrued expenses and other liabilities	(1,768)	(1,119)
Tenant security deposits	680	1,171
Prepaid rents	1,359	(144)
Net cash provided by operating activities	31,280	24,355
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of investments in real estate	(240,447)	(228,131)
Capital expenditures	(16,883)	(15,305)
Acquisition related deposits	(2,250)	(400)
Distributions from unconsolidated real estate entities	11	—
Principal repayments of note receivable	6,000	—
Proceeds from sale of real estate	64,406	20,435
Net cash used in investing activities	(189,163)	(223,401)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net	118,354	174,439
Proceeds from notes payable	265,000	263,000
Repayment of notes payable	(203,234)	(178,690)
Debt issuance costs	(2,110)	(1,924)
Debt extinguishment costs	(193)	—
Dividends paid to preferred stockholders	(2,644)	—
Dividends paid to common stockholders	(18,643)	(15,020)
Distributions paid to common unitholders	(650)	(600)
Repurchase of common shares to satisfy employee tax withholding requirements	(404)	(204)
Net cash provided by financing activities	155,476	241,001
Increase in cash, cash equivalents and restricted cash	(2,407)	41,955

Cash, cash equivalents and restricted cash, beginning of period	15,525	5,201
Cash, cash equivalents and restricted cash, end of period	$13,118	$47,156
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of capitalized interest of $924 and $882 for the six months ended June 30, 2017 and 2016, respectively)	$8,073	$6,404
Supplemental disclosure of noncash investing and financing transactions:		
Capital expenditure accruals	$2,363	$1,278
Accrual of dividends	$10,642	$9,212
Accrual of offering costs	$—	$114

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

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REXFORD INDUSTRIAL REALTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization

Rexford Industrial Realty, Inc. is a self-administered and self-managed full-service real estate investment trust ("REIT") focused on owning and operating industrial properties in Southern California infill markets. We were formed as a Maryland corporation on January 18, 2013, and Rexford Industrial Realty, L.P. (the "Operating Partnership"), of which we are the sole general partner, was formed as a Maryland limited partnership on January 18, 2013. Through our controlling interest in our Operating Partnership and its subsidiaries, we own, manage, lease, acquire and develop industrial real estate principally located in Southern California infill markets, and, from time to time, acquire or provide mortgage debt secured by industrial property. As of June 30, 2017, our consolidated portfolio consisted of 139 properties with approximately 16.2 million rentable square feet. In addition, we currently manage 19 properties with approximately 1.2 million rentable square feet.

The terms "us," "we," "our," and the "Company" as used in these financial statements refer to Rexford Industrial Realty, Inc. and its subsidiaries (including our Operating Partnership).

Basis of Presentation

As of June 30, 2017, and December 31, 2016, and for the three and six months ended June 30, 2017 and 2016, the financial statements presented are the consolidated financial statements of Rexford Industrial Realty, Inc. and its subsidiaries, including our Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. The accompanying unaudited financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The interim financial statements should be read in conjunction with the consolidated financial statements in our 2016 Annual Report on Form 10-K and the notes thereto. Any references to the number of properties and square footage are unaudited and outside the scope of our independent registered public accounting firm's review of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

We consolidate all entities that are wholly owned and those in which we own less than 100% but control, as well as any variable interest entities in which we are the primary beneficiary. We evaluate our ability to control an entity and whether the entity is a variable interest entity and we are the primary beneficiary through consideration of the substantive terms of the arrangement to identify which enterprise has the power to direct the activities of a variable interest entity that most significantly impacts the entity's economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Investments in entities in which we do not control but over which we have the ability to exercise significant influence over operating and financial policies are presented under the equity method. Investments in entities that we do not control and over which we do not exercise significant influence are carried at the lower of cost or fair value, as appropriate. Our ability to correctly assess our influence and/or control over an entity affects the presentation of these investments in our consolidated financial statements.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include all cash and liquid investments with an initial maturity of three months or less. The carrying amount approximates fair value due to the short-term maturity of these investments.

Restricted Cash

Restricted cash is generally comprised of cash proceeds from property sales that are being held by qualified intermediaries for purposes of facilitating tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code ("1031 Exchange"). As of June 30, 2017, and December 31, 2016, we did not have a balance in restricted cash.

Notes Receivable

We record notes receivable at the unpaid principal balance, net of any deferred origination fees, purchase discounts or premiums and valuation allowances, as applicable. We amortize net deferred origination fees, which are comprised of loan fees collected from the borrower, and purchase discounts or premiums over the contractual life of the loan using the effective interest method and immediately recognize in income any unamortized balances if the loan is repaid before its contractual maturity.

On July 1, 2016, we made a $6.0 million mortgage loan secured by a 64,965 rentable square foot industrial property located in Rancho Cucamonga, California, that was subsequently repaid by the borrower on June 23, 2017. In connection with this origination, we collected a $0.3 million loan fee from the borrower. The loan bore interest at 10% per annum and had a stated maturity date of June 30, 2017. Additionally, the borrower had the option to defer up to $14 thousand of interest, otherwise payable per month, to be added to the principal to be paid in full on the maturity date. At the time of repayment, the outstanding principal balance on the loan was $6.2 million.

Investments in Real Estate

Acquisitions

On January 5, 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-01, Business Combinations - Clarifying the Definition of a Business ("ASU 2017-01'), which provides a new framework for determining whether transactions should be accounted for as acquisitions of assets or businesses. ASU 2017-01 clarifies 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 assets, the set of assets and activities is not a business. ASU 2017-01 also revises the definition of a business to include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, and early adoption is permitted.

