Equity Commonwealth
Form 10-K
February 16, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR

o 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 2100, Chicago, IL	60606
(Address of Principal Executive Offices)	(Zip Code)

(312) 646-2800
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class	Name of Each Exchange On Which Registered
Common Shares of Beneficial Interest	New York Stock Exchange
6 1/2% Series D Cumulative Convertible Preferred Shares of Beneficial Interest	New York Stock Exchange
5.75% Senior Notes due 2042	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
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 ý No o
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 ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting common shares of beneficial ownership, $0.01 par value, or common shares, of the registrant held by non-affiliates was $3.6 billion based on the $29.13 closing price per common share on the New York Stock Exchange on June 30, 2016.

Number of registrant’s common shares of beneficial interest, $0.01 par value per share, outstanding as of February 13, 2017: 124,064,195.

DOCUMENTS INCORPORATED BY REFERENCE

Certain Information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to the definitive Proxy Statement for the 2017 Annual Meeting of Shareholders, which Equity Commonwealth intends to file no later than 120 days after the end of its fiscal year ended December 31, 2016, or our definitive Proxy Statement.

FORWARD LOOKING STATEMENTS

Some of the statements contained in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the federal securities laws. Any forward-looking statements contained in this Annual Report on Form 10-K are intended to be made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions are forward-looking statements. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “ “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this Annual Report on Form 10-K reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, see the section entitled “Risk Factors” in this Annual Report on Form 10-K.

EQUITY COMMONWEALTH
2016 FORM 10-K ANNUAL REPORT

Table of Contents

EXPLANATORY NOTE

References in this Annual Report on Form 10-K to the Company, EQC, we, us or our, refer to Equity Commonwealth and its consolidated subsidiaries as of December 31, 2016, unless the context indicates otherwise.

PART I

Item 1. Business.

The Company. We are an internally managed and self-advised real estate investment trust, or REIT, engaged in the ownership and operation primarily of office buildings throughout the United States. We were formed in 1986 under Maryland law and we have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code).

On November 10, 2016, we converted to what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT, structure. In connection with this conversion, the Company contributed substantially all of its assets to EQC Operating Trust, a Maryland real estate investment trust through which the Company conducts its business (the Operating Trust), and the Operating Trust assumed substantially all of the Company's liabilities pursuant to a contribution and assignment agreement between the Company and the Operating Trust.

The Company now conducts and intends to continue to conduct substantially all of its activities through the Operating Trust. The Company beneficially owned, directly and indirectly, 100.0% of the outstanding shares of beneficial interest, designated as units, in the Operating Trust (OP Units) as of December 31, 2016 and the Company is the sole trustee of the Operating Trust. As the sole trustee, the Company generally has the exclusive power under the declaration of trust of the Operating Trust to manage and conduct the business of the Operating Trust, subject to certain limited approval and voting rights of other holders of OP Units that may be admitted in the future.

At December 31, 2016, our portfolio included 33 properties, one land parcel and one property taken out of a service which is now classified as a land parcel, with a combined 16.1 million square feet for a total investment of $2.9 billion at cost and a depreciated book value of $2.1 billion. After our new Board of Trustees was elected in 2014, we brought on new executive officers and employees while transitioning from external management to internal management, after which we undertook a comprehensive review of our portfolio and our operations and developed a strategy that focused on disposing of a significant portion of our assets to reshape our portfolio to higher quality properties in better, long-term markets. In 2014, we sold 14 properties with a combined 2.8 million square feet for an aggregate gross sales price of $215.9 million, excluding closing costs and mortgage debt repayments, and our entire stake of common shares of Select Income REIT and its consolidated subsidiaries (SIR) for $704.8 million. Since that time, we have disposed of 121 properties and one land parcel through December 31, 2016, with a combined 26.9 million square feet for an aggregate gross sales price of $3.3 billion, excluding closing costs. As a result of these dispositions, we have concentrated our portfolio, exiting 90 cities, 17 states and Australia.

We remain focused on creating value through proactive asset management and improving operating results, while evaluating opportunities to invest capital in high-quality assets in favorable markets that offer a compelling risk-reward profile. We have generated significant proceeds from dispositions and have a cash balance of $2.1 billion as of December 31, 2016. The set of opportunities that we pursue in the future may include office as well as other property types in order to create a foundation for long-term growth.

As of December 31, 2016, we had 58 full-time employees. Our principal executive offices are located at Two North Riverside Plaza, Suite 2100, Chicago, Illinois 60606, and our telephone number is (312) 646-2800.

Policies with Respect to Certain Activities

The discussion below sets forth certain additional information regarding our investment, repositioning, disposition and financing policies. These policies are established by our Board of Trustees and may be changed by our Board of Trustees at any time without shareholder approval.

Investment Policies. In evaluating potential investments and asset sales, we consider various factors, including but not limited to the following:

- the historical and projected rents received and likely to be received from the property;

1

- the historical and expected operating expenses, including real estate taxes, incurred and expected to be incurred at the property;
- the growth, tax and regulatory environments of the market in which the property is located;
- the quality, experience and credit worthiness of the property's tenants;
- occupancy and demand for similar properties in the same or nearby markets;
- the construction quality, physical condition and design of the property, and expected capital expenditures that may be needed to be made to the property;
- the location and type of property; and
- the pricing of comparable properties as evidenced by recent market sales.

We have no policies which specifically limit the percentage of our assets which may be invested in any individual property, in any one type of property, in properties in one geographic area, in properties leased to any one tenant, in properties leased to an affiliated group of tenants, in real estate joint ventures, or in participating, or convertible or other types of mortgages. Further, we have in the past provided seller financing for properties we have sold and may do so again in the future.

In the past, we have considered the possibility of entering into mergers or strategic combinations with other companies. We may undertake such considerations in the future.

Office Repositioning Strategy. In December of 2016, our Board of Trustees adopted an office repositioning strategy to own and acquire, at a discount to replacement cost, high-quality multi-tenant assets in markets and sub-markets with favorable long-term supply and demand fundamentals. Our efforts in the office sector will primarily be focused on larger buildings in central business districts and major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply.

Disposition Strategy. Prior to the adoption of the office repositioning strategy in December of 2016, we pursued and successfully implemented a disposition strategy adopted by our Board of Trustees. This plan resulted from a comprehensive review of our portfolio and operations after our transition from external management to internal management in 2014. To reshape our portfolio to higher quality assets, we sought to dispose of properties that had one or more of the following attributes:

- assets that did not offer an opportunity to create a competitive advantage;
- assets that were less than 150,000 square feet;
- assets that were not office buildings;
- assets that were not located in the U.S.; or
- assets that produced a low cash yield or required significant capital expenditures.

Disposition decisions were made based on a number of factors including those set forth above and the following:

- the proposed sale price; and
- the existence of alternative sources, uses or needs for capital.

Financing Policies. Our credit agreement and our debt indenture and its supplements contain financial covenants that, among other things, restrict our ability to incur indebtedness and require us to maintain certain financial ratios and a minimum net worth. Our Board of Trustees may determine to seek additional capital through equity offerings, debt financings, retention of cash flows in excess of distributions to shareholders or a combination of these methods. Some of our properties are encumbered by mortgages. To the extent that our Board of Trustees decides to obtain additional debt financing, we may do so on an unsecured basis or a secured basis, subject to limitations in existing financing or other contractual arrangements; we may seek to obtain other lines of credit or to issue securities senior to our common and/or preferred shares, including preferred shares or debt securities which may be convertible into common shares or be accompanied by warrants to purchase common shares; or we may engage in transactions which involve a sale or other conveyance of properties to affiliated or unaffiliated entities. We may finance acquisitions by an exchange of properties, by borrowing under our credit facility, by assuming outstanding mortgage debt on the acquired properties, by the issuance of additional equity or debt securities or by using retained cash flow from operations which may exceed our earnings. The proceeds from any of our financings may be used to pay distributions, to provide working capital, to refinance existing indebtedness or to finance acquisitions and expansions of existing or new properties. We may from time to time re-evaluate and modify our financing policies in light of then current market conditions, relative availability and costs of debt and equity capital, the changing values of properties, growth and acquisition opportunities and other factors, and we may increase or decrease our ratio of debt to total capitalization.

Competition. Investing in and operating real estate is a highly competitive business. We compete against other REITs, numerous financial institutions, individuals and public and private companies who are actively engaged in this business. Also, we compete for tenants and investments based on a number of factors including pricing, underwriting criteria and reputation. Our ability to successfully compete is also impacted by economic and population trends, availability of acceptable investment opportunities, our ability to negotiate beneficial leasing and investment terms, availability and cost of capital and new and existing laws and regulations. Some of our competitors are dominant in selected geographic markets, including in markets in which we operate. Many of our competitors have greater financial and other resources than we have.

For additional information on competition and the risks associated with our business, please see "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K.

Environmental and Climate Change Matters. Under various federal, state and local laws related to environmental, health and safety matters, owners and operators, including tenants of real estate may be subject to liabilities resulting from the presence of hazardous substances, waste or petroleum products at, on, under, or emanating from such property, including costs for investigating and remediating or removing hazardous substances present at or migrating from such properties, liabilities for property damage or personal injuries, natural resource damages, and costs and losses arising from property use restrictions or diminution in value. We, or our tenants, also may incur liability for failing to comply with environmental, health and safety laws. We do not believe that there are environmental conditions or issues at any of our properties that have had or will have a material adverse effect on us. However, no assurances can be given that conditions or issues are not present at our properties or that costs we may be required to incur in the future to remediate contamination or comply with environmental, health and safety laws will not have a material adverse effect on our business or financial condition.

We estimate the cost to remove hazardous substances or address environmental issues at some of our properties based in part on environmental surveys conducted on our properties.

Some of our properties have been or may be impacted by releases of hazardous substances or petroleum products. Such contamination may arise from a variety of sources, including historic uses of our properties for commercial or industrial purposes, spills of such materials at adjacent properties, or releases from tanks used on our properties to store petroleum or hazardous substances. In addition, certain of our properties are on sites upon which or are adjacent to or near other properties upon which others, including former owners or tenants, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances. Though we have reviewed these and our other properties for potential environmental liabilities, we cannot assure that we have identified all potential environmental liabilities.

Certain of our buildings contain asbestos. We believe any asbestos in our buildings is contained in accordance with current regulations. If we remove the asbestos or renovate or demolish these properties, certain environmental regulations govern the manner in which the asbestos must be handled and removed, which could result in increased costs.

For more information regarding environmental matters and their possible adverse impact on us, see "Risk Factors—Risks Related to Our Business—We could incur significant costs and liabilities with respect to environmental matters" in Part I, Item 1A of this Annual Report on Form 10-K.

The current political debate about climate change has resulted in various treaties, laws and regulations which are intended to limit carbon emissions. We believe these laws being enacted or proposed may cause energy costs at our properties to increase, but we do not expect the direct impact of these increases to be material to our results of operations because the increased costs either would be the responsibility of our tenants directly or in large part may be passed through by us to our tenants as additional lease payments. Although we do not believe it is likely in the foreseeable future, laws enacted to mitigate climate change may make some of our buildings obsolete or cause us to make material investments in our properties which could materially and adversely affect our financial condition. We continuously study ways to improve the energy efficiency at all of our properties. For more information regarding climate change matters and their possible adverse impact on us, see "Risk Factors—Risks Related to Our Business—We may be adversely affected by laws, regulations or other issues related to climate change" in Part I, Item 1A of this Annual Report on Form 10-K.

Information About Industry Segments

Our primary business is the ownership and operation of office properties, and we account for the operations of all our properties in one reporting segment, as further described in Note 17 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Information About Geographic Areas

As of December 31, 2016 and 2015, all of our assets were located in the United States. We owned assets in Australia prior to the sale of these assets in June 2015. As of December 31, 2014, we had assets in Australia of $252.0 million. For the years ended December 31, 2015 and 2014, we recognized revenues in Australia of $12.7 million and $30.1 million, respectively.

Internet Website

Our internet website address is www.eqcre.com. Copies of our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance committees are posted on our website and may be obtained free of charge by writing to our Secretary, Equity Commonwealth, Two North Riverside Plaza, Suite 2100, Chicago, Illinois 60606. We make available, free of charge, on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after these forms are filed with, or furnished to, the SEC. Any shareholder or other interested party who desires to communicate with our Board of Trustees, or our non-management Trustees, individually or as a group, may do so by contacting our investor relations department through our website. Our website address is included several times in this Annual Report on Form 10-K as a textual reference only and the information on the website is not incorporated by reference into this Annual Report on Form 10-K.

RISK FACTORS

Item 1A. Risk Factors.

Our business faces many risks. The risks described below may not be the only risks we face but are the risks we know of that we believe may be material at this time. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer and the trading price of our securities could decline. Investors and prospective investors should consider the following risks and the information contained under the heading "Forward Looking Statements" before deciding whether to invest in our securities.

Risks Related to Our Business

We may not be successful in repositioning our portfolio, which may reduce the size of our business and negatively affect our financial condition or results of operations.

We are focused on increasing the Company's exposure to high-quality, multi-tenant assets in markets with favorable long-term supply and demand fundamentals. Although we are seeking to reinvest the capital we have received from dispositions in a manner consistent with our office repositioning strategy, we cannot provide any assurances that we will be successful. During the time that we are looking for reinvestment opportunities, our financial condition and results of operations may be materially and adversely affected. While we are looking for reinvestment opportunities, our operating income is likely to be reduced, which may adversely affect our results of operations or decrease amounts available to be distributed to shareholders. Prior to any investment of proceeds from our completed dispositions, the market price of our common shares may fluctuate or decrease as a result of investors’ perceptions of our ability to successfully capitalize on strategic opportunities in order to reposition our portfolio.

The ability of our management team to implement this repositioning strategy depends substantially on identifying and completing dispositions and acquisitions that meet our criteria. Specifically, our management team must successfully identify and underwrite acquisitions that strengthen and augment (or establish) the Company’s presence in markets that meet our criteria and acquire applicable properties at favorable prices in order to successfully deploy the capital received from the dispositions that have occurred in recent years and from any future dispositions. We are seeking to reinvest capital received from dispositions we complete but cannot provide any assurances that we will be successful. In addition, even if we are ultimately successful, it may take a long period of time before we are able to effectively implement our repositioning strategy.