Effective January 1, 2017, we early adopted ASU 2017-01. We evaluated the acquisitions that we completed during the six months ended June 30, 2017, and determined that under the new framework these transactions should be accounted for as asset acquisitions. See Note 3.

We evaluate each of our property acquisitions to determine whether the acquired set of assets and activities (collectively referred to as a "set") meets the definition of a business and will need to be accounted for as a business combination. A set would fail to qualify as a business if either (i) substantially all of the fair value of the gross assets acquired is concentrated in either a single identifiable asset or a group of similar identifiable assets or (ii) the set is lacking, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. An acquired process is considered substantive if (i) the process includes an organized workforce (or includes an acquired contract that provides access to an organized workforce), that is skilled, knowledgeable, and experienced in performing the process, (ii) the process cannot be replaced without significant cost, effort, or delay or (iii) the process is considered unique or scarce.

We expect that most of our property acquisitions will generally not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets or because the acquisition does not include a substantive process.

When we acquire a property that meets the business combination accounting criteria, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component on the acquisition date. The components

typically include land, building and improvements, tenant improvements, intangible assets related to above and below market leases, intangible assets related to in-place leases, debt and other assumed assets and liabilities. Acquisition related costs are expensed as incurred. Because of the timing or complexity of completing certain fair value adjustments, the initial purchase price allocation may be incomplete at the end of a reporting period, in which case we may record provisional purchase price allocation amounts based on information available at the acquisition date. Subsequent adjustments to provisional amounts are recognized during the measurement period, which cannot exceed one year from the date of acquisition.

For acquisitions that do not meet the business combination accounting criteria, we allocate the cost of the acquisition, which includes any associated acquisition costs, to the individual assets and liabilities assumed on a relative fair value basis. As there is no measurement period concept for an asset acquisition, the allocated cost of the acquired assets should be finalized in the period in which the acquisition occurred.

We determine the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. This “as-if vacant” value is estimated using an income, or discounted cash flow, approach that relies upon Level 3 inputs, which are unobservable inputs based on the Company’s assumptions about the assumptions a market participant would use. These Level 3 inputs include discount rates, capitalization rates, market rents and comparable sales data for similar properties. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. In determining the “as-if-vacant” value for the properties we acquired during the six months ended June 30, 2017, we used discount rates ranging from 6.25% to 9.50% and capitalization rates ranging from of 5.25% to 7.50%.

In determining the fair value of intangible lease assets or liabilities, we also consider Level 3 inputs. Acquired above- and below-market leases are valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases, if applicable. The estimated fair value of acquired in-place at-market tenant leases are the costs that would have been incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the value associated with leasing commissions, legal and other costs, as well as the estimated period necessary to lease such property that would be incurred to lease the property to its occupancy level at the time of its acquisition. In determining the fair value of acquisitions completed during the six months ended June 30, 2017, we used an estimated average lease-up period ranging from six to eighteen months.

The difference between the fair value and the face value of debt assumed in connection with an acquisition is recorded as a premium or discount and amortized to “interest expense” over the life of the debt assumed. The valuation of assumed liabilities is based on our estimate of the current market rates for similar liabilities in effect at the acquisition date.

Capitalization of Costs

We capitalize direct costs incurred in developing, renovating, rehabilitating and improving real estate assets as part of the investment basis. This includes certain general and administrative costs, including payroll, bonus and non-cash equity compensation of the personnel performing development, renovations and rehabilitation if such costs are identifiable to a specific activity to get the real estate asset ready for its intended use. During the development and construction periods of a project, we also capitalize interest, real estate taxes and insurance costs. We cease capitalization of costs upon substantial completion of the project, but no later than one year from cessation of major construction activity. If some portions of a project are substantially complete and ready for use and other portions have not yet reached that stage, we cease capitalizing costs on the completed portion of the project but continue to capitalize for the incomplete portion of the project. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred.

We capitalized interest costs of $0.5 million and $0.4 million during the three months ended June 30, 2017 and 2016, respectively, and $0.9 million and $0.9 million during the six months ended June 30, 2017 and 2016, respectively. We capitalized real estate taxes and insurance costs aggregating $0.3 million and $0.2 million during the three months ended June 30, 2017 and 2016, respectively, and $0.6 million and $0.4 million during the six months ended June 30, 2017 and 2016, respectively. We capitalized compensation costs for employees who provide construction services of

$0.5 million and $0.3 million during the three months ended June 30, 2017 and 2016, respectively, and $0.8 million and $0.5 million during the six months ended June 30, 2017 and 2016, respectively.

Depreciation and Amortization

Real estate, including land, building and land improvements, tenant improvements, furniture, fixtures and equipment and intangible lease assets and liabilities are stated at historical cost less accumulated depreciation and amortization, unless circumstances indicate that the cost cannot be recovered, in which case, the carrying value of the property is reduced to estimated fair value as discussed below in our policy with regards to impairment of long-lived assets. We estimate the depreciable portion of our real estate assets and related useful lives in order to record depreciation expense.

The values allocated to buildings, site improvements, in-place lease intangibles and tenant improvements are depreciated on a straight-line basis using an estimated remaining life of 10-30 years for buildings, 5-20 years for site improvements, and the shorter of the estimated useful life or respective lease term for in-place lease intangibles and tenant improvements.

As discussed above in—Investments in Real Estate—Acquisitions, in connection with property acquisitions, we may acquire leases with rental rates above or below the market rental rates. Such differences are recorded as an acquired lease intangible asset or liability and amortized to “rental income” over the remaining term of the related leases.