Our office repositioning strategy may require dispositions on unfavorable terms or that result in expenses or reputational harm.
Our current business plan focuses on owning larger office buildings in central business districts and major urban areas in markets and sub-markets with favorable long-term supply and demand fundamentals. In order to execute this strategy, we will need to selectively dispose of certain assets, hold other assets and acquire new assets. We cannot be assured that we will be able to find attractive sale opportunities for assets we wish to dispose of in order to execute our repositioning strategy or that any sale will be completed in a timely manner, if at all. Our ability to continue to sell certain of our properties, and the prices we receive upon any such sales, may be negatively affected by many factors. In particular, these factors could arise from weakness in or the lack of an established market for a property, the illiquid nature of real estate assets, changes in the financial condition or prospects of prospective purchasers, a limited number of prospective purchasers in certain markets, increase in the cost of or lack of availability of debt, the number of competing properties on the market, a deterioration in current local, national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. In addition, provisions of the Code relating to REITs may limit our ability to sell properties. See risk factor below "Risks Related to Our Taxation as a REIT—The tax on "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for U.S. federal income tax purposes." For these reasons, we may be unable to sell certain of our properties for an extended period of time or at all, our business plan to sell certain of our properties may not succeed, and we may incur expenses and reputational harm.

We may be unable to identify and complete acquisitions consistent with our repositioning strategy on favorable terms or at all, which may inhibit our growth and have a material adverse effect on us.

We are evaluating the market of available properties and businesses and may acquire additional properties and businesses consistent with our office repositioning strategy. Our ability to acquire properties and businesses on favorable terms is subject to the following significant risks:

- we may be unable to identify attractive acquisition opportunities that satisfy the criteria of our repositioning strategy;
- we may be unable to acquire a desired property or business because of competition from other real estate investors with significant resources and/or access to capital, including both publicly traded REITs and institutional investment funds;
- we may experience conditions which delay or preclude the completion of acquisitions;
- even if we are able to acquire a desired property or business, competition from other potential acquirers may significantly increase the purchase price or result in other less favorable terms;
- even if we enter into agreements for the acquisition of a desired property or business, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction, and we may incur significant expenses for properties or businesses we never actually acquire;
- we may be unable to finance acquisitions on favorable terms or at all; and
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of environmental contamination, claims by customers, vendors or other persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Any inability to complete property or business acquisitions on favorable terms or at all may result in our inability to successfully implement our repositioning strategy, which could have a material adverse effect on us.

We may encounter unanticipated difficulties relating to acquired properties, which may inhibit our growth and have a material adverse effect on us.

Even if we are able to make acquisitions on favorable terms, we might encounter unanticipated difficulties and expenditures relating to any acquired properties. Newly acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. We might never realize the anticipated benefits of our acquisitions. Notwithstanding pre-acquisition due diligence, we do not believe that it is possible to fully understand a property before it is owned and operated for an extended period of time. For example, we could acquire a property that contains undisclosed defects in design or construction. In addition, after our acquisition of a property, the market in which the acquired property is located may experience unexpected changes that adversely affect the property's value. The occupancy of properties that we acquire may decline during our ownership, and rents that are in effect at the time a property is acquired may decline thereafter. Also, our property operating costs for acquisitions may be higher than we anticipate and acquisitions of properties may not yield the

returns we expect and, if financed using debt or new equity issuances, may result in shareholder dilution. For these reasons, among others, our business plan to acquire additional properties may not succeed or may cause us losses.
If we are unable to identify attractive opportunities to redeploy the capital received from the dispositions that occurred in recent years and any future dispositions, we may sell all of our remaining assets and wind down, liquidate or dissolve our Company, which may be a lengthy process, yield unexpected results and diminish or delay any potential distributions to our shareholders.

We are seeking opportunities to reinvest capital received from dispositions, but we cannot provide any assurances that we will be successful in making such investments. We are actively evaluating various strategies and one possibility is to decide to sell all or substantially all of our remaining assets and liquidate or sell the Company. No such decision has been made as of the date of this filing and we cannot predict the timing of making any such decision. In the event of a wind down, liquidation or dissolution of the Company, holders of our common shares may not realize the return on investment expected at the time they purchased our common shares.

Our reliance upon CBRE, Inc., or CBRE, for third party property management may have a negative effect on our financial condition and results of operations.

We have engaged CBRE to provide property management services for substantially all of our properties pursuant to a master property management agreement. The successful operation and management of our properties requires significant coordination between us and CBRE. Additionally, since the expiration of the initial term of our agreement with CBRE in September 2016, CBRE can terminate the property management agreement, as a whole or as to any one or more of our properties, without cause upon providing three months' notice, and we are permitted to terminate the property management agreement, as a whole or as to any one or more of our properties, without cause upon 60 days' notice. If we are unable to successfully coordinate with CBRE with respect to property management or the property management agreement with CBRE is terminated, in whole or in part, our operations could be disrupted, which may have a negative effect on our financial condition and results of operations.

We are currently dependent upon economic conditions relating to the commercial office real estate market, and adverse economic or regulatory developments in this market could materially and adversely affect our results of operations.
Our business is influenced by the economic and regulatory environment (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation). Such adverse developments could materially reduce the value of our real estate portfolio and our rental revenues, and thus materially and adversely affect our ability to service current debt and to pay distributions to shareholders. If economic conditions in our market worsen or fail to grow at a sufficient pace, we may experience reduced demand from tenants for our properties. A significant economic downturn in our market could adversely affect our results of operations.

Future impairment charges could have a material adverse effect on our results of operations in the period for which the charge occurs.

We periodically evaluate the recoverability of the carrying values of each of the real estate assets that comprise our portfolio. In undertaking our portfolio reviews, we comprehensively review our portfolio to evaluate whether there are any indicators, including property operating performance and general market conditions, that the value of the real estate properties (including any related amortizable intangible assets or liabilities) may not be recoverable. In 2014, we determined that due to the shortening of the expected periods of ownership of a number of our assets, as a result of the disposition plan, it was necessary to reduce the net book value of a portion of the real estate assets in our portfolio to their estimated fair values. As a result, we recorded a loss on asset impairment for 34 properties of $167.1 million in 2014, to reflect the estimated fair values of those real estate assets in our portfolio that failed the recoverability test because their net book values exceeded their fair values. We reduced the aggregate carrying value of these properties from $581.7 million to their estimated fair value of $414.6 million. We recorded impairment charges of $58.5 million and $17.2 million during the years ended December 31, 2016 and 2015, respectively, based upon updated market information in accordance with our impairment analysis procedures. There can be no assurance that we will not take additional charges in the future related to the impairment of our assets.

As part of the evaluation of our portfolio, we compare the current carrying value of the asset to the estimated undiscounted cash flows that are directly associated with the use and ultimate disposition of the asset. Our estimated cash flows are based on several key assumptions, including rental rates, costs of tenant improvements, leasing commissions, anticipated hold periods, and assumptions regarding the residual value upon disposition, including the exit capitalization rate. These key assumptions are subjective in nature and could differ materially from actual results. Additionally, changes in our disposition strategy or changes in the marketplace may alter the hold period of an asset or asset group, which may result in an impairment loss and such loss could be material to the Company's financial condition or operating performance. To the extent that the carrying value of the asset exceeds the estimated undiscounted cash flows, an impairment loss is recognized equal to the excess of carrying value over fair value. Any future impairment could have a material adverse effect on our results of operations in the period in which the charge is taken.

Additionally, the fair value of real estate assets is highly subjective and is determined through comparable sales information and other market data if available, or through use of an income approach such as the direct capitalization method or the discounted cash flow approach. Such cash flow projections consider factors, including expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors, and therefore are subject to a significant degree of management judgment. In estimating the fair value of undeveloped land, we generally use market data and comparable sales information. These subjective assessments have a direct impact on our net income because recording an impairment charge results in an immediate negative adjustment to net income. Thus, our results of operations may be significantly affected by the subjective judgments of our management team as to the fair value of our properties.

If global market and economic conditions worsen or do not fully recover, our business, financial condition and results of operations could be adversely affected.

In the United States, market and economic conditions continue to be uncertain and challenging with modest growth. We are unable to predict with any certainty whether economic conditions will decline, remain stable or improve. If current economic conditions deteriorate, business layoffs, downsizing, industry slowdowns and other similar factors that affect our tenants could negatively impact commercial real estate fundamentals and result in lower occupancy, lower rental rates and declining values in our real estate portfolio. Additionally, the cost and availability of credit and the commercial real estate market generally may be adversely affected by persistent high levels of unemployment, insufficient consumer demand or confidence, the impacts of changes in the U.S. federal budgetary process, changes in regulatory environments and other macro-economic factors. Deteriorating economic conditions could also have an impact on our lenders or tenants, causing them to fail to meet their obligations to us. No assurances can be given that the current economic conditions will remain stable or improve, and if market and economic conditions weaken, our ability to lease our properties and increase or maintain rental rates may be affected, which would have a material adverse effect on our business, financial condition and results of operations.

We rely on the ability of our tenants to pay rent and would be harmed by their inability to do so.

Our performance depends on the ability of our tenants to fulfill their lease obligations by paying their rental payments in a timely manner. As a result, we would be harmed if one or more of our major tenants, or a number of our smaller tenants, were to experience financial difficulties, including bankruptcy, insolvency, or general downturn of business.

Significant competition for tenants and acquisition opportunities may reduce rents and increase acquisition costs which could materially and adversely affect our company.

All of our properties face competition for tenants. Some competing properties may be newer, better located or more attractive to tenants. Competing owners may offer available space at lower rents than we offer at our properties. This competition may affect our ability to attract and retain tenants and may reduce the rents we are able to charge.

In addition, we face significant competition for acquisition opportunities from other investors, including publicly traded and private REITs, numerous financial institutions, individuals and public and private companies. Because of competition, we may be unable to, or may pay a significantly increased purchase price to, acquire a desired property. Some of our competitors may have greater financial and management resources than we do.

When we renew leases or lease to new tenants our rents may decline and our expenses may increase and changes in tenants' requirements for leased space may adversely affect us.

When we renew leases or lease to new tenants we may receive less rent than we currently receive. Market conditions may require us to lower our rents to retain tenants. When we lease to new tenants or renew leases we may have to spend substantial amounts for leasing commissions, tenant improvements or tenant inducements. Many of our leases are for properties that are specially suited to the particular business of our tenants. Because these properties have been designed or physically modified for a particular tenant, if the current lease is terminated or not renewed, we may be required to renovate the property at substantial costs, decrease the rent we charge or provide other concessions in order to lease the property to another tenant. In general, tenants have been seeking to increase their space utilization under their leases, including reducing the amount of square footage per employee at leased properties, which may reduce the demand for leased space. If a significant number of such events occur, our income and cash flow may materially decline and our ability to make regular distributions to our shareholders may be jeopardized.

We have substantial debt obligations which could materially and adversely affect our cost of operations.

As of December 31, 2016, we had $1.1 billion in debt outstanding, which was 25.2% of our total book capitalization. As a result, we are and expect to be subject to the risks normally associated with debt financing, including:

- that interest rates may rise;
- that our cash flow will be insufficient to make required payments of principal and interest;
- that any refinancing will not be on terms as favorable as those of our existing debt;
- that required payments on mortgages and on our other debt are not reduced if the economic performance of any property declines;
- that debt service obligations will reduce funds available for distribution to our shareholders;
- that any default on our debt, due to noncompliance with financial covenants or otherwise, could result in acceleration of those obligations;
- that we may be unable to refinance or repay the debt as it becomes due, and
- that if our degree of leverage is viewed unfavorably by lenders or potential joint venture partners, it could affect our ability to obtain additional financing.

If we default in paying any of our debts or honoring our debt covenants, it may create one or more cross defaults, our debts may be accelerated and we could be forced to liquidate our assets for less than the values we would receive in a more orderly process. Additionally, we may not be able to refinance or repay debt as it becomes due which may force us to refinance or to incur additional indebtedness at higher rates and additional cost or, in the extreme case, to sell assets or seek protection from our creditors under applicable law.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure of any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds.

Our failure or inability to meet certain terms of our credit agreement, which includes our unsecured revolving credit facility and term loans, may prevent us from making distributions to our shareholders.

Our credit agreement includes various conditions to borrowings and various financial and other covenants, including covenants requiring us to maintain certain minimum debt service coverage and maximum leverage ratios, and events of default. We may not be able to satisfy all of these conditions or may default on some of these covenants for various reasons, including matters which are beyond our control. If we are unable to borrow under our revolving credit facility, we may be unable to meet our business obligations or to grow by buying additional properties, or we may be required to sell some of our properties. If we default under our credit agreement, the lenders may demand immediate payment or elect not to make further borrowings available. Additionally, during the continuance of any event of default under our credit agreement, we will be limited or in some cases prohibited from making distributions on our shares. Any default under our credit agreement would likely have serious and adverse consequences to us and would likely cause the market price of our shares to materially decline.

In the future, we may obtain additional debt financing, and the covenants and conditions which apply to any such additional indebtedness may be more restrictive than the covenants and conditions contained in our current credit agreement.

Changes in capital markets may adversely affect the value of an investment in our shares.

Although interest rates remain below historical long term averages, interest rates have recently risen. Increases in interest rates may adversely affect us and the value of an investment in our shares, including in the following ways:

- Amounts outstanding under our credit agreement bear interest at variable interest rates. When interest rates increase, so will our interest costs, which could adversely affect our cash flow, ability to pay principal and interest on debt, cost of refinancing debt when it becomes due and ability to make or sustain distributions to our shareholders. Additionally, if we choose to hedge our interest rate risk, we cannot assure that the hedge will be effective or that our hedging counterparty will meet its obligations to us.
- An increase in interest rates could decrease the amount buyers may be willing to pay for our properties, thereby reducing the market value of our properties and limiting our ability to sell properties or to obtain mortgage financing secured by our properties. Increased interest rates may increase the cost of financing properties we acquire to the extent we utilize leverage for those acquisitions and may result in a reduction in our acquisitions to the extent we reduce the amount we offer to pay for properties, due to the effect of increased interest rates, to a price that sellers may not accept.

A lack of any limitation on our debt could result in our becoming more highly leveraged.

Our governing documents do not limit the amount of indebtedness we may incur. Furthermore, our note indenture and credit agreement permit us and our subsidiaries to incur additional debt, including secured debt. Accordingly, we may incur additional debt. We might become more highly leveraged as a result, and our financial condition, results of operations and cash available for distribution to shareholders might be negatively affected, and the risk of default on our indebtedness could increase.

If we fail to maintain an effective system of integrated internal controls, we may not be able to accurately report our financial results.

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal controls we may discover material weaknesses or significant deficiencies in our internal controls. As a result of weaknesses that may be identified in our internal controls, we may also identify certain deficiencies in some of our disclosure controls and procedures that we believe require remediation. If we discover weaknesses, we will make efforts to improve our internal and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations, which could affect our ability to remain listed with the NYSE. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the per share trading price of our securities.

We could become a party to legal proceedings, which could adversely affect our financial results and/or distract our Board of Trustees and management.

Claims may be filed against us in connection with any action we may or may not take in the ordinary course of business or otherwise, including any equity or debt financing we may undertake, any sales or purchases of assets, past and future changes to our corporate governance and other past or future actions taken by or on behalf of the Company. The results of litigation are difficult to predict and we can provide no assurance that our legal conclusions or positions will be upheld. Moreover, legal claims present a risk of protracted litigation, incurrence of significant attorneys' fees, costs and expenses, and diversion of management's attention from the operation of our business. In addition, we have agreed to indemnify our present and former Trustees and officers who are made or threatened to be made parties to a legal proceeding by reason of their service in that capacity, which may be costly. Adverse rulings in any such legal proceedings could have a material adverse effect on our financial results and condition and cause substantial reputational harm and/or a decline in the market price of our shares.

We could incur significant costs and liabilities with respect to environmental matters.

Under various federal, state and local laws and regulations, as the current or former owners or operators of real estate, we may be liable for costs and damages resulting from the presence or release of hazardous substances, including waste or petroleum products, at, on, in, under or from such property, including costs for investigation, removal or remediation of such contamination and for natural resource damages arising from such contamination. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal or property damage, adversely affect our ability to lease, sell or rent such property, or adversely affect our ability to borrow using such property as collateral. Environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such

9

contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which those properties may be used or businesses may be operated, and these restrictions may require significant expenditures. Additionally, we may remain responsible for costs and liabilities arising from environmental issues related to representations and warranties we make in sales agreements for properties of which we have disposed. We also may be liable for the costs of removal or remediation of hazardous substances or waste at disposal or treatment facilities if we arranged for disposal or treatment of hazardous substances at such facilities, whether or not we own or operate such facility.

Some of our properties have been or may be impacted by releases of hazardous substances or petroleum products. Such contamination may arise from a variety of sources, including historic uses of our properties for commercial or industrial purposes, spills of such materials at adjacent properties, or releases from tanks used on our properties to store petroleum or hazardous substances. In addition, certain of our properties are on sites upon which or are adjacent to or near other properties upon which others, including former owners or tenants, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances.

We, our tenants, and our properties are subject to various federal, state and local regulatory requirements related to environmental, health and safety matters, such as environmental laws, state and local fire and safety requirements, building codes and land use regulations. Failure to comply with these requirements could subject us or our tenants to governmental fines or private litigant damage awards. In addition, compliance with these requirements, including new requirements or stricter interpretation of existing requirements, may require us or our tenants to incur significant expenditures. We do not know whether existing requirements will change or whether future requirements, including any requirements that may emerge from pending or future climate change laws or regulations, will develop. Environmental noncompliance liability also could impact a tenant’s ability to make rental payments to us, and our reputation could be negatively affected if we or our tenant’s violate environmental laws or regulations.

Buildings and other structures on properties that we currently or formerly own or operate or those we acquire or operate in the future contain, may contain, or may have contained, asbestos-containing material (or ACM). Environmental, health and safety laws require that ACM be properly managed and maintained, and include requirements to undertake special precautions, such as removal or abatement, if ACM would be disturbed during maintenance, renovation, or demolition of a building, potentially resulting in substantial costs. Moreover, laws regarding ACM may impose fines and penalties on owners, employers and operators, and we may be subject to liability for releases of ACM into the air and third parties may seek recovery from owners or operators of real property for personal injury associated with ACM.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues also can stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. The presence of mold or other airborne contaminants in our buildings could expose us to costs and liabilities to address these issues, including from third parties if property damage or personal injury occurs.

We may be adversely affected by laws, regulations or other issues related to climate change.

If we become subject to laws or regulations related to climate change, our business, results of operations and financial condition could be impacted adversely. The federal government has enacted, and some of the states and localities in which we operate may enact certain climate change laws and regulations or have begun regulating carbon footprints and greenhouse gas emissions. Although these laws and regulations have not had any known material adverse effects on our business to date, they could result in substantial costs, including compliance costs, increased energy costs, retrofit costs and construction costs, including monitoring and reporting costs, and capital expenditures for environmental control facilities and other new equipment. Furthermore, our reputation could be negatively affected if we violate climate change laws or regulations. We cannot predict how future laws and regulations, or future interpretations of current laws and regulations, related to climate change will affect our business, results of operations and financial condition. Lastly, the potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. These impacts may adversely affect our business, financial condition and results of operations.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which may include personal identifying information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced to third party service providers. In addition, information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyber attacks. Although we have taken steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect us.

We are dependent on key personnel and the loss of such personnel could adversely affect our results of operations and financial condition.

The execution of our repositioning strategy and management of our operations, depend to a significant degree on our senior management team. Our senior management team has extensive experience and a strong reputation in the real estate industry, which aid us in identifying opportunities, having opportunities brought to us, and negotiating with tenants. If we are unable to attract and retain skilled executives, our results of operations and financial condition could be adversely affected.

We may co-invest in joint ventures with third parties. Any future joint venture investments could be adversely affected by the capital markets, lack of sole decision-making authority, reliance on joint venture partners' financial condition and any disputes that may arise between us and our joint venture partners.

We may co-invest with third parties through partnerships, joint ventures or other structures in which we acquire noncontrolling interests in, or share responsibility for, managing the affairs of a property, partnership, co-tenancy or other entity. If we enter into any such joint venture or similar ownership structure, we may not be in a position to exercise sole decision-making authority regarding the properties owned through such joint ventures or similar ownership structure. In addition, investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including potential deadlocks in making major decisions, restrictions on our ability to exit the joint venture, reliance on joint venture partners and the possibility that a joint venture partner might become bankrupt or fail to fund its share of required capital contributions, thus exposing us to liabilities in excess of our share of the joint venture or jeopardizing our REIT status. The funding of our capital contributions to such joint ventures may be dependent on proceeds from asset sales, credit facility advances or sales of equity securities. Joint venture partners may have business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to its policies or objectives. We may, in specific circumstances, be liable for the actions of its joint venture partners. In addition, any disputes that may arise between us and joint venture partners may result in litigation or arbitration that would increase its expenses. Any of the foregoing may have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Real Estate Industry

Real estate ownership creates risks and liabilities that could have a material adverse effect on us, including our results of operations and financial condition.

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to risks inherently associated with real estate ownership, including:

- changes in supply of or demand for properties in areas in which we own buildings;
- the illiquid nature of real estate markets, which limits our ability to sell our assets rapidly or to respond to changing market conditions;
- the subjectivity of real estate valuations and changes in such valuations over time;

- property and casualty losses;
- the ongoing need for property maintenance and repair, and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act;
- the inability of tenants to pay rent;
- competition from the development of new properties in the markets in which we own property and the quality of such competition, such as the attractiveness of our properties as compared to our competitors' properties based on considerations such as convenience of location, rental rates, amenities and safety record;
- civil unrest, acts of war, acts of God, including earthquakes, hurricanes and other natural disasters (which may result in uninsured losses), and other factors beyond our control;

- legislative, tax and regulatory developments that may occur at the federal, state and local levels that have direct or indirect impact on the ownership, leasing and operation of our properties; and
- litigation incidental to our business.

If any of the foregoing events occur, our properties may not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, and our cash flow and ability to pay distributions to our shareholders will be adversely affected.

Potential losses may not be covered by insurance exposing us to potential risk of loss.

We do not carry insurance for generally uninsurable losses such as loss from riots, war or acts of God, and, in some cases, flooding. Some of our policies, such as those covering losses due to terrorism, hurricanes, earthquakes and floods, are insured subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover all losses. If we experience a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

Insurance coverage on our properties may be expensive or difficult to obtain, exposing us to potential risk of loss.

In the future, we may be unable to renew or duplicate our current insurance coverage at adequate levels or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts, environmental liabilities, or other catastrophic events including hurricanes and floods, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property after a covered period of time, but still remain obligated for any mortgage debt or other financial obligations related to the property. We cannot guarantee that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Events such as these could adversely affect our results of operations and our ability to meet our obligations.

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in large metropolitan markets that have been or may be in the future the targets of actual or threatened terrorism attacks. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future terrorist activity. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks in these markets could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially.

Changes in accounting pronouncements may materially and adversely affect our financial statements, our tenants' credit quality and our ability to secure long-term leases and renewal options.

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the Securities and Exchange Commission, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements. These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants' reported financial condition or results of operations or could affect our tenants' preferences regarding leasing real estate.

The Financial Accounting Standards Board issued an accounting standard, effective January 1, 2019 for public business entities, that requires companies to capitalize all leases on their balance sheets by recognizing a lessee's rights and obligations. Many companies that account for certain leases on an "off balance sheet" basis will be required to account for such leases "on balance sheet." This change will remove many of the differences in the way companies account for owned property and leased property, and could have a material effect on various aspects of our tenants' businesses, including their credit quality and the factors they consider in deciding whether to own or lease properties. The new standard could cause companies that lease properties to prefer shorter lease terms, in an effort to reduce the leasing liability required to be recorded on their balance sheets. The new standard could also make lease renewal options less attractive, as, under certain circumstances, the rule would require a tenant to assume that a renewal right will be exercised and accrue a liability relating to the longer lease term.

Risks Related to Our Securities

We cannot assure that we will make distributions to our shareholders, and distributions we may make may include a return of capital.

Any distributions will be made at the discretion of our Board of Trustees and will depend upon various factors that our Board of Trustees deems relevant, including, but not limited to, our results of operations, our financial condition, debt and equity capital available to us, our expectations of our future capital requirements and operating performance, including our funds from operations, or FFO, our normalized funds from operations, or Normalized FFO, and our cash available for distribution, restrictive covenants in our financial or other contractual arrangements (including those in our credit agreement and senior notes indenture), tax law requirements to maintain our status as a REIT, restrictions under Maryland law and our expected needs and availability of cash to pay our obligations or to fund our acquisitions strategy. Our making of distributions is subject to compliance with restrictions contained in our credit agreement and our debt indenture. Additionally, our ability to make distributions will be adversely affected if any of the risks described herein, or other significant adverse events, occur. For these reasons, among others, our distribution rate may decline or we may cease making distributions. Also, our distributions may include a return of capital. As a result of the net operating loss carryforward from prior years, a distribution to common shareholders will not be required for 2016. There can be no assurance that we will pay distributions in the future.

Changes in market conditions could adversely affect the market price of our common shares.

As with other publicly traded equity securities, the value of our common shares depends on various market conditions that may change from time-to-time. Among the market conditions that may affect the value of our common shares are the following:

- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our underlying asset value;
- national and global economic conditions;
- changes in tax laws;
- our financial performance;
- changes in our credit ratings; and
- general stock and bond market conditions.

The market value of our common shares is based primarily upon the market’s perception of our growth potential and our current and potential future earnings and cash dividends. Consequently, our common shares may trade at prices that are greater or less than our net asset value per share of common shares. If our future earnings or cash dividends are less than expected, it is likely that the market price of our common shares will diminish.

Any notes we may issue will be effectively subordinated to the debts of our subsidiaries and our secured debt.

We conduct substantially all of our business through, and substantially all of our properties are owned by, our subsidiaries. Consequently, our ability to pay debt service on our outstanding notes and any notes we issue in the future will be dependent upon the cash flow of our subsidiaries and payments by those subsidiaries to us as dividends or otherwise. Our subsidiaries are separate legal entities and have their own liabilities. Payments due on our outstanding notes, and any notes we may issue, are, or will be, effectively subordinated to liabilities of our subsidiaries, including guaranty liabilities. As of December 31, 2016, our subsidiaries had $77.7 million of debt (including net unamortized premiums and net unamortized deferred financing costs). Our outstanding notes are, and any notes we may issue will be, effectively subordinated to any secured debt with regard to our assets pledged to secure those debts.

Our notes may permit redemption before maturity, and our noteholders may be unable to reinvest proceeds at the same or a higher rate.

The terms of our notes may permit us to redeem all or a portion of our outstanding notes after a certain amount of time, or up to a certain percentage of the notes prior to certain dates. Generally, the redemption price will equal the principal amount being redeemed, plus accrued interest to the redemption date, plus any applicable premium. If a redemption occurs, our noteholders may be unable to reinvest the money they receive in the redemption at a rate that is equal to or higher than the rate of return on the applicable notes.

There may be no public market for notes we may issue and one may not develop.

Generally, any notes we may issue will be a new issue for which no trading market currently exists. We may not list our notes on any securities exchange or seek approval for price quotations to be made available through any automated quotation system. We cannot assure that an active trading market for any of our notes will exist in the future. Even if a market develops, the liquidity of the trading market for any of our notes and the market price quoted for any such notes may be adversely affected by changes in the overall market for fixed income securities, by changes in our financial performance or prospects, or by changes in the prospects for REITs or for the real estate industry generally.

The number of our common shares available for future issuance or sale could adversely affect the per share trading price of our common shares and may be dilutive to current shareholders.

Our declaration of trust authorizes our Board of Trustees to, among other things, issue additional shares of capital stock without stockholder approval. We cannot predict whether future issuances or sales of our common shares or the availability of shares for resale in the open market will decrease the per share trading price per share of our common shares. The issuance of substantial numbers of our common shares in the public market, or upon conversion of our Series D preferred shares, or the perception that such issuances might occur, could adversely affect the per share trading price of our common shares. In addition, we may issue our common shares or restricted share units under the Equity Commonwealth 2015 Omnibus Incentive Plan. Any such future issuances of our common shares may be dilutive to existing shareholders.

Rating agency downgrades or rising interest rates may increase our cost of capital.

Our senior notes and our preferred shares are rated by two rating agencies. These rating agencies may elect to downgrade their ratings on our senior notes and our preferred shares at any time. Such downgrades may negatively affect our access to the capital markets and increase our cost of capital, including the interest rate and fees payable under our credit agreement. In addition, rising interest rates may adversely impact our ability to access the capital markets.

Conversion of our series D preferred shares may dilute the ownership interests of existing shareholders.

The conversion of some or all of our series D preferred shares may dilute the ownership interests of existing shareholders.

Risks Related to Our Organization and Structure

Ownership limitations and certain provisions in our declaration of trust and bylaws, as well as certain provisions of Maryland law, may deter, delay or prevent a change in our control or unsolicited acquisition proposals.

Our declaration of trust and bylaws prohibit any shareholder other than certain persons who have been exempted by our Board of Trustees from owning (directly and by attribution) more than 9.8% of the number or value of shares of any class or series of our outstanding shares of beneficial interest, including our common shares. These provisions are intended to assist with our REIT compliance under the Code and otherwise promote our orderly governance. However, these provisions also inhibit acquisitions of a significant stake in us and may deter, delay or prevent a change in our control or unsolicited acquisition proposals that a shareholder may consider favorable.