Our estimate of the useful life of our assets is evaluated upon acquisition and when circumstances indicate a change in the useful life has occurred, which requires significant judgment regarding the economic obsolescence of tangible and intangible assets.

Deferred Leasing Costs

We capitalize costs directly related to the successful origination of a lease. These costs include leasing commissions paid to third parties for new leases or lease renewals, as well as an allocation of compensation costs, including payroll, bonus and non-cash equity compensation of employees who spend time on lease origination activities. In determining the amount of compensation costs to be capitalized for these employees, allocations are made based on estimates of the actual amount of time spent working on successful leases in comparison to time spent on unsuccessful origination efforts. We capitalized compensation costs for these employees of $0.2 million and $0.1 million during the three months ended June 30, 2017 and 2016, respectively, and $0.4 million and $0.2 million during the six months ended June 30, 2017 and 2016, respectively.

Impairment of Long-Lived Assets

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of ASC Topic 360: Property, Plant, and Equipment, we assess the carrying values of our respective long-lived assets, including goodwill, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable.

Recoverability of real estate assets is measured by comparison of the carrying amount of the asset to the estimated future undiscounted cash flows. In order to review real estate assets for recoverability, we consider current market conditions as well as our intent with respect to holding or disposing of the asset. The intent with regards to the underlying assets might change as market conditions and other factors change. Fair value is determined through various valuation techniques; including discounted cash flow models, applying a capitalization rate to estimated net operating income of a property, quoted market values and third-party appraisals, where considered necessary. The use of projected future cash flows is based on assumptions that are consistent with estimates of future expectations and the strategic plan used to manage our underlying business. If our analysis indicates that the carrying value of the real estate asset is not recoverable on an undiscounted cash flow basis, we will recognize an impairment charge for the amount by which the carrying value exceeds the current estimated fair value of the real estate property.

Assumptions and estimates used in the recoverability analyses for future cash flows, discount rates and capitalization rates are complex and subjective. Changes in economic and operating conditions or our intent with respect to our investment that occur subsequent to our impairment analyses could impact these assumptions and result in future impairment of our real estate properties.

Investment in Unconsolidated Real Estate Entities

Investment in unconsolidated real estate entities in which we have the ability to exercise significant influence (but not control) are accounted for under the equity method of investment. Under the equity method, we initially record our investment at cost, and subsequently adjust for equity in earnings or losses and cash contributions and distributions.

Any difference between the carrying amount of these investments on the balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in income (loss) from unconsolidated real estate entities over the life of the related asset. Under the equity method of accounting, our net equity investment is reflected within the consolidated balance sheets, and our share of net income or loss from the joint venture is included within the consolidated statements of operations. Furthermore, distributions received from equity method investments are classified as either operating cash inflows or investing cash inflows in the consolidated statements of cash flows using the "nature of the distribution approach," in which each distribution is evaluated on the basis of the source of the payment. See Note 11.

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") commencing with our initial taxable year ended December 31, 2013. To qualify as a REIT, we are required (among other things) to distribute at least 90% of our REIT taxable income to our 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 we qualify for taxation as a REIT, we are generally not subject to corporate-level income tax on the earnings distributed currently to our stockholders. If we fail to qualify as a REIT in any taxable year, and were unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

In addition, we are subject to taxation by various state and local jurisdictions, including those in which we transact business or reside. Our non-taxable REIT subsidiaries, including our Operating Partnership, are either partnerships or disregarded entities for federal income tax purposes. Under applicable federal and state income tax rules, the allocated share of net income or loss from disregarded entities and flow-through entities such as partnerships is reportable in the income tax returns of the respective equity holders. Accordingly, no income tax provision is included in the accompanying consolidated financial statements for the three and six months ended June 30, 2017 and 2016.

We periodically evaluate our tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of June 30, 2017, and December 31, 2016, we have not established a liability for uncertain tax positions.

Derivative Instruments and Hedging Activities

FASB ASC Topic 815: Derivatives and Hedging ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, and whether we have 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. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 7.

Revenue Recognition

We recognize revenue from rent, tenant reimbursements and other revenue sources once all of the following criteria are met: persuasive evidence of an arrangement exists, the delivery has occurred or services rendered, the fee is fixed and determinable and collectability is reasonably assured. Minimum annual rental revenues are recognized in rental revenues on a straight-line basis over the term of the related lease. Rental revenue recognition commences when the tenant takes possession or controls the physical use of the leased space.

Estimated reimbursements from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, we perform final reconciliations on a lease-by-lease basis and bill or credit each tenant for any cumulative annual adjustments. Lease termination fees, which are included in rental income in the accompanying consolidated statements of operations, are recognized when the related lease is canceled and we have no continuing obligation to provide services to such former tenant.

Revenues from management, leasing and development services are recognized when the related services have been provided and earned.

The recognition of gains on sales of real estate requires us to measure the timing of a sale against various criteria related to the terms of the transaction, as well as any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, profit-sharing or leasing method. If the sales criteria have been met, we further analyze whether profit recognition is appropriate using the full accrual method. If the criteria to recognize profit using the full accrual method have not been met, we defer the gain and recognize it when the criteria are met or use the installment or cost recovery method as appropriate under the circumstances.

Valuation of Receivables

We may be subject to tenant defaults and bankruptcies that could affect the collection of outstanding receivables. In order to mitigate these risks, we perform credit reviews and analyses on prospective tenants before significant leases are executed and on existing tenants before properties are acquired. We specifically analyze aged receivables, customer credit-worthiness, historical bad debts and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. As a result of our periodic analysis, we maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. This estimate requires significant judgment related to the lessees’ ability to fulfill their obligations under the leases. We believe our allowance for doubtful accounts is adequate for our outstanding receivables for the periods presented. If a tenant is insolvent or files for bankruptcy protection and fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the net outstanding balances, which include amounts recognized as straight-line revenue not realizable until future periods.