Additionally, provisions contained in our declaration of trust and bylaws or under Maryland law may have a similar impact, including, for example, provisions relating to: the authority of our Board of Trustees, and not our shareholders, to adopt, amend and repeal our bylaws and to fill most vacancies on our Board of Trustees; the fact that only the Chairman of the Board of Trustees, our Chief Executive Officer, our President, a majority of our Trustees or the holders of 10% of our common shares may call a special meeting of shareholders; and advance notice requirements for shareholder proposals.

Furthermore, our Board of Trustees has the authority to create and issue new classes or series of shares (including shares with voting rights and other rights and privileges that may deter a change in control) and issue additional common shares. The authorization and issuance of a new class of capital stock or additional common shares could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders' best interests.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- "business combination moratorium/fair price" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested shareholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes stringent fair price and super-majority shareholder voting requirements on these combinations; and
- "control share" provisions that provide that "control shares" of our company (defined as shares which, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares" from a party other than the issuer) have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two thirds of all the votes entitled to be cast on the matter, excluding all interested shares, and are subject to redemption in certain circumstances.

We have opted out of these provisions of Maryland law. However, our Board of Trustees may opt to make these provisions applicable to us at any time without obtaining shareholder approval.

Certain provisions in the organizational documents of the Operating Trust may delay, defer or prevent unsolicited acquisitions of us or changes in our control.

Provisions in the organizational documents of the Operating Trust may delay, defer or prevent a transaction or a change of control that might involve a premium price for the Company's common shares. These provisions include, among others:

- redemption rights of qualifying parties;
- a provision that we may not be removed as the trustee of the Operating Trust with or without cause;
- transfer restrictions on the OP Units held directly or indirectly by us;
- our ability as trustee in some cases to amend the organizational documents of the Operating Partnership without the consent of the other holders of OP Units;
- the right of the holders of OP Units to consent to mergers involving us under specified circumstances; and
- the right of the holders of OP Units to consent to our withdrawal as the sole trustee of the Operating Trust.

These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some shareholders might consider such proposals, if made, desirable.

As an UPREIT, we are a holding company with no direct operations and will rely on distributions received from the Operating Trust to make distributions to our shareholders.

We are a holding company and conduct all of our operations through the Operating Trust. We do not have, apart from our ownership of the OP Units, any independent operations. As a result, we will rely on distributions from the Operating Trust to make any distributions to our shareholders we might declare on our common shares and to meet any of our obligations, including tax liability on taxable income allocated to us from the Operating Trust (which might not make distributions to our company equal to the tax on such allocated taxable income). The ability of subsidiaries of the Operating Trust to make distributions to the Operating Trust, and the ability of the Operating Trust to make distributions to us in turn, will depend on their operating results and on the terms of any financing arrangements into which they have entered. Such financing arrangements may contain lockbox arrangements, reserve requirements, covenants and other provisions that prohibit or otherwise restrict the distribution of funds, including upon default thereunder. In addition, because we are a holding company, the claims of our shareholders as common shareholders of our company will be structurally subordinated to all existing and future liabilities and other obligations (whether or not for borrowed money) and any preferred equity of the Operating Trust and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of the Operating Trust and its subsidiaries will be able to satisfy the claims of our common shareholders only after all of our and the Operating Trust’s and its subsidiaries’ liabilities and other obligations and any preferred equity have been paid in full.

We may acquire properties or portfolios of properties through tax-deferred contribution transactions, which could result in shareholder dilution and limit our ability to sell such assets.

In the future, we may acquire properties or portfolios of properties through tax-deferred contribution transactions in exchange for OP Units in the Operating Trust, which may result in shareholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax lives of the acquired properties, and may require that we agree to protect the contributors' abilities to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell or finance an asset at a time, or on terms, that would be favorable absent such restrictions.

Future issuances of OP Units would reduce our ownership interest in the Operating Trust and may result in shareholder dilution.

As of December 31, 2016, we beneficially owned 100.0% of the outstanding OP Units. Our Operating Trust may, in connection with our acquisition of additional properties or otherwise, issue OP Units to third parties. Additionally, we have and may in the future issue long-term equity awards convertible into OP Units (LTIP Units) to trustees, officers, employees or other agents. Such issuances of OP Units, or the conversion of LTIP Units into OP Units, would reduce our ownership in the Operating Trust and, consequently, our share of distributions from the Operating Trust. Because OP Units may be redeemed (sometimes subject to vesting or performance achievements) for, at our election, cash or common shares, additional common shares may be issued in respect of any such redeemed OP Units, which would dilute existing shareholders. Our shareholders do not have any voting rights with respect to any such issuances, redemptions or other operational activities of the Operating Trust.

Our recourse against Trustees and officers may be limited by the limited rights granted to our shareholders in our declaration of trust.

Our declaration of trust limits the liability of our Trustees and officers to us and our shareholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our Trustees and officers will not have any liability to us and our shareholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the Trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our declaration of trust and bylaws require us to indemnify any present or former Trustee or officer, to the maximum extent permitted by Maryland law, who is made or threatened to be made a party to a proceeding by reason of his or her service in that capacity. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former Trustees and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our shareholders may have more limited rights against our present and former Trustees and officers than might otherwise exist absent the provisions in our declaration of trust and bylaws or that might exist with other companies, which could limit your recourse in the event of actions not in your best interest.

Conflicts of interest could arise in the future between the interests of the Company's shareholders and the interests of other holders of OP Units, which may impede business decisions that could benefit our shareholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between the Company and its affiliates, on the one hand, and the Operating Trust or holders of OP Units, on the other. Our trustees and officers have duties to the Company and its shareholders under applicable Maryland law in connection with their management of the Company. At the same time, we, as trustee, have fiduciary duties to the Operating Trust and to the holders of all OP Units under Maryland law in connection with the management of the Operating Trust. The Company's duties as trustee to the Operating Trust and its Unitholders may come into conflict with the duties of our trustees and officers to the Company and our shareholders.

Additionally, the organizational documents of the Operating Trust expressly limit our liability by providing that the Company will not be liable for monetary or other damages or otherwise for losses sustained, liabilities incurred or benefits not derived in connection with such decisions unless the Company acted with willful misfeasance, bad faith, gross negligence or reckless disregard of duty, and the act or omission was material to the matter giving rise to the loss, liability or benefit not derived. Moreover, the organizational documents of the Operating Trust provide that the Operating Trust may indemnify, and pay or reimburse reasonable expenses to, the Company and the Company's and the Operating Trust's present or former unitholders, trustees, officers or agents and any other persons acting on behalf of the Company that the Company may designate from and against all claims and liabilities by reason of his, her or its service in such capacity. The Operating Trust has the power, with the approval of the Company, to provide such indemnification and advancement of expenses. The provisions of

Maryland law that allow the fiduciary duties of a trustee to be modified by such organizational documents have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the organizational documents of the Operating Trust that purport to waive or restrict our fiduciary duties that would be in effect were it not for such organizational documents.

Shareholder litigation against us or our Trustees and officers may be referred to binding arbitration proceedings which may increase our risk of default.

Our bylaws provide that actions by our shareholders against us or against our Trustees and officers, including derivative and class actions, may be referred to binding arbitration proceedings. As a result, our shareholders would not be able to pursue litigation for these disputes in courts against us or our Trustees and officers if the disputes were referred to arbitration. In addition, the ability to collect attorneys' fees or other damages may be limited, which may discourage attorneys from agreeing to represent parties wishing to commence such a proceeding.

We may change our operational, financing and investment policies without shareholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our Board of Trustees determines our operational, financing and investment policies and may amend or revise our policies, including our policies with respect to our intention to qualify for taxation as a REIT, acquisitions, dispositions, growth, operations, indebtedness, capitalization and distributions, or approve transactions that deviate from these policies, without a vote of, or notice to, our shareholders. Policy changes could adversely affect the market value of our common shares and our ability to make distributions to our shareholders. Further, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our Board of Trustees may alter or eliminate our current policy on borrowing at any time without shareholder approval. If this policy changed, we could become more highly leveraged, which could result in an increase in our debt service costs. Higher leverage also increases the risk of default on our obligations. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk.

Risks Related to Our Taxation as a REIT

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. We have owned direct or indirect interests in one or more REITs (each, a "Subsidiary REIT") that have elected to be taxed as REITs under the U.S. federal income tax laws. Each Subsidiary REIT is subject to the various REIT qualification requirements and other limitations described herein that are applicable to us. If a Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to U.S. federal income tax, (ii) our ownership of shares in such Subsidiary REIT would cease to be a qualifying asset for purposes of the asset tests applicable to REITs, and (iii) it is possible that we would fail certain of the asset tests applicable to REITs, in which event we would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. While we believe that the Subsidiary REITs have qualified as REITs under the Code, we have joined each Subsidiary REIT in filing a protective taxable REIT subsidiary election under Section 856(l) of the Code for each taxable year in which we have owned an interest in the Subsidiary REIT. Pursuant to the protective taxable REIT subsidiary election, we believe that even if a Subsidiary REIT was not a REIT for some reason, then it would instead have been considered one of our taxable REIT subsidiaries. As one of our taxable REIT subsidiaries, we believe that a Subsidiary REIT’s failure to qualify as a REIT would not jeopardize our own qualification as a REIT, even if we owned more than 10% of the Subsidiary REIT.

New legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. Certain rules applicable to REITs are particularly difficult to interpret or to apply in the case of REITs investing in real estate mortgage loans that are acquired at a discount, subject to work-outs or modifications, or reasonably expected to be in default at the time of acquisition. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

If we do not qualify as a REIT or fail to remain qualified as a REIT, we will be subject to U.S. federal income tax and potentially to additional state and local taxes which would reduce the amount of cash available for distribution to our shareholders.

We believe that we have been organized and have operated, and will continue to be organized and to operate, in a manner to allow us to qualify us to be taxed under the Code as a REIT. However, we cannot be certain that, upon review or audit, the IRS will agree with this conclusion. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult, or impossible, for us to remain qualified as a REIT. We do not intend to request a ruling from the IRS as to our REIT qualification.

As a REIT, we generally do not pay U.S. federal income tax on our net income that we distribute currently to our shareholders. However, actual qualification as a REIT under the Code depends on satisfying complex statutory requirements, for which there are only limited judicial and administrative interpretations. Many of the REIT requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from specific passive sources, such as rent, that are itemized in the REIT tax laws. In addition, to qualify as a REIT, we cannot own specified amounts of debt and equity securities of some issuers. We also are required to distribute to our shareholders with respect to each year at least 90% of our “REIT taxable income” (determined before the deduction for dividends paid and excluding net capital gains). Even a technical or inadvertent mistake could jeopardize our REIT status and, given the highly complex nature of the rules governing REITs and the ongoing importance of factual determinations, we cannot provide any assurance that we will continue to qualify as a REIT.

If we fail to qualify as a REIT for U.S. federal income tax purposes, and are unable to avail ourselves of certain savings provisions set forth in the IRC, we likely would be subject to U.S. federal income tax at regular corporate rates. As a taxable corporation, we would not be allowed to take a deduction for distributions to shareholders in computing our taxable income or pass through long term capital gains to individual shareholders at favorable rates. We also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes. We would not be able to elect to be taxed as a REIT for four years following the year we first failed to qualify unless the IRS were to grant us relief under certain statutory provisions. If we failed to qualify as a REIT, we likely would have to pay significant income taxes, which likely would reduce our net earnings available for investment or distribution to our shareholders. If we fail to qualify as a REIT, such failure would cause us to be in breach under our credit agreement, and may adversely affect our ability to raise capital and to service our debt. This likely would have a significant adverse effect on our earnings and the value of our securities. In addition, we would no longer be required to pay any distributions to shareholders. If we fail to qualify as a REIT for U.S. federal income tax purposes and are able to avail ourselves of one or more of the statutory savings provisions in order to maintain our REIT status, we would nevertheless be required to pay penalty taxes of $50,000 or more for each such failure.

Distributions to shareholders generally do not qualify for the preferential tax rates available for some dividends.

Dividends payable by U.S. corporations to noncorporate shareholders, such as individuals, trusts and estates, are generally eligible for reduced tax rates. Distributions paid by REITs, however, generally are not eligible for these reduced rates. Although this does not adversely affect the taxation of REITs or dividends payable by REITs, to the extent that the preferential rates continue to apply to regular corporate qualified dividends, the more favorable rates for corporate dividends may cause investors who are individuals, trusts and estates to perceive that an investment in a REIT is less attractive than an investment in a non-REIT entity that pays dividends, thereby reducing the demand and market price of our shares.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our “REIT taxable income” (determined before the deduction for dividends paid and excluding net capital gains) in order for U.S federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. We intend to make distributions to our shareholders to comply with the REIT requirements of the IRC. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to make distributions to our shareholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with U.S. generally accepted accounting principles, or GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. If we do not have other funds available in these situations we could be required to (i) borrow funds on unfavorable terms, (ii) sell investments at disadvantageous prices, (iii) distribute amounts that would otherwise be invested in future acquisitions, or (iv) make a taxable distribution of our common shares as part of a distribution in which shareholders may elect to receive our common shares or (subject to a limit measured as a percentage of the total distribution) cash to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement. These alternatives could increase our costs or reduce our shareholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our shares.

Even if we qualify and remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we qualify and remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. We are subject to U.S. federal and state income tax (and any applicable non-U.S. taxes) on the net income earned by our taxable REIT subsidiaries. Moreover, if we have net income from “prohibited transactions,” that income will be subject to a 100% tax. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to U.S. federal income tax on that income because not all states and localities treat REITs the same way they are treated for federal U.S. income tax purposes. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our shareholders.

Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total securities can be represented by securities of one or more TRSs and, effective for our taxable year that began on January 1, 2016 and all future taxable years, no more than 25% of the value of our assets can be represented by debt instruments issued by “publicly offered REITs.” If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio, or contribute to a TRS, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income, increasing our income tax liability, and reducing amounts available for distribution to our stockholders. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments (or, in some cases, forego the sale of such investments) that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make, and, in certain cases, maintain ownership of certain attractive investments.

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

A REIT’s net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Our Trustees have adopted a strategy to own and acquire at a discount to replacement cost high-quality, multi-tenant office assets in markets and sub-markets with favorable long-term supply and demand fundamentals. Our efforts will primarily be focused on larger office buildings in central business districts and major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply. We believe that the dispositions related to the repositioning of our portfolio along with other dispositions that we have made or that we might make in the future will not be subject to the 100% penalty tax; however, because application of the prohibited transactions tax could be based on an analysis of all of the facts and circumstances, there can be no assurance that the gains on our prior real estate sales have not, or any future real estate sales will not, be subject to the 100% prohibited transaction tax.