Rents and other receivables, net and deferred rent receivable, net consisted of the following as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Rents and other receivables	$4,910	$ 5,565
Allowance for doubtful accounts	(2,266)	(2,816)
Rents and other receivables, net	$2,644	$ 2,749
Deferred rent receivable	$13,694	$ 11,903
Allowance for doubtful accounts	(66)	(30)
Deferred rent receivable, net	$13,628	$ 11,873

We recorded the following provision for doubtful accounts, including amounts related to deferred rents, as a reduction to rental revenues in our consolidated statements of operations for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Provision for doubtful accounts	$340	$368	$666	$833

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Equity Based Compensation

We account for equity based compensation in accordance with ASC Topic 718 Compensation - Stock Compensation. Total compensation cost for all share-based awards is based on the estimated fair market value on the grant date. For share-based awards that vest based solely on a service condition, we recognize compensation cost on a straight-line basis over the total requisite service period for the entire award. For share-based awards that vest based on a market or performance condition, we recognize compensation cost on a straight-line basis over the requisite service period of each separately vesting tranche. Forfeitures are recognized in the period in which they occur. See Note 12.

Equity Offering Costs

Underwriting commissions and offering costs related to our common stock issuances have been reflected as a reduction of additional paid-in capital. Underwriting commissions and offering costs related to our preferred stock issuance have been reflected as a direct reduction of the preferred stock balance.

Earnings Per Share

We calculate earnings per share (“EPS”) in accordance with ASC 260 - Earnings Per Share (“ASC 260”). Under ASC 260, nonvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and, therefore, are included in the computation of basic EPS pursuant to the two-class method. The two-class method determines EPS for each class of common stock and participating securities according to dividends declared (or accumulated) and their respective participation rights in undistributed earnings.

Basic EPS is calculated by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period.

Diluted EPS is calculated by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding determined for the basic EPS computation plus the effect of any dilutive securities. We include unvested shares of restricted stock and unvested LTIP units in the computation of diluted EPS by using the more dilutive of the two-class method or treasury stock method. We include unvested performance units as contingently issuable shares in the computation of diluted EPS once the market criteria are met, assuming that the end of the reporting period is the end of the contingency period. Any anti-dilutive securities are excluded from the diluted EPS calculation. See Note 13.

Segment Reporting

Management views the Company as a single reportable segment based on its method of internal reporting in addition to its allocation of capital and resources.

Recently Issued Accounting Pronouncements

Changes to GAAP are established by the FASB in the form of ASUs to the FASB’s Accounting Standards Codification. We consider the applicability and impact of all ASUs.

On May 10, 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”), which clarifies the scope of modification accounting for share-based compensation arrangements by providing guidance on the types of changes to the terms and conditions of share-based compensation awards to which an entity would be required to apply modification accounting under ASC 718. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, and early adoption is permitted. We are currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The ASU also requires lessees to classify leases as either finance or operating leases based on whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification is used to evaluate whether the lease expense should be recognized based on an effective interest method or on a straight-line basis over the term of the lease. Additionally, ASU 2016-02 will require that lessees and lessors capitalize, as initial direct costs, only these costs that are incurred due to the execution of a lease. As a result, compensation costs related to employees who spend time on lease

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origination activities, regardless of whether their time leads to a successful lease, will no longer be capitalized as initial direct costs and instead will be expensed as incurred. Lessors will continue to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and early adoption is permitted. ASU 2016-02 requires the use of a modified retrospective approach for all leases existing at, or entered into after, the beginning of the earliest period presented in the consolidated financial statements, with certain practical expedients available. We are currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 establishes principles for reporting the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity’s contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 does not apply to lease contracts within the scope of Leases (Topic 840) except to the extent the lease contract contains non-leasing components. For public entities, ASU 2014-09 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2017. Early application is permitted for annual periods beginning after December 15, 2016. ASU 2014-09 permits the use of either the full retrospective transition method or a modified retrospective transition method. We have formed an implementation project team and are currently working on the evaluation and implementation of the guidance as it relates to property management and leasing services revenue and other property-related revenues that may fall under the scope of ASU 2014-09. We expect to adopt ASU 2014-09 on January 1, 2018, using the modified retrospective transition method.

Adoption of New Accounting Pronouncements

On November 17, 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash (“ASU 2016-18”), which requires an entity’s reconciliation of the beginning of period and end of period amounts shown in the statement of cash flows to include with cash and cash equivalents, amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We early adopted ASU 2016-18, effective January 1, 2017, with retrospective application to our consolidated statements of cash flows. Accordingly, we have included restricted cash with cash and cash equivalents in our reconciliation of beginning of period and end of period amounts shown in our consolidated statements of cash flows for all periods presented. As a result of the adoption of ASU 2016-18, changes in restricted cash are no longer presented as a separate line item within cash flows from investing activities in our consolidated statements of cash flows since we have included restricted cash with cash and cash equivalents in our reconciliation of beginning and end of period amounts shown in our consolidated statements of cash flows. As a result, for the six months ended June 30, 2016, we had net cash used in investing activities of $223.4 million instead of $241.4 million as previously reported, since we had $18.0 million of restricted cash at June 30, 2016. This $18.0 million of restricted cash represented proceeds from the sale of two properties that were being held in a qualified intermediary account in anticipation of a 1031 Exchange.