Our ownership of TRSs has been and will continue to be limited and our transactions with our TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm’s length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's length basis.

TRSs that we have formed have paid and will continue to pay U.S. federal, state and local income tax on their taxable income, and their after-tax net income is available for distribution to us but is not required to be distributed by such domestic TRSs to us. We believe that the aggregate value of the stock and securities of our TRSs has been and we anticipate that the aggregate value will continue to be less than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets (including our TRS stock and securities). Furthermore, we have monitored and will continue to monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we have scrutinized and will continue to scrutinize all of our transactions with TRSs to ensure that they are entered into on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS limitation discussed above or to avoid application of the 100% excise tax discussed above.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code limit our ability to hedge our liabilities. Generally, income from a hedging transaction we enter into to manage risk of interest rate fluctuations with respect to borrowings, including gain from the disposition of such hedging transactions, to the extent the hedging transactions hedge indebtedness incurred, or to be incurred, by us to acquire or carry real estate assets does not constitute "gross income" for purposes of the 75% or 95% gross income tests, provided we properly identify the hedge pursuant to the applicable sections of the Code and Treasury regulations. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a taxable REIT subsidiary. This could increase the cost of our hedging activities because our taxable REIT subsidiary would be subject to tax on income or gains resulting from hedges entered into by it or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our taxable REIT subsidiary will generally not provide any tax benefit, except for being carried forward for use against future taxable income in our taxable REIT subsidiary.

There is a risk of changes in the tax law applicable to REITs.

The IRS, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. Legislative and regulatory changes, including comprehensive tax reform, may be more likely in the 115th Congress, which convened in January 2017, because the new President and both Houses of Congress will be controlled by the same political party. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our shareholders.

Item 1B. Unresolved Staff Comments.
None.

20

Item 2. Properties.

General. At December 31, 2016, we had real estate investments totaling approximately $2.9 billion in 33 properties (64 buildings), one land parcel and one property taken out of service which is now classified as a land parcel, that were leased to approximately 600 tenants. We account for the operations of all our properties in one reporting segment. At December 31, 2016, we owned the following real estate (dollars in thousands):

Property	State	Number of Buildings	Undepreciated Carrying Value(1)	Depreciated Carrying Value(1)	Annualized Rental Revenue(2)
Parkshore Plaza	CA	4	$ 45,439	$ 38,744	$ 4,190
1225 Seventeenth Street	CO	1	156,803	130,813	23,822
5073, 5075, & 5085 S. Syracuse Street	CO	1	63,610	53,795	7,379
1601 Dry Creek Drive	CO	1	34,550	24,538	8,865
97 Newberry Road	CT	1	15,350	12,175	1,816
33 Stiles Lane	CT	1	9,793	7,440	639
1250 H Street, NW	DC	1	72,608	44,224	8,016
Georgetown-Green and Harris Buildings	DC	2	60,023	53,423	6,514
802 Delaware Avenue	DE	1	43,496	19,279	4,280
6600 North Military Trail	FL	3	145,808	126,337	16,990
600 West Chicago Avenue	IL	2	395,444	349,605	49,406
8750 Bryn Mawr Avenue	IL	2	93,605	79,194	16,164
109 Brookline Avenue	MA	1	47,536	27,340	10,826
111 Market Place	MD	1	71,555	44,199	12,583
25 S. Charles Street	MD	1	38,504	24,864	8,717
820 W. Diamond	MD	1	33,660	20,883	2,948
Danac Stiles Business Park	MD	3	65,718	44,799	7,078
East Eisenhower Parkway	MI	2	56,376	48,187	10,569
2250 Pilot Knob Road	MN	1	6,530	3,634	867
411 Farwell Avenue	MN	1	16,357	12,301	1,909
4700 Belleview Avenue	MO	1	7,225	5,939	1,064
Cherrington Corporate Center	PA	7	71,964	49,470	6,019
1500 Market Street	PA	1	304,546	215,829	39,245
1600 Market Street	PA	1	135,851	76,416	20,744
1735 Market Street	PA	1	302,533	184,128	27,106
Foster Plaza	PA	8	76,256	54,703	11,869
206 East 9th Street	TX	1	49,197	44,318	6,356
4515 Seton Center Parkway	TX	1	23,130	13,381	3,650
4516 Seton Center Parkway	TX	1	24,257	13,760	2,645
Bridgepoint Square	TX	5	91,332	51,624	12,385
Research Park	TX	4	93,444	61,149	11,709
333 108th Avenue NE	WA	1	153,219	127,431	20,455
600 108th Avenue NE	WA	1	50,596	37,138	7,725
Properties		64	$ 2,856,315	$ 2,101,060	$ 374,550
625 Crane Street	IL	—	$ —	$ —	$ —
Cabot Business Park Land	MA	—	575	575	—
Land Parcels		—	$ 575	$ 575	$ —
Total		64	$ 2,856,890	$ 2,101,635	$ 374,550

21

(1) Excludes purchase price allocations for acquired real estate leases.

(2) Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2016, plus estimated recurring expense reimbursements; includes triple net lease rents and excludes lease value amortization, straight line rent adjustments, abated ("free") rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.

At December 31, 2016, four properties (7 buildings) were encumbered by mortgage notes payable totaling $77.7 million (including net unamortized premiums and discounts and net unamortized deferred financing costs). For more information regarding these mortgage notes, see Note 8 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

We are or may be a party to various legal proceedings that arise in the ordinary course of business. We are not currently involved in any litigation nor, to our knowledge, is any litigation threatened against us where the outcome would, in our judgment based on information currently available to us, have a material adverse effect on our consolidated financial position or consolidated results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common shares are traded on the NYSE (symbol: EQC). The following table sets forth for the periods indicated the high and low sale prices for our common shares, as reported by the NYSE:

	High	Low
2016		
First Quarter	$28.58	$25.23
Second Quarter	29.74	26.92
Third Quarter	31.91	29.13
Fourth Quarter	30.98	28.04
2015		
First Quarter	$27.24	$24.97
Second Quarter	27.64	24.91
Third Quarter	27.70	25.17
Fourth Quarter	29.75	26.34

As of February 13, 2017, there were 1,317 shareholders of record of our common shares. However, because many of our common shares are held by brokers and other institutions on behalf of shareholders, we believe that there are considerably more beneficial holders of our common shares than record holders.

Distributions

Under our governing documents and Maryland law, distributions to our shareholders are to be authorized and declared by our Board of Trustees.

We did not pay any cash distributions to our common shareholders in 2016 and 2015.

As a result of the net operating loss carryforward from prior years, a distribution to common shareholders was not required for 2016. The timing and amount of future distributions is determined at the discretion of our Board of Trustees and will depend upon various factors that our Board of Trustees deems relevant, including, but not limited to, our results of operations, our financial condition, debt and equity capital available to us, our expectations of our future capital requirements and operating performance, including our FFO, our Normalized FFO, and our cash available for distribution, restrictive covenants in our financial or other contractual arrangements (including those in our credit agreement and senior notes indenture), tax law requirements to qualify for taxation as and remain a REIT, restrictions under Maryland law and our expected needs and availability of cash to pay our obligations and fund acquisitions. Therefore, there can be no assurance that we will pay distributions in the future.

Issuer Repurchases

Common Share Repurchase Program

On August 24, 2015, our Board of Trustees approved a common share repurchase plan, which authorized the repurchase of up to $100.0 million of our outstanding common shares over the twelve month period following the date of authorization. On September 14, 2015, our Board of Trustees authorized the repurchase of up to an additional $100.0 million of our outstanding common shares over the twelve month period following the date of authorization. On March 17, 2016, our Board of Trustees authorized the repurchase of up to an additional $150.0 million of our outstanding common shares over the twelve month period following the date of authorization.

During the year ended December 31, 2016, we purchased and retired 2,491,675 of our common shares at a weighted average price of $27.68 per share for a total investment of $69.0 million. The following table provides information with respect to the common share repurchases made by the Company during the year ended December 31, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number or Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
January 2016	361,162	$ 25.97	361,162	$ 102,772,995
February 2016	622,627	$ 25.93	622,627	$ 86,630,373
March 2016	—	$ —	—	$ 236,630,373
April 2016	—	$ —	—	$ 236,630,373
May 2016	—	$ —	—	$ 236,630,373
June 2016	—	$ —	—	$ 236,630,373
July 2016	—	$ —	—	$ 236,630,373
August 2016	—	$ —	—	$ 236,630,373
September 2016	—	$ —	—	$ 150,000,000
October 2016	—	$ —	—	$ 150,000,000
November 2016	255,000	$ 28.98	255,000	$ 142,610,648
December 2016	1,252,886	$ 28.78	1,252,886	$ 106,550,323
Total	2,491,675	$ 27.68	2,491,675	$ 106,550,323

Since the inception of the common share repurchase plan through December 31, 2016, we have purchased and retired a total of 5,901,975 of our common shares at a weighted average price of $26.57 per share, for a total of $156.8 million. In August and September 2016, the first two share repurchase authorizations, of which $86.6 million was not utilized, expired. The $106.6 million of remaining authorization available under our share repurchase program as of December 31, 2016 is scheduled to expire in March 2017.

Surrender of Common Shares for Tax Withholding

During the year ended December 31, 2016, certain of our employees surrendered common shares owned by them to satisfy their statutory tax withholding obligations in connection with the vesting of restricted common shares under the Equity Commonwealth 2015 Omnibus Incentive Plan (the 2015 Incentive Plan).

The following table summarizes all of these repurchases during the year ended December 31, 2016:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number or Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
January 2016	—		N/A	N/A	N/A
February 2016	—		N/A	N/A	N/A
March 2016	—		N/A	N/A	N/A
April 2016	—		N/A	N/A	N/A
May 2016	—		N/A	N/A	N/A
June 2016	—		N/A	N/A	N/A
July 2016	—		N/A	N/A	N/A
August 2016	—		N/A	N/A	N/A
September 2016	853	(1)	$ 30.71	N/A	N/A
October 2016	—		N/A	N/A	N/A
November 2016	30,172	(1)	$ 29.41	N/A	N/A
December 2016	—		N/A	N/A	N/A
Total	31,025	(1)	$ 29.45		

(1) The number of shares purchased represents common shares surrendered by certain of our employees to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted common shares of beneficial interest under the 2015 Incentive Plan. With respect to these shares, the price paid per share is based on the closing price of our common shares as of the date of the determination of the statutory minimum federal and state tax obligations.

Unregistered Sales of Securities

There were no unregistered sales of equity securities during the year ended December 31, 2016.

Performance Graph

Notwithstanding anything to the contrary set forth in any of our filings under the Securities Act or the Exchange Act that might incorporate SEC filings, in whole or in part, the following performance graph will not be incorporated by reference into any such filings.

The following graph compares the cumulative total shareholder return of our common shares for the period from December 31, 2011 to December 31, 2016, to the NAREIT All REITs, Standard & Poor’s 500 Index, or the S&P 500, and to the NAREIT Equity Office Index over the same period. The graph assumes an investment of $100.00 in our common shares and each index and the reinvestment of all distributions. The shareholder return shown on the graph below is not indicative of future performance.

	Period Ending					
Index	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Equity Commonwealth	$100.00	$ 104.94	$ 161.93	$ 180.31	$ 194.78	$ 212.41
NAREIT All REITs	$100.00	$ 120.14	$ 124.00	$ 157.66	$ 161.27	$ 176.24
S&P 500	$100.00	$ 116.00	$ 153.57	$ 174.60	$ 177.01	$ 198.18
NAREIT Equity Office Index	$100.00	$ 114.15	$ 120.52	$ 151.68	$ 152.11	$ 172.14

Source: SNL Financial LC

Item 6. Selected Financial Data.

The following table sets forth selected financial data for the periods and dates indicated. This data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and the consolidated financial statements and accompanying notes included in "Exhibits and Financial Statement Schedules" in Part IV, Item 15 of this Annual Report on Form 10-K. Reclassifications have been made to the prior years' financial statements to conform to the current year's presentation. Amounts are in thousands, except per share data.

	Year Ended December 31,				
Operating Data	2016	2015	2014	2013	2012
Total revenues	$500,680	$714,891	$861,857	$953,029	$961,087
Expenses:					
Operating expenses	200,706	324,948	387,982	410,045	397,673
Depreciation and amortization	131,806	194,001	227,532	234,402	230,284
General and administrative	50,256	57,457	113,155	80,504	49,312
Loss on asset impairment	58,476	17,162	185,067	124,253	—
Acquisition related costs	—	—	5	318	5,648
Total expenses	441,244	593,568	913,741	849,522	682,917
Operating income (loss)	59,436	121,323	(51,884)	103,507	278,170
Interest and other income	10,331	5,989	1,561	1,229	1,410
Interest expense	(84,329)	(107,316)	(143,230)	(173,011)	(202,055)
(Loss) gain on early extinguishment of debt	(2,680)	6,661	4,909	(60,052)	(287)
Gain on sale of equity investment	—	—	171,561	66,293	—
Gain on issuance of shares by an equity investee	—	—	17,020	—	7,246
Foreign currency exchange loss	(5)	(8,857)	—	—	—
Gain on sale of properties, net	250,886	84,421	—	1,596	—
Income (loss) from continuing operations before income tax expense and equity in earnings of investees	233,639	102,221	(63)	(60,438)	84,484
Income tax expense	(745)	(2,364)	(3,191)	(2,634)	(3,207)
Equity in earnings of investees	—	—	24,460	25,754	11,420
Income (loss) from continuing operations	232,894	99,857	21,206	(37,318)	92,697
Discontinued operations	—	—	2,806	(119,649)	(172,542)
Net income (loss)	232,894	99,857	24,012	(156,967)	(79,845)
Net income attributable to noncontrolling interest in consolidated subsidiary	—	—	—	(20,093)	(15,576)
Net income (loss) attributable to Equity Commonwealth	232,894	99,857	24,012	(177,060)	(95,421)
Preferred distributions	(17,956)	(27,924)	(32,095)	(44,604)	(51,552)
Excess fair value of consideration paid over carrying value of preferred shares	(9,609)				
Excess fair value of consideration over carrying value of preferred shares	—	—	(16,205)	—	(4,985)
Net income (loss) attributable to common shareholders	205,329	71,933	(24,288)	(221,664)	(151,958)
Common distributions declared	—	—	29,597	109,702	146,539
Weighted average common shares outstanding—basic	125,474	128,621	125,163	112,378	83,750
Weighted average common shares outstanding—diluted	126,768	129,437	125,163	112,378	83,750
Basic earnings per common share attributable to Equity Commonwealth common shareholders:					
Income (loss) from continuing operations	$1.64	$0.56	$(0.21)	$(0.91)	$0.25
Net income (loss)	$1.64	$0.56	$(0.19)	$(1.97)	$(1.81)
Diluted earnings per common share attributable to Equity Commonwealth common shareholders:					
Income (loss) from continuing operations	$1.62	$0.56	$(0.21)	$(0.91)	$0.25
Net income (loss)	$1.62	$0.56	$(0.19)	$(1.97)	$(1.81)
Common distributions declared	$—	$—	$0.25	$1.00	$1.75

Balance Sheet Data	December 31, 2016	2015	2014	2013	2012
Real estate properties(1)	$2,856,890	$3,887,352	$5,728,443	$5,537,165	$7,829,409
Equity investments	—	—	—	517,991	184,711
Total assets	4,526,075	5,231,164	5,761,639	6,646,434	8,189,634
Total indebtedness, net	1,141,667	1,697,116	2,207,665	3,005,410	4,349,821
Total shareholders' equity attributable to Equity Commonwealth	3,260,447	3,368,487	3,319,583	3,363,586	3,105,428
Noncontrolling interest in consolidated subsidiary	—	—	—	—	396,040
Total shareholders' equity	3,260,447	3,368,487	3,319,583	3,363,586	3,501,468

(1) Excludes value of acquired real estate leases.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included elsewhere in this Annual Report on Form 10-K.