On August 26, 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which addresses certain classification issues related to the statement of cash flows, including: (i) debt prepayment or debt extinguishment costs, (ii) contingent consideration payments made after a business combination and (iii) distributions received from equity method investees. ASU 2016-15 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. We early adopted ASU 2016-15, effective July 1, 2016, and elected, as part of the adoption, to classify distributions received from equity method investees under the “nature of the distribution approach,” in which each distribution is evaluated on the basis of the source of the payment and classified as either operating cash inflows or investing cash inflows. The adoption of ASU 2016-15 did not affect have a material impact on our consolidated statements of cash flows.

3. Investments in Real Estate

Acquisitions

The following table summarizes the wholly-owned industrial property we acquired during the six months ended June 30, 2017:

Property	Submarket	Date of Acquisition	Rentable Square Feet	Number of Buildings	Contractual Purchase Price[1] (in thousands)
28903 Avenue Paine[2]	Los Angeles - San Fernando Valley	2/17/2017	111,346	1	$ 17,060
2390 Ward Avenue[3]	Ventura	4/28/2017	138,700	1	16,499
Safari Business Center[4]	Inland Empire - West	5/24/2017	1,138,090	16	141,200
4175 Conant Street[5]	Los Angeles - South Bay	6/14/2017	142,593	1	30,600
5421 Argosy Avenue[5]	Orange County - West	6/15/2017	35,321	1	5,300
14820-14830 Carmenita Road[2]	Los Angeles - Mid-counties	6/30/2017	198,062	3	30,650
Total 2017 Wholly-Owned Property Acquisitions			1,764,112	23	$ 241,309

(1) Represents the gross contractual purchase price before prorations and closing costs. Does not include capitalized acquisition costs totaling $0.6 million.

(2) This acquisition was funded with available cash on hand and borrowings under our unsecured revolving credit facility.

(3) This acquisition was partially funded through a 1031 Exchange using $6.5 million of net cash proceeds from the sale of our property located at 9375 Archibald Avenue and borrowings under our unsecured revolving credit facility.

(4) This acquisition was partially funded through a 1031 Exchange using $39.7 million of net cash proceeds from the sale of our property located at 2535 Midway Drive, borrowings under our unsecured revolving credit facility and available cash on hand.

(5) This acquisition was funded with available cash on hand.

The following table summarizes the fair value of amounts allocated to each major class of asset and liability for the acquisitions noted in the table above, as of the date of each acquisition (in thousands):

	Total 2017 Acquisitions
Assets:	
Land	$ 107,350
Buildings and improvements	120,364
Tenant improvements	3,924
Acquired lease intangible assets[1]	12,867
Other acquired assets[2]	143
Total assets acquired	244,648
Liabilities:	
Acquired lease intangible liabilities[3]	2,687
Other assumed liabilities[2]	1,514
Total liabilities assumed	4,201
Net assets acquired	$ 240,447

(1) Represents in-place leases and above-market leases with weighted average amortization periods of 5.1 years and 11.2 years, respectively.

(2) Includes other working capital assets acquired and liabilities assumed, at the time of acquisition.

(3) Represents below-market leases with a weighted average amortization period of 3.2 years.

The following table sets forth the results of operations for the three and six months ended June 30, 2017, for the properties acquired during the six months ended June 30, 2017, included in the consolidated statements of operations from the date of acquisition (in thousands):

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Total revenues	$1,391	$1,391
Net income	$(262)	$(280)

The following table sets forth unaudited pro-forma financial information (in thousands) as if the closing of our acquisitions during the six months ended June 30, 2017, had occurred on January 1, 2016. These unaudited pro-forma results have been prepared for comparative purposes only and include certain adjustments, such as (i) increased rental revenues for the amortization of the net amount of above- and below-market rents acquired in the acquisitions, (ii) increased depreciation and amortization expenses as a result of tangible and intangible assets acquired in the acquisitions and (iii) increased interest expense for borrowings associated with these acquisitions. These pro-forma results have not been adjusted for property sales completed during the six months ended June 30, 2017. These unaudited pro-forma results do not purport to be indicative of what operating results would have been had the acquisitions actually occurred on January 1, 2016, and may not be indicative of future operating results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total revenues	$39,222	$34,134	$78,324	$65,170
Net income attributable to common stockholders	$18,664	$11,541	$22,748	$12,195
Net income attributable to common stockholders per share - basic	$0.27	$0.18	$0.34	$0.19
Net income attributable to common stockholders per share - diluted	$0.27	$0.18	$0.34	$0.19

Dispositions

The following table summarizes the property we sold during the six months ended June 30, 2017:

Property	Submarket	Date of Disposition	Rentable Square Feet	Contractual Sales Price(1) (in thousands)	Gain Recorded (in thousands)
9375 Archibald Avenue	Inland Empire West	3/31/2017	62,677	$ 6,875	$ 2,668
2535 Midway Drive	San Diego - Central	5/17/2017	373,744	$ 40,050	$ 15,974
2811 Harbor Boulevard	Orange County - Airport	6/28/2017	126,796	$ 18,700	$ 595
Total			563,217	$ 65,625	$ 19,237

(1) Represents the gross contractual sales price before commissions, prorations and other closing costs.