OVERVIEW

We are an internally managed and self-advised REIT engaged in the ownership and operation primarily of office buildings throughout the United States. We were formed in 1986 under Maryland law. On November 10, 2016, we converted to what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT, structure. Substantially all of the Company's assets and liabilities are now held in an Operating Trust through which the Company conducts its business.

At December 31, 2016, our portfolio included 33 properties (64 buildings), one land parcel and one property taken out of service which is now classified as a land parcel, with a combined 16.1 million square feet for a total investment of $2.9 billion at cost and a depreciated book value of $2.1 billion.

As of December 31, 2016, our overall portfolio was 91.1% leased. During the year ended December 31, 2016, we entered into leases for 4.3 million square feet, including lease renewals for 3.1 million square feet and new leases for 1.2 million square feet. Leases entered into during the year ended December 31, 2016, including both lease renewals and new leases, had weighted average cash rental rates that were approximately 0.2% lower than prior rental rates for the same space and weighted average GAAP rental rates that were approximately 12.1% higher than prior rental rates for the same space. The change in GAAP rents is different than the change in cash rents due to differences in the amount of rent abatements, the magnitude and timing of contractual rent increases over the lease term, and the years of term for the newly executed leases compared to the prior leases.

Throughout 2016, our management team has continued to focus on executing our plan to reshape our portfolio in order to create long-term value for shareholders. In 2016, we continued to dispose of properties that do not meet our long-term goals. Specifically, we implemented the strategy adopted by our Board of Trustees in 2014 to dispose of assets that had one or more of the following attributes:

- assets that did not offer an opportunity to create a competitive advantage;
- assets that were less than 150,000 square feet;
- assets that were not office buildings;
- assets that were not located in the U.S.; or
- assets that produced a low cash yield or required significant capital expenditures.

During the year ended December 31, 2015, we disposed of 91 properties (135 buildings) and one land parcel with a combined 18.9 million square feet for an aggregate gross sales price of $2.0 billion, excluding closing costs. During the year ended December 31, 2016, we sold 30 properties (62 buildings) with a combined 8.0 million square feet for an aggregate gross sales price of $1.3 billion, excluding closing costs. In January 2017, we sold 111 Market Place (one building), with 589,380 square feet for $60.1 million, excluding closing costs. As a result of these dispositions, we now have exited 90 cities, 17 states and one country. We have generated significant proceeds from our dispositions to date and have a cash balance of $2.1 billion as of December 31, 2016. For more information regarding the 2016 and 2015 dispositions, see Note 3 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

We are now in the process of transitioning from primarily disposing of assets to a more holistic repositioning of our portfolio consistent with the office repositioning strategy adopted by our Board of Trustees in December of 2016. Our strategy is to own and acquire at a discount to replacement cost high-quality, multi-tenant office assets in markets and sub-markets with favorable long-term supply and demand fundamentals. Our efforts will primarily be focused on larger office buildings in central business districts and major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply.

While executing this strategy, depending on market conditions, we may sell additional properties and are seeking to acquire attractive properties in markets meeting the criteria above. We seek to reinvest the capital received from dispositions to purchase new properties, repay debt, buy back common shares or make other investments or distributions that further our long-term strategic goals and the repositioning strategy adopted by our Board of Trustees. However, we may not be able to make suitable acquisitions or other investments with the proceeds from the dispositions. In addition, as our real estate investments have decreased, our income from operations has also declined.

As part of the disposition plan noted above, and pursuant to our accounting policy, in 2016, we evaluated the recoverability of the carrying values of each of the real estate assets that comprised our portfolio and determined that due to the shortening of the expected periods of ownership as a result of the disposition plan and current estimates of market value, it was necessary to reduce the net book value of a portion of the real estate assets in our portfolio to their estimated fair values. As a result, we recorded an impairment charge of $58.5 million for year ended December 31, 2016 in accordance with our impairment analysis procedures.

We have engaged CBRE, Inc. (CBRE) to provide property management services for our properties. We pay CBRE a property-by-property management fee and may engage CBRE from time-to-time to perform project management services, such as coordinating and overseeing the completion of tenant improvements and other capital projects at the properties. We reimburse CBRE for certain expenses incurred in the performance of its duties, including certain personnel and equipment costs.

For the years ended December 31, 2016 and 2015, we incurred expenses of $25.8 million and $42.7 million, respectively, related to our property management agreement with CBRE, for property management fees, typically calculated as a portion of the properties revenues, and salary and benefits reimbursements for property personnel, such as property managers, engineers and maintenance staff. As of December 31, 2016 and 2015, we had amounts payable pursuant to these services of $2.7 million and $3.5 million, respectively.

Property Operations

Occupancy data for 2016 and 2015 are as follows (square feet in thousands):

	All Properties(1)		Comparable Properties(2)	
	As of December 31,		As of December 31,	
	2016	2015	2016	2015
Total properties	33	65	33	33
Total square feet	16,053	23,952	16,053	15,933
Percent leased(2)	91.1 %	91.4 %	91.1 %	91.8 %

(1) Excludes properties sold in the period.
(2)

Based on properties owned continuously from January 1, 2015 through December 31, 2016, and excludes properties sold during the period.

(3) Percent leased includes (i) space being fitted out for occupancy pursuant to existing leases and (ii) space which is leased but is not occupied or is being offered for sublease by tenants.

The weighted average lease term based on square feet for leases entered into during the year ended December 31, 2016 was 8.7 years. Commitments made for leasing expenditures and concessions, such as tenant improvements and leasing commissions, for leases entered into during the year ended December 31, 2016 totaled $143.0 million, or $33.31 per square foot on average (approximately $3.88 per square foot per year of the lease term).

As of December 31, 2016, approximately 6.0% of our leased square feet and 6.3% of our annualized rental revenue, determined as set forth below, are included in leases scheduled to expire through December 31, 2017. Renewed and new leases and rental rates at which available space may be rented in the future will depend on prevailing market conditions at the times these leases are negotiated. We believe that the in-place cash rents for leases expiring in 2017 are slightly below market. Lease expirations by year, as of December 31, 2016, are as follows (square feet and dollars in thousands):

Year	Number of Tenants Expiring	Leased Square Feet Expiring(1)	% of Leased Square Feet Expiring(1)	Cumulative % of Leased Square Feet Expiring(1)	Annualized Rental Revenue Expiring(2)	% of Annualized Rental Revenue Expiring	Cumulative % of Annualized Rental Revenue Expiring
2017	82	874	6.0 %	6.0 %	$ 23,534	6.3 %	6.3 %
2018	83	973	6.6 %	12.6 %	27,088	7.2 %	13.5 %
2019	90	1,302	8.9 %	21.5 %	32,861	8.8 %	22.3 %
2020	82	2,250	15.4 %	36.9 %	52,829	14.1 %	36.4 %
2021	73	1,640	11.2 %	48.1 %	46,641	12.5 %	48.9 %
2022	38	755	5.2 %	53.3 %	26,735	7.1 %	56.0 %
2023	48	1,629	11.1 %	64.4 %	47,795	12.8 %	68.8 %
2024	19	304	2.1 %	66.5 %	9,753	2.6 %	71.4 %
2025	18	741	5.1 %	71.6 %	20,105	5.4 %	76.8 %
2026	13	677	4.6 %	76.2 %	22,272	5.9 %	82.7 %
Thereafter	62	3,487	23.8 %	100.0 %	64,937	17.3 %	100.0 %
	608	14,632	100.0 %		$ 374,550	100.0 %	
Weighted average remaining lease term (in years):		6.5			6.0		

(1) Square feet is pursuant to existing leases as of December 31, 2016, and includes (i) space being fitted out for occupancy and (ii) space which is leased but is not occupied or is being offered for sublease by tenants.

(2) Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2016, plus estimated recurring expense reimbursements; includes triple net lease rents and excludes lease value amortization, straight line rent adjustments, abated ("free") rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.

A principal source of funds for our operations is rents from tenants at our properties. Rents are generally received from our tenants monthly in advance, except from our government tenants, who usually pay rents monthly in arrears. As of December 31, 2016, tenants representing 1.5% or more of our total annualized rental revenue were as follows (square feet in thousands):

Tenant	Square Feet(1)	% of Total Square Feet(1)	% of Annualized Rental Revenue(2)	Weighted Average Remaining Lease Term
1. Expedia, Inc.	427	2.9 %	5.3 %	3.0
2. Office Depot, Inc.	640	4.4 %	4.5 %	6.8
3. PNC Financial Services Group	368	2.5 %	3.2 %	4.4
4. Groupon, Inc.(3)	376	2.6 %	3.2 %	9.1
5. Flextronics International Ltd.	1,051	7.2 %	2.9 %	13.0
6. Ballard Spahr LLP	217	1.5 %	2.1 %	13.1
7. RE/MAX Holdings, Inc.	248	1.7 %	2.0 %	11.3
8. University of Pennsylvania Health System	267	1.8 %	1.9 %	8.8
9. Exelon Corporation(4)	183	1.3 %	1.8 %	1.4
10. Towers Watson & Co	251	1.7 %	1.7 %	3.3
11. Georgetown University	240	1.6 %	1.7 %	2.8
12. M&T Bank	211	1.4 %	1.7 %	1.7
13. Echo Global Logistics, Inc.	226	1.5 %	1.6 %	10.8
14. Wm. Wrigley Jr. Company	150	1.0 %	1.5 %	5.1
15. West Corporation	336	2.3 %	1.5 %	12.1
Total	5,191	35.4 %	36.6 %	8.3

(1) Square footage is pursuant to existing leases as of December 31, 2016, and includes (i) space being fitted out for occupancy and (ii) space which is leased but is not occupied or is being offered for sublease by tenants.

(2) Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2016, plus estimated recurring expense reimbursements; includes triple net lease rents and excludes lease value amortization, straight line rent adjustments, abated ("free") rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.

(3) Groupon, Inc. statistics include 207,536 square feet that are sublet from Bankers Life and Casualty Company.

(4) Exelon Corporation is a tenant at 111 Market Place, which was sold on January 31, 2017.

Financing Activities

On February 16, 2016, we redeemed at par $139.1 million of our 6.25% senior unsecured notes due 2016 and recognized a loss on early extinguishment of debt of $0.1 million from the write-off of an unamortized discount and unamortized deferred financing fees for the year ended December 31, 2016.

On March 4, 2016, we purchased an interest rate cap with a LIBOR strike price of 2.50%. The interest rate cap, effective April 1, 2016, has a notional amount of $400.0 million and a maturity date of March 1, 2019.

On May 15, 2016, we redeemed all of our 11,000,000 outstanding series E preferred shares at a price of $25.00 per share, for a total of $275.0 million, plus any accrued and unpaid dividends. The redemption payment occurred on May 16, 2016 (the first business day following the redemption date). We recorded $9.6 million related to the excess fair value of consideration paid over the carrying value of the preferred shares as a reduction to net income attributable to common shareholders for the year ended December 31, 2016.

On November 10, 2016, we repaid at par $167.8 million of mortgage debt at 1735 Market Street and recognized a loss on early extinguishment of debt of $2.4 million for the year ended December 31, 2016 from the write-off of unamortized deferred financing fees and breakage costs. We also recognized $0.2 million of expense included in interest and other income related to an interest rate swap as a result of the early repayment of debt for the year ended December 31, 2016.

On November 10, 2016, we converted to what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT, structure. In connection with this conversion, the Company contributed substantially all of its assets to the Operating Trust, and the Operating Trust assumed substantially all of the Company's liabilities pursuant to a contribution and assignment agreement between the Company and the Operating Trust. The Company now conducts and intends to continue to conduct substantially all of its activities through the Operating Trust.

In connection with our conversion to an UPREIT structure, the Operating Trust entered into an amended and restated credit agreement, replacing the Company's prior credit agreement. Under the amended and restated credit agreement, the Operating Trust has assumed all obligations of the Company as borrower and the Company is released from such obligations. The amended and restated credit agreement was amended and restated primarily to facilitate changes necessary to complete convert to an UPREIT structure. The economic terms of the amended and restated credit agreement are substantially the same as the terms of the Company's prior credit agreement, providing for (i) a $750.0 million unsecured revolving credit facility, (ii) a $200.0 million 5-year term loan facility and (iii) a $200.0 million 7-year term loan facility.

On December 15, 2016, we redeemed at par $250.0 million of our 6.25% senior unsecured notes due 2017 and recognized a loss on early extinguishment of debt of $0.1 million from the write-off of an unamortized discount and unamortized deferred financing fees.

For more information regarding our financing sources and activities, please see the section captioned "Liquidity and Capital Resources—Our Investment and Financing Liquidity and Resources" below.