4. Intangible Assets

The following table summarizes our acquired lease intangible assets, including the value of in-place leases and above-market tenant leases, and our acquired lease intangible liabilities, including below-market tenant leases and above-market ground leases (in thousands):

	June 30, 2017	December 31, 2016
Acquired Lease Intangible Assets:		
In-place lease intangibles	$78,873	$ 68,234
Accumulated amortization	(43,633)	(37,648)
In-place lease intangibles, net	35,240	30,586
Above-market tenant leases	10,901	10,191
Accumulated amortization	(5,054)	(4,412)
Above-market tenant leases, net	5,847	5,779
Acquired lease intangible assets, net	$41,087	$ 36,365
Acquired Lease Intangible Liabilities:		
Below-market tenant leases	$(15,112)	$ (12,426)
Accumulated accretion	4,492	3,477
Below-market tenant leases, net	(10,620)	(8,949)
Above-market ground lease	(290)	(290)
Accumulated accretion	125	109
Above-market ground lease, net	(165)	(181)
Acquired lease intangible liabilities, net	$(10,785)	$ (9,130)

The following table summarizes the amortization related to our acquired lease intangible assets and liabilities for the reported periods noted below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
In-place lease intangibles(1)	$3,149	$3,402	$6,105	$6,288
Net above (below)-market tenant leases(2)	$(193)	$67	$(302)	$72
Above-market ground lease(3)	$(8)	$(8)	$(16)	$(16)

(1) The amortization of in-place lease intangibles is recorded to depreciation and amortization expense in the consolidated statements of operations for the periods presented.

(2) The amortization of net above (below)-market tenant leases is recorded as a decrease (increase) to rental revenues in the consolidated statements of operations for the periods presented.

(3) The accretion of the above-market ground lease is recorded as a decrease to property expenses in the consolidated statements of operations for the periods presented.

5. Notes Payable

The following table summarizes the balance of our indebtedness as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Principal amount	$564,242	$502,476
Less: unamortized discount and debt issuance costs(1)	(2,712)	(2,292)
Carrying value	$561,530	$500,184

(1) Excludes unamortized debt issuance costs related to our unsecured revolving credit facility, which are presented in the line item "Deferred loan costs, net" in the consolidated balance sheets.

The following table summarizes the components and significant terms of our indebtedness as of June 30, 2017, and December 31, 2016 (dollars in thousands):

	June 30, 2017		December 31, 2016				
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Principal Amount	Unamortized Discount and Debt Issuance Costs	Contractual Maturity Date	Stated Interest Rate[1]	Effective Interest Rate [2]
Secured Debt							
$60M Term Loan[3]	$59,282	$ (165)	$59,674	$ (204)	8/1/2019 [4]	LIBOR+1.90%	3.95 %
Gilbert/La Palma[5]	2,839	(141)	2,909	(145)	3/1/2031	5.125 %	5.41 %
12907 Imperial Highway[6]	5,121	115	5,182	180	4/1/2018	5.950 %	3.38 %
1065 Walnut Street	—	—	9,711	192	2/1/2019	N/A	N/A
Unsecured Debt							
$100M Term Loan Facility	100,000	(384)	100,000	—	2/14/2022	LIBOR+1.20% [7]	3.18 % [8]
Revolving Credit Facility	72,000	—	—	—	2/12/2021 [9]	LIBOR+1.10% [7][10]	2.32 %
$225M Term Loan Facility	225,000	(1,539)	225,000	(1,680)	1/14/2023	LIBOR+1.50% [7]	2.85 %
Guaranteed Senior Notes	100,000	(598)	100,000	(635)	8/6/2025	4.290 %	4.36 %
Total	$564,242	$ (2,712)	$502,476	$ (2,292)			

(1) Reflects the contractual interest rate under the terms of the loan, as of June 30, 2017.

(2) Reflects the effective interest rate as of June 30, 2017, which includes the effect of the amortization of discounts/premiums and debt issuance costs and the effect of interest rate swaps that are effective as of June 30, 2017.

(3) This term loan is secured by six properties. Beginning August 15, 2016, monthly payments of interest and principal are based on a 30-year amortization table. As of June 30, 2017, the interest rate on this variable-rate term loan has been effectively fixed through the use of two interest rate swaps, one of which is an amortizing swap. See Note 7 for details.

(4) One additional one-year extension available at the borrower's option.

(5) Monthly payments of interest and principal are based on a 20-year amortization table.

(6) Monthly payments of interest and principal are based on a 30-year amortization table, with a balloon payment at maturity.

(7) The LIBOR margin will range from 1.20% to 1.70% for the $100.0 million term loan facility, 1.10% to 1.50% for the revolving credit facility and 1.50% to 2.25% for the $225.0 million term loan facility depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value, or leverage ratio, which is measured on a quarterly basis.

(8) As of June 30, 2017, the interest on the $100.0 million term loan facility has been effectively fixed through the use of two interest rate swaps. See Note 7 for details.

(9) Two additional six-month extensions available at the borrower's option.

(10) The unsecured revolving credit facility is subject to an applicable facility fee which is calculated as a percentage of the total lenders' commitment amount, regardless of usage. The applicable facility fee will range from 0.15% to 0.30% depending upon our leverage ratio.

The following table summarizes the contractual debt maturities and scheduled amortization payments, excluding debt discounts/premiums and debt issuance costs, as of June 30, 2017, and does not consider extension options available to us as noted in the table above (in thousands):

July 1, 2017 - December 31, 2017	$526
2018	5,991
2019	58,266
2020	166
2021	72,175
Thereafter	427,118
Total	$564,242

Loan Repayment

On March 20, 2017, we repaid the $9.7 million outstanding balance on the 1065 Walnut Street mortgage loan in advance of the February 1, 2019 maturity date. In connection with the repayment, we incurred prepayment fees of $0.2 million which is included in loss on extinguishment of debt in the accompanying consolidated statements of operations. The loss on extinguishment of debt also includes the write-off of the unamortized debt premium of $0.2 million.