RESULTS OF OPERATIONS
Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

	Comparable Properties Results(1)				Other Properties Results(2)		Consolidated Results			
	Year Ended December 31,									
	2016	2015	$ Change	% Change	2016	2015	2016	2015	$ Change	% Change
	(in thousands)									
Rental income	$321,963	$311,432	10,531	3.4 %	$87,108	$258,950	$409,071	$570,382	$(161,311)	(28.3)%
Tenant reimbursements and other income	74,339	78,599	(4,260)	(5.4)%	17,270	65,910	91,609	144,509	(52,900)	(36.6)%
Operating expenses	(162,654)	(163,290)	636	(0.4)%	(38,052)	(161,658)	(200,706)	(324,948)	124,242	(38.2)%
Net operating income(3)	$233,648	$226,741	$6,907	3.0 %	$66,326	$163,202	299,974	389,943	(89,969)	(23.1)%
Other expenses:										
Depreciation and amortization							131,806	194,001	(62,195)	(32.1)%
General and administrative							50,256	57,457	(7,201)	(12.5)%
Loss on asset impairment							58,476	17,162	41,314	240.7 %
Total other expenses							240,538	268,620	(28,082)	(10.5)%
Operating income							59,436	121,323	(61,887)	(51.0)%
Interest and other income							10,331	5,989	4,342	72.5 %
Interest expense							(84,329)	(107,316)	22,987	(21.4)%
(Loss) gain on early extinguishment of debt							(2,680)	6,661	(9,341)	(140.2)%
Foreign currency exchange loss							(5)	(8,857)	8,852	(99.9)%
Gain on sale of properties, net							250,886	84,421	166,465	197.2 %
Income before income taxes							233,639	102,221	131,418	128.6 %
Income tax expense							(745)	(2,364)	1,619	(68.5)%
Net income							232,894	99,857	133,037	133.2 %
Preferred distributions							(17,956)	(27,924)	9,968	(35.7)%
Excess fair value of consideration paid over carrying value of preferred shares							(9,609)	—	(9,609)	(100.0)%
Net income available for Equity Commonwealth common shareholders							$205,329	$71,933	$133,396	185.4 %

(1) Comparable properties consist of 33 properties (64 buildings) owned continuously from January 1, 2015 to December 31, 2016.
(2) Other properties consist of properties sold.
(3) We calculate net operating income, or NOI, as shown above. We define NOI as income from our real estate including lease termination fees received from tenants less our property operating expenses. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions. We consider NOI to be an

appropriate supplemental measure to net income because it may help both investors and management to understand the operations of our properties. We use NOI internally to evaluate property level performance, and we believe that NOI provides useful information to investors regarding our results of operations because it reflects only those income and expense items that are incurred at the property level and may facilitate comparisons of our operating performance between periods and with other REITs. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered as an alternative to net income, net income attributable to Equity Commonwealth common shareholders, operating income or cash flow from operating activities, determined in accordance with GAAP, or as an indicator of our financial performance or liquidity, nor is this measure necessarily indicative of sufficient cash flow to fund all of our needs. This measure should be considered in conjunction with net income, net income attributable to Equity Commonwealth common shareholders, operating income and cash flow from operating activities as presented in our consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Other REITs and real estate companies may calculate NOI differently than we do.

We refer to the 33 properties (64 buildings) we owned continuously from January 1, 2015 to December 31, 2016, as comparable properties. We refer to the sold properties as other properties. Our consolidated statements of operations for the years ended December 31, 2016 and 2015, include the operating results of 33 properties for the entire periods, as we owned these properties as of January 1, 2015.

Rental income. Rental income decreased $161.3 million, or 28.3%, in the 2016 period, compared to the 2015 period, primarily due to the properties sold in 2016 and 2015, partially offset by an increase of 3.4% in rental income at the comparable properties. The increase in rental income at the comparable properties is due to an increase in straight line rent adjustments related to new leasing activity where the tenants have not yet started paying rent, partially offset by several large tenant lease expirations and lease contractions. The increase in rental income at the comparable properties is also due to charges against revenue of $2.7 million recognized during the year ended December 31, 2015 related to a one-time parking tax matter and a tenant lease termination at 600 West Chicago Avenue in the 2015 period.

Rental income includes increases for straight line rent adjustments totaling $14.1 million in the 2016 period and $5.3 million in the 2015 period, and net reductions for amortization of acquired real estate leases and assumed real estate lease obligations totaling $6.5 million in the 2016 period and $7.5 million in the 2015 period. Rental income also includes the recognition of lease termination fees totaling $23.4 million in the 2016 period and $8.2 million in the 2015 period.

Tenant reimbursements and other income. Tenant reimbursements and other income decreased $52.9 million, or 36.6% in the 2016 period, compared to the 2015 period primarily due to the properties sold in 2016 and 2015. Tenant reimbursements and other income decreased $4.3 million, or 5.4%, at our comparable properties primarily due to a decrease in utility reimbursements as a result of the milder winter in 2016, a decrease in real estate tax reimbursements and a bankruptcy settlement received in the prior year.

Operating expenses. The $124.2 million, or 38.2%, decrease in operating expenses during the 2016 period as compared to the 2015 period is primarily due to the properties sold in 2016 and 2015. Operating expenses at our comparable properties decreased $0.6 million, or 0.4%, primarily due to a decrease in utility expense as a result of the milder winter in 2016, a decrease in real estate tax expense and a decrease in bad debt expense, partially offset by increases in maintenance and repairs.

Depreciation and amortization. The decrease of $62.2 million, or 32.1%, in depreciation and amortization expense in the 2016 period when compared to the 2015 period primarily relates to properties sold in 2016 and 2015.

General and administrative. The decrease of $7.2 million, or 12.5% in general and administrative expenses primarily relates to a $7.9 million decrease related to the shareholder approved reimbursement of expenses incurred by Related/Corvex in connection with their consent solicitation to remove our former Trustees, a decrease of $2.7 million of expenses related to the termination and cooperation agreement with our former manager, and a $1.8 million decrease in litigation costs, partially offset by an increase of $2.9 million for share-based compensation expense, and $1.7 million of severance and related expenses in the 2016 period as a result of staffing reductions.

Loss on asset impairment. The increase of $41.3 million in loss on asset impairment is due to additional charges that we incurred in the 2016 as compared to the 2015 period. We recorded impairment charges of $43.7 million in the second quarter of 2016 related to 111 Monument Circle, 101-115 W. Washington Street and 100 East Wisconsin Avenue, and $14.7 million in the fourth quarter of 2016 related to Parkshore Plaza, Cabot Business Park Land, 625 Crane Street and 111 Market Place based upon the shortening of our expected periods of ownership as a result of our disposition plan and updated market information in accordance with our impairment analysis procedures. During the year ended December 31, 2015, we recorded impairment charges of $17.2 million related to 12655 Olive Boulevard, 1285 Fern Ridge Parkway and portfolios of properties located in Georgia and New York, based upon updated market information in accordance with our impairment analysis procedures.

Operating income. The decrease of $61.9 million, or 51.0%, in operating income is primarily due to lower net operating income as a result of our smaller size portfolio of assets and an increase in the loss on asset impairment. These decreases in operating income were partially offset by a lease termination fee of $18.0 million received at 111 Monument Circle in the 2016 period and lower depreciation expense as a result of our smaller size portfolio of assets.

Interest and other income. The increase of $4.3 million of interest and other income in the 2016 period primarily reflects interest received on higher cash balances in the current year. Interest and other income in the 2015 period primarily reflects a $3.1 million gain on the sale of securities in the first quarter of 2015.

Interest expense. The decrease of $23.0 million, or 21.4%, in interest expense primarily reflects the prepayment of $138.8 million of our 5.75% senior unsecured notes in May 2015, the foreclosure of the $40.1 million mortgage debt balance secured by 225 Water Street in May 2015, the defeasance of the outstanding $141.4 million balance of the mortgage debt secured by 111 East Wacker Drive, one of the buildings included in the Illinois Center disposition, in August 2015, the repayment of the $116.0 mortgage debt at 111 Monument Circle in December 2015, the prepayment of $139.1 million of our 6.25% senior unsecured notes in February 2016, the repayment of the $167.8 million mortgage debt at 1735 Market Street in November 2016, the prepayment of $250.0 million of our 6.25% senior unsecured notes in December 2016, and a decrease in amortization of deferred financing fees, partially offset by a decrease in amortization of net mortgage debt premiums and an increase in interest expense related to our term loans as a result of an increase in interest rates.

(Loss) gain on early extinguishment of debt. We had a loss on early extinguishment of debt of $2.7 million during the year ended December 31, 2016 compared to a gain on early extinguishment of debt of $6.7 million during the year ended December 31, 2015. The loss on early extinguishment in the 2016 period reflects the write-off of an unamortized discount and unamortized deferred financing fees related to our redemption of $139.1 million of our 6.25% senior unsecured notes due 2016 and $250.0

million of our 6.25% senior unsecured notes due 2017 and the write-off of unamortized deferred financing fees and breakage costs incurred related to our repayment of the mortgage debt at 1735 Market Street. The gain on early extinguishment of debt in the 2015 period reflects a $17.3 million gain related to the 225 Water Street foreclosure and a $0.6 million gain related to the repayment of mortgage debt at 111 Monument Circle, partially offset by a $6.2 million loss related to the defeasance of the mortgage loan secured by 1320 Main Street, a $3.9 million loss related to the defeasance of the mortgage loan secured by 111 East Wacker Drive, one of the buildings included in the Illinois Center disposition, a $0.6 million loss related to the prepayment of mortgage debt at 2501 20th Place South, a $0.1 million loss related to the redemption of $138.8 million of our 5.75% senior unsecured notes due 2015 and a $0.4 million loss related to the termination of our prior credit agreement.

Foreign currency exchange loss. The foreign currency exchange loss for the years ended December 31, 2016 and 2015 relates to the translation of proceeds from the sale of the Australian portfolio that were held in an Australian bank account.

Gain on sale of properties, net. Gain on sale of properties, net increased $166.5 million in the 2016 period as compared to the 2015 period due to a $16.5 million gain on the sale of Executive Park, a $5.5 million gain on the sale of 3330 N Washington Boulevard, a $14.7 million gain on the sale of 111 East Kilbourn Avenue, a $9.0 million gain on the sale of 1525 Locust Street, a $16.0 million gain on the sale of 633 Ahua Street, a $13.6 million gain on the sale of Lakewood on the Park, a $15.9 million gain on the sale of leased land, a $20.6 million gain on the sale of the downtown Austin portfolio, a $30.6 million gain on the sale of the movie theater portfolio and a $0.6 million gain on the sale of 9110 East Nichols Avenue in the first and second quarters of 2016. In the third quarter of 2016 we recorded gains of $78.2 million, $4.7 million, $8.4 million, and $7.2 million related to the sales of 111 River Street, Sky Park Centre, 8701 N Mopac and the South Carolina industrial portfolio, respectively. In the fourth quarter of 2016 we recorded gains of $14.9 million, $3.1 million and $7.7 million related to the sales of 7800 Shoal Creek Boulevard, 1200 Lakeside Drive and 6200 Glenn Carlson Drive, respectively. These gains were partially offset by losses in the third quarter of 2016 of $0.7 million and $15.8 million related to the sales of Raintree Industrial Park and the Midwest portfolio, respectively.

In the first quarter of 2015, we sold two properties and recorded a $5.9 million gain on sale of properties. In the second quarter of 2015, we recorded gains of $41.6 million and $11.9 million related to the sales of an office portfolio in AL, LA, NC, SC and Sorrento Valley Business Park, respectively. In the third quarter of 2015, we recorded gains of $27.0 million, $17.6 million and $7.9 million related to the sales of Illinois Center, 185 Asylum Street and 16th and Race Street, respectively. In the fourth quarter of 2015, we recorded gains of $22.8 million, $9.5 million, $8.4 million and $4.3 million related to the sales of Arizona Center, One Park Square, 4 South 84th Avenue and One South Church Avenue, respectively.

These gains were partially offset by a loss in the second quarter on the sale of properties in Australia of $47.9 million, which is net of the write off of approximately $63.2 million of foreign currency translation adjustments previously recorded in accumulated other comprehensive loss. We also recognized losses in the second quarter of $8.2 million and $2.3 million related to sales of a portfolio of small office and industrial properties and two properties in St. Louis, respectively, a loss in the third quarter of $12.5 million related to the sale of a portfolio in upstate New York and losses in the fourth quarter of $3.1 million and $0.4 million related to the sale of a portfolio in Georgia and the sale of 775 Ridge Lake Boulevard, respectively.

Income tax expense. The $1.6 million decrease in income tax expense primarily relates to a decrease in foreign tax expense due to the sale of the Australian assets in 2015 and federal income tax expense incurred in 2015 as a result of a taxable built-in gain triggered by the sale of a property that was previously owned by a C corporation. The decrease in income tax expense was partially offset by an increase in state income tax expense due to the sale of properties in certain states.

Preferred distributions. The $10.0 million decrease in preferred distributions relates to the redemption of all of our 11,000,000 outstanding series E preferred shares on May 15, 2016.

Excess fair value of consideration paid over carrying value of preferred shares. On May 15, 2016, we redeemed all of our 11,000,000 outstanding series E preferred shares at a price of $25.00 per share and recorded $9.6 million related to the excess fair value of consideration paid over the carrying value of the preferred shares as a reduction to net income attributable to common shareholders for the year ended December 31, 2016.

RESULTS OF OPERATIONS

Year Ended December 31, 2015, Compared to Year Ended December 31, 2014

	Comparable Properties Results(1)				Other Properties Results(2)		Consolidated Results			
	Year Ended December 31,									
	2015	2014	$ Change	% Change	2015	2014	2015	2014	$ Change	% Change
	(in thousands)									
Rental income	$432,921	$431,677	$1,244	0.3 %	$137,461	$260,022	$570,382	$691,699	$(121,317)	(17.5
Tenant reimbursements and other income	108,253	109,589	(1,336)	(1.2)%	36,256	60,569	144,509	170,158	(25,649)	(15.1
Operating expenses	(230,534)	(229,777)	(757)	0.3 %	(94,414)	(158,205)	(324,948)	(387,982)	63,034	(16.2
Net operating income(3)	$310,640	$311,489	$(849)	(0.3)%	$79,303	$162,386	389,943	473,875	(83,932)	(17.7
Other expenses:										
Depreciation and amortization							194,001	227,532	(33,531)	(14.7
General and administrative							57,457	113,155	(55,698)	(49.2
Loss on asset impairment							17,162	185,067	(167,905)	(90.7
Acquisition related costs							—	5	(5)	(100.0
Total other expenses							268,620	525,759	(257,139)	(48.9
Operating income (loss)							121,323	(51,884)	173,207	(333.8
Interest and other income							5,989	1,561	4,428	283.7
Interest expense							(107,316)	(143,230)	35,914	(25.1
Gain on early extinguishment of debt							6,661	4,909	1,752	35.7
Gain on sale of equity investment							—	171,561	(171,561)	(100.0
Gain on issuance of shares by an equity investee							—	17,020	(17,020)	(100.0
Foreign currency exchange loss							(8,857)	—	(8,857)	(100.0
Gain on sale of properties, net							84,421	—	84,421	100.0
Loss from continuing operations before income taxes and equity in earnings of investees							102,221	(63)	102,284	(162,355.
Income tax expense							(2,364)	(3,191)	827	(25.9
Equity in earnings of investees							—	24,460	(24,460)	(100.0
Income from continuing operations							99,857	21,206	78,651	370.9

Discontinued operations:				
Income from discontinued operations	—	8,389	(8,389)	(100.0
Loss on asset impairment from discontinued operations	—	(2,238)	2,238	(100.0
Loss on early extinguishment of debt from discontinued operations	—	(3,345)	3,345	(100.0
Net income	99,857	24,012	75,845	315.9
Preferred distributions	(27,924)	(32,095)	4,171	(13.0
Excess fair value of consideration over carrying value of preferred shares	—	(16,205)	16,205	(100.0
Net income (loss) attributable to Equity Commonwealth common shareholders	$71,933	$(24,288)	$96,221	(396.2

Comparable properties consist of 65 properties (127 buildings) owned continuously from January 1, 2014 to December 31, 2015.