Amended Credit Agreement

On February 14, 2017, we amended our $300.0 million senior unsecured credit facility by entering into a second amended and restated credit agreement (the “Amended Credit Agreement”), which provides for a $450.0 million senior unsecured credit facility, comprised of a $350.0 million unsecured revolving credit facility (the "Amended Revolver") and a $100.0 million unsecured term loan facility (the "Amended Term Loan"). The Amended Revolver is scheduled to mature on February 12, 2021, and has two six-month extension options available, and the Amended Term Loan is scheduled to mature on February 14, 2022. Under the terms of the Amended Credit Agreement, we may request additional lender commitments up to an additional aggregate $550.0 million, which may be comprised of additional revolving commitments under the Amended Revolver, an increase to the Amended Term Loan, additional term loan tranches or any combination of the foregoing.

Interest on the Amended Credit Agreement, is generally to be paid based upon, at our option, either (i) LIBOR plus an applicable margin that is based upon our leverage ratio or (ii) the Base Rate (which is defined as the highest of (a) the federal funds rate plus 0.50%, (b) the administrative agent’s prime rate or (c) the Eurodollar Rate plus 1.00%) plus an applicable margin that is based on our leverage ratio. The margins for the Amended Revolver range in amount from 1.10% to 1.50% for LIBOR-based loans and 0.10% to 0.50% for Base Rate-based loans, depending on our leverage ratio. The margins for the Amended Term Loan range in amount from 1.20% to 1.70% for LIBOR-based loans and 0.20% to 0.70% for Base Rate-based loans, depending on our leverage ratio.

If we attain one additional investment grade rating by one or more of Standard & Poor’s or Moody’s Investor Services to complement our current investment grade Fitch rating, we may elect to convert the pricing structure under the Amended Credit Agreement to be based on such rating. In that event, the margins for the Amended Revolver will range in amount from 0.825% to 1.55% for LIBOR-based loans and 0.00% to 0.55% for Base Rate-based loans, depending on such rating. The margins for the Amended Term Loan will range in amount from 0.90% to 1.75% for LIBOR-based loans and 0.00% to 0.75% for Base Rate-based loans, depending on such rating.

In addition to the interest payable on amounts outstanding under the Amended Revolver, we are required to pay an applicable facility fee, based upon our leverage ratio, on each lender's commitment amount under the Amended Revolver, regardless of usage. The applicable facility fee will range in amount from 0.15% to 0.30%, depending on our leverage ratio. In the event that we convert the pricing structure to be based on an investment-grade rating, the applicable facility fee will range in amount from 0.125% to 0.30%, depending on such rating.

The Amended Credit Agreement is guaranteed by the Company and by substantially all of the current and to-be-formed subsidiaries of the Operating Partnership that own an unencumbered property. The Amended Credit Agreement is not secured by the Company’s properties or by equity interests in the subsidiaries that hold such properties.

The Amended Revolver and the Amended Term Loan may be voluntarily prepaid in whole or in part at any time without premium or penalty. Amounts borrowed under the Amended Term Loan and repaid or prepaid may not be reborrowed.

The Amended Credit Facility contains usual and customary events of default including defaults in the payment of principal, interest or fees, defaults in compliance with the covenants set forth in the Amended Credit Facility and other loan documentation, cross-defaults to certain other indebtedness, and bankruptcy and other insolvency defaults. If an event of default occurs and is continuing under the Amended Credit Facility, the unpaid principal amount of all outstanding loans, together with all accrued unpaid interest and other amounts owing in respect thereof, may be declared immediately due and payable.
On June 30, 2017, we had $72.0 million outstanding under the Amended Revolver, leaving $278.0 million available for additional borrowings.
Debt Covenants
The Amended Credit Facility, the $225 million unsecured term loan facility (the “$225 Million Term Loan Facility”) and the $100 million unsecured guaranteed senior notes (the “$100 Million Notes”), all include a series of financial and other covenants that we must comply with, including the following covenants which are tested on a quarterly basis:

- Maintaining a ratio of total indebtedness to total asset value of not more than 60%;
- For the Amended Credit Facility and the $225 Million Term Loan Facility, maintaining a ratio of secured debt to total asset value of not more than 45%;
- For the $100 Million Notes, maintaining a ratio of secured debt to total asset value of not more than 40%;
- Maintaining a ratio of total secured recourse debt to total asset value of not more than 15%;
- Maintaining a minimum tangible net worth of at least the sum of (i) $760,740,750, and (ii) an amount equal to at least 75% of the net equity proceeds received by the Company after September 30, 2016;
- Maintaining a ratio of adjusted EBITDA (as defined in each of the loan agreements) to fixed charges of at least 1.50 to 1.0;
- Maintaining a ratio of total unsecured debt to total unencumbered asset value of not more than 60%; and
- Maintaining a ratio of unencumbered NOI (as defined in each of the loan agreements) to unsecured interest expense of at least 1.75 to 1.0.

The Amended Credit Facility, the $225 Million Term Loan Facility and the $100 Million Notes also provide that our distributions may not exceed the greater of (i) 95.0% of our funds from operations or (ii) the amount required for us to qualify and maintain our status as a REIT and avoid the payment of federal or state income or excise tax in any 12-month period.
Additionally, subject to the terms of the $100 Million Notes, upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, make-whole payment amount, or interest under the $100 Million Notes, (ii) a default in the payment of certain of our other indebtedness, (iii) a default in compliance with the covenants set forth in the Notes agreement, and (iv) bankruptcy and other insolvency defaults, the principal and accrued and unpaid interest and the make-whole payment amount on the outstanding Notes will become due and payable at the option of the purchasers.
Our $60.0 million term loan contains a financial covenant that is tested on a quarterly basis, which requires us to maintain a minimum Debt Service Coverage Ratio (as defined in the term loan agreement) of at least 1.10 to 1.00.
We were in compliance with all of our required quarterly debt covenants as of June 30, 2017.

6. Operating Leases

We lease space to tenants primarily under non-cancelable operating leases that generally contain provisions for a base rent plus reimbursement for certain operating expenses. Operating expense reimbursements are reflected in the consolidated statements of operations as tenant reimbursements.
Future minimum base rent under operating leases as of June 30, 2017, is summarized as follows (in thousands):

Twelve months ended June 30,	
2018	$119,416
2019	102,034
2020	83,231
2021	60,653
2022	39,417
Thereafter	97,154
Total	$501,905

The future minimum base rent in the table above excludes tenant reimbursements, amortization of adjustments for deferred rent receivables and the amortization of above/below-market lease intangibles.

7. Interest Rate Swaps

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing and duration of our known or expected cash payments principally related to our borrowings.

Derivative Instruments

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional value. We do not use derivatives for trading or speculative purposes.

The effective portion of the change in fair value of derivatives designated and qualifying as cash flow hedges is initially recorded in accumulated other comprehensive income/(loss) (“AOCI”) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is immediately recognized in earnings.

The following table sets forth a summary of our interest rate swaps at June 30, 2017 and December 31, 2016 (dollars in thousands):

				Fair Value		Current Notional Value[1]	
Derivative Instrument	Effective Date	Maturity Date	Interest Strike Rate	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Assets[2]:							
Interest Rate Swap	2/14/2018	1/14/2022	1.349%	$2,588	$ 3,245	$—	$ —
Interest Rate Swap	8/14/2018	1/14/2022	1.406%	$1,811	$ 2,349	$—	$ —
Liabilities[3]:							
Interest Rate Swap	1/15/2015	2/15/2019	1.826%	$175	$ 338	$30,000	$ 30,000
Interest Rate Swap	7/15/2015	2/15/2019	2.010%	$253	$ 440	$29,282	$ 29,674
Interest Rate Swap	8/14/2015	12/14/2018	1.790%	$255	$ 529	$50,000	$ 50,000
Interest Rate Swap	2/16/2016	12/14/2018	2.005%	$411	$ 738	$50,000	$ 50,000

(1) Represents the notional value of swaps that are effective as of the balance sheet date presented.

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(2) The fair value of these interest rate swaps is included in the line item “Interest rate swap asset” in the accompanying consolidated balance sheets.

(3) The fair value of these interest rate swaps is included in the line item “Interest rate swap liability” in the accompanying consolidated balance sheets.

Derivative instruments that are subject to master netting arrangements and qualify for net presentation in the consolidated balance sheets are presented on a gross basis in the consolidated balance sheets as of June 30, 2017 and December 31, 2016. As of June 30, 2017, if we had recognized these derivative instruments on a net basis, we would have reported an interest rate swap asset of $3.7 million and an interest rate swap liability of $0.4 million, which represent the net balances after the effect of offsetting with counterparties where we had both derivative assets and derivative liabilities.

The following table sets forth the impact of our interest rate swaps on our consolidated statements of operations for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Rate Swaps in Cash Flow Hedging Relationships:				
Amount of loss recognized in AOCI on derivatives (effective portion)	$(1,358)	$(3,243)	$(1,054)	$(5,501)
Amount of loss reclassified from AOCI into earnings under “Interest expense” (effective portion)	$(362)	$(593)	$(810)	$(1,094)
Amount of gain (loss) recognized in earnings under “Interest expense” (ineffective portion and amount excluded from effectiveness testing)	$—	$—	$—	$—

During the next twelve months, we estimate that an additional $0.8 million will be reclassified from AOCI as an increase to interest expense.

Credit-risk-related Contingent Features

Certain of our agreements with our derivative counterparties contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender within a specified time period, then we could also be declared in default on its derivative obligations.

Certain of our agreements with our derivative counterparties contain provisions where if a merger or acquisition occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

8. Fair Value Measurements

We have adopted FASB Accounting Standards Codification Topic 820: Fair Value Measurements and Disclosure (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 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 are 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.

Recurring Measurements – Interest Rate Swaps

Currently, we use interest rate swap agreements to manage our interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves.

To comply with the provisions of ASC 820, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. However, as of June 30, 2017, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, we have determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below sets forth the estimated fair value of our interest rate swaps as of June 30, 2017 and December 31, 2016, which we measure on a recurring basis by level within the fair value hierarchy (in thousands).

	Fair Value Measurement Using			
	Total Fair Value	Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Interest Rate Swap Asset	$4,399	$ —	$ 4,399	$ —
Interest Rate Swap Liability	$(1,094)	$ —	$ (1,094)	$ —
December 31, 2016				
Interest Rate Swap Asset	$5,594	$ —	$ 5,594	$ —
Interest Rate Swap Liability	$(2,045)	$ —	$ (2,045)	$ —

Financial Instruments Disclosed at Fair Value

The carrying amounts of cash and cash equivalents, rents and other receivables, other assets, accounts payable, accrued expenses and other liabilities, and tenant security deposits approximate fair value because of their short-term nature.

The fair value of our notes payable was estimated by calculating the present value of principal and interest payments, using currently available market rates, adjusted with a credit spread, and assuming the loans are outstanding through contractual maturity date.

The table below sets forth the carrying value and the estimated fair value of our notes payable as of June 30, 2017 and December 31, 2016 (in thousands):

	Fair Value Measurement Using				
Liabilities	Total Fair Value	Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value
Notes Payable at:					