(1) Other properties consist of properties sold.

(2) See Note 3 on page 33 for further information regarding NOI.

We refer to the 65 properties (127 buildings) we owned continuously from January 1, 2014 to December 31, 2015, as comparable properties. We refer to the sold properties as other properties. Our consolidated statements of operations for the years ended December 31, 2015 and 2014 include the operating results of 65 properties for the entire periods, as we owned these properties as of January 1, 2014.

Rental income. Rental income decreased $121.3 million in the 2015 period, compared to the 2014 period, primarily due to the properties sold during the year ended December 31, 2015. Our rental income from comparable properties increased $1.2 million primarily due to an increase in the recognition of lease termination fees and increases due to the write offs in 2014 of an acquired real estate lease after a tenant vacated its space prior to the lease expiration and of a deferred rent receivable after a tenant contracted its lease space. These increases were partially offset by a decrease in rental income due to leasing activity in 2015 at a particular building where one tenant vacated its space and two tenants shortened their remaining lease terms. In connection with these leasing transactions, the corresponding deferred rent receivable balances were written off or amortized over the shorter term. The increase in rental income was also partially offset by charges against revenues of $2.7 million related to a parking tax matter and a tenant lease termination at 600 West Chicago Avenue recognized during the year ended December 31, 2015.

Rental income includes increases for straight line rent adjustments totaling $5.3 million in the 2015 period and $12.5 million in the 2014 period, and net reductions for amortization of acquired real estate leases and assumed real estate lease obligations totaling $7.5 million in the 2015 period and $10.6 million in the 2014 period. Rental income also includes the recognition of lease termination fees totaling $8.2 million in the 2015 period and $4.7 million in the 2014 period.

Tenant reimbursements and other income. Tenant reimbursements and other income decreased $25.6 million in the 2015 period, compared to the 2014 period primarily due to the properties sold in 2015 and a $1.3 million decrease at our comparable properties primarily resulting from non-recurring prior year utility expense reimbursement.

Operating expenses. The $63.0 million decrease in operating expenses during the 2015 period as compared to the 2014 period is primarily due to the properties sold during the year ended December 31, 2015, partially offset by a $0.8 million increase at our comparable properties. The increase in operating expenses at the comparable properties primarily reflects increases in real estate tax expense related to increases in assessed values, bad debt expense primarily due to an evicted tenant, property related legal fees, maintenance and repairs, HVAC expenses and cleaning expenses, partially offset by decreases in management fees and increases in real estate tax refunds in 2015 related to prior year real estate taxes.

Depreciation and amortization. The decrease in depreciation and amortization expense in the 2015 period when compared to the 2014 period primarily relates to properties sold in 2015. This decrease was partially offset by an increase in depreciation and amortization expense resulting from the leasing transactions discussed above, where due to one tenant vacating its space and two other tenants shortening their remaining lease term, the corresponding tenant improvements were written off or depreciation was accelerated.

General and administrative. The decrease in general and administrative expenses primarily relates to $43.9 million of business management and incentive fees paid to our prior external manager in 2014, a $14.5 million decrease related to the shareholder approved reimbursement of expenses incurred by Related/Corvex in connection with their consent solicitation to remove our former Trustees, and a $9.4 million decrease in legal and litigation costs, partially offset by the internalization of our management, which includes a $9.5 million increase in share-based compensation expense.

Loss on asset impairment. During the year ended December 31, 2015, we recorded an impairment charge of $17.2 million related to 12655 Olive Boulevard, 1285 Fern Ridge Parkway and portfolios of properties located in Georgia and New York, based upon updated market information in accordance with our impairment analysis procedures. The impairment charge in 2014 includes $22.7 million related to 225 Water Street where we made the decision to cease making loan servicing payments and impairment losses recorded in the fourth quarter of 2014 as a result of the change in the anticipated holding period for certain properties.

Interest and other income. The increase in interest and other income primarily relates to a $3.1 million gain on the sale of securities in the first quarter of 2015 and an increase in bank interest income due to a higher average cash balance during the 2015 period as compared to the 2014 period.

Interest expense. The decrease in interest expense in the 2015 period primarily reflects the payment of the $235.0 million balance on our revolving credit facility in July 2014, the prepayment of $265.0 million of 5.68% mortgage debt in August 2014, the prepayment of $33.4 million of our 6.40% unsecured notes in September 2014, the prepayment of $125.0 million of our 7.50% unsecured notes in November 2014 the payment of $100.0 million of our term loan in December 2014, the prepayment of $138.8 million of our 5.75% senior unsecured notes due 2015 in May 2015, the foreclosure of 225 Water Street in May 2015 and the defeasance of the outstanding balance of the mortgage debt secured by 111 East Wacker Drive, one of the buildings included in Illinois Center, in August 2015.

Gain on early extinguishment of debt. The gain on early extinguishment of debt in the 2015 period reflects a $17.3 million gain related to the 225 Water Street foreclosure and a $0.6 million gain related to the repayment of mortgage debt at 111 Monument Circle, partially offset by a $6.2 million loss related to the defeasance of the mortgage loan secured by 1320 Main Street, a $3.9 million loss related to the defeasance of the mortgage loan secured by 111 East Wacker Drive, a $0.6 million loss related to the prepayment of mortgage debt at 2501 20th Place South, a $0.1 million loss related to the redemption of $138.8 million of our 5.75% senior notes and a $0.4 million loss related to the new credit agreement entered into in January 2015, which resulted in the termination of our prior credit agreement. The gain on early extinguishment of debt in the 2014 period primarily reflects the write-off of unamortized premiums and deferred financing fees related to the prepayment of $265.0 million of 5.68% mortgage debt at 600 West Chicago Avenue in August 2014, partially offset by the write off of deferred financing fees related to the prepayment of $125.0 million of our 7.50% unsecured senior notes due 2019.

Gain on sale of equity investments. The gain on sale of equity investments in the 2014 period reflects the sale on July 9, 2014 of our entire stake of 22,000,000 common shares of SIR at a per share sales price in excess of our per share carrying value, partially offset by a loss on the sale of our investment in AIC in May 2014.

Gain on issuance of shares by an equity investee. The gain on issuance of shares by an equity investee primarily reflects the issuance of 10,000,000 common shares by SIR during the second quarter of 2014 at prices above our per share carrying value.

Foreign currency exchange loss. The foreign currency exchange loss for the year ended December 31, 2015 relates to the change in foreign currency rates resulting in losses on cash proceeds from the Australian portfolio disposition maintained in an Australian bank account prior to the transfer of cash from our Australian subsidiary to our U.S bank accounts.

Gain on sale of properties, net. In the first quarter of 2015, we sold two properties and recorded a $5.9 million gain on sale of properties. In the second quarter of 2015, we recorded gains of $41.6 million and $11.9 million related to the sales of an office portfolio in AL, LA, NC, SC and Sorrento Valley Business Park, respectively. In the third quarter of 2015, we recorded gains of $27.0 million, $17.6 million and $7.9 million related to the sales of Illinois Center, 185 Asylum Street and 16th and Race Street, respectively. In the fourth quarter of 2015, we recorded gains of $22.8 million, $9.5 million, $8.4 million and $4.3 million related to the sales of Arizona Center, One Park Square, 4 South 84th Avenue and One South Church Avenue, respectively.

These gains were partially offset by a loss in the second quarter on the sale of properties in Australia of $47.9 million, which is net of the write off of approximately $63.2 million of foreign currency translation adjustments previously recorded in accumulated other comprehensive loss. We also recognized losses in the second quarter of $8.2 million and $2.3 million related to sales of a portfolio of small office and industrial properties and two properties in St. Louis, respectively a loss in the third quarter of $12.5 million related to the sale of a portfolio in upstate New York and losses in the fourth quarter of $3.1 million and $0.4 million related to the sale of a portfolio in Georgia and the sale of 775 Ridge Lake Boulevard, respectively.

Income tax expense. The decrease in income tax expense relates to a decrease in foreign tax expense related to the Australian assets, which were sold in June 2015. The decrease in the foreign tax expense was partially offset by federal income tax expense in the second quarter of 2015 incurred as a result of a taxable built-in gain triggered by the sale of a property that was previously owned by a C corporation.

Equity in earnings of investees. Equity in earnings of investees represents our proportionate share of earnings from SIR during the 2014 period prior to the sale of our entire stake of 22,000,000 common shares of SIR on July 9, 2014 and our proportionate share of earnings from AIC during the 2014 period prior to the sale of our investment in AIC on May 9, 2014.

Income from discontinued operations. In 2015, we adopted ASU 2014-08 and did not classify the properties sold in 2015 as discontinued operations in accordance with this guidance. Income from discontinued operations in the 2014 period relates to 14 properties (43 buildings) sold in 2014.

Loss on asset impairment from discontinued operations. The 2014 loss on asset impairment reflects the write down to estimated fair value less costs to sell for 14 properties (43 buildings) sold during 2014.

Loss on early extinguishment of debt from discontinued operations. The 2014 loss on early extinguishment of debt reflects prepayment premiums and the write off of unamortized discounts and deferred financing fees associated with the repayment of $11.2 million of 6.14% mortgage debt and $8.5 million of 5.78% mortgage debt in June 2014.

Preferred distributions. The decrease in preferred distributions reflects the conversion of 10,264,503 of our series D preferred shares into 10,412,499 of our common shares during the year ended December 31, 2014.

Excess fair value of consideration over carrying value of preferred shares. As a result of the conversion of our series D preferred shares in May 2014, we recorded a preferred distribution of $16.2 million for the excess of the market value of the common shares issued above the carrying value of the series D preferred shares converted.

Inflation

Inflation in the past several years in the United States has been modest. Future inflation might have either positive or negative impacts on our business. Inflation might cause the value of our real estate to increase. Inflation might also cause our costs of equity and debt capital and operating costs to increase. An increase in our capital costs or in our operating costs may result in decreased earnings unless it is offset by increased revenues. Further inflation may permit us to increase rents upon renewal or enter new leases above the previous rent amounts for the leased space.

To mitigate the adverse impact of any increased cost of debt capital in the event of material inflation, we may enter into additional interest rate hedge arrangements in the future. The decision to enter into these agreements will be based on various factors, including the amount of our floating rate debt outstanding, our belief that material interest rate increases are likely to occur, the costs of and our expected benefit from these agreements and upon requirements of our borrowing arrangements.

In periods of rapid inflation, our tenants' operating costs may increase faster than revenues, which may have an adverse impact upon us if our tenants' operating income becomes insufficient to pay our rent. To mitigate the adverse impact of tenant financial distress upon us, we require many of our tenants to provide guarantees or security for our rent.

LIQUIDITY AND CAPITAL RESOURCES

Our Operating Liquidity and Resources

As of December 31, 2016, we had $2.1 billion of cash and cash equivalents. We expect to use our cash balances, cash flow from our operations and proceeds of future property sales to fund our operations, repay debt, make distributions, purchase our common shares, acquire assets, fund tenant improvements and leasing costs and for other general business purposes. We believe our cash balances and the cash flow from our operations will be sufficient to fund our ordinary course activities.

Our future cash flows from operating activities will depend primarily upon our:

- ability to maintain or improve the occupancy of, and the rental rates at, our properties;
- ability to control operating and financing cost increases at our properties; and
- ability to purchase additional properties which produce rents, less property operating expenses, in excess of our costs of acquisition capital and which are consistent with our office repositioning strategy.

Volatility in energy costs and real estate taxes may cause our future operating costs to fluctuate; however, the impact of these fluctuations is expected to be partially offset by the pass through of operating costs to our tenants pursuant to lease terms, although there can be no assurance that we will be able to successfully offset these costs or that doing so would not negatively impact our competitive position or business.

Cash flows provided by (used in) operating, investing and financing activities were $163.0 million, $1,052.1 million and $(923.2) million, respectively, for the year ended December 31, 2016, and $181.5 million, $1,648.9 million and $(382.7) million, respectively, for the year ended December 31, 2015. Changes in these three categories of our cash flows between 2016 and 2015 are primarily related to real estate improvements, our dispositions of properties, our purchase of our common shares, our repayments of debt, and our redemption of our preferred shares.

Our Investment and Financing Liquidity and Resources

In order to maintain financial flexibility, to fund acquisitions and to meet cash needs that may result from timing differences between our receipt of rents and our desire or need to make distributions and investments or pay operating or capital expenses, we maintain an unsecured revolving credit facility with a group of institutional lenders. Our credit agreement provides us with (i) a $750.0 million unsecured revolving credit facility, (ii) a $200.0 million 5-year term loan facility and (iii) a $200.0 million 7-year term loan facility. The revolving credit facility has a scheduled maturity date of January 28, 2019, which maturity date may be extended for up to two additional periods of six months at our option subject to satisfaction of certain conditions and the payment of an extension fee of 0.075% of the aggregate amount available under the revolving credit facility. The 5-year term loan and the 7-year term loan have scheduled maturity dates of January 28, 2020 and January 28, 2022, respectively.

Borrowings under our revolving credit facility currently bear interest at LIBOR plus a spread, which was 125 basis points as of December 31, 2016. We also pay a facility fee of 25 basis points per annum on the total amount of lending commitments under our revolving credit facility. Both the interest rate spread and the facility fee are subject to adjustment based upon changes to our credit ratings. We are allowed to borrow, repay and reborrow funds available under our revolving credit facility until maturity, and no principal repayment is due until maturity. As of December 31, 2016, the interest rate payable on borrowings under our revolving credit facility was 2.02%. As of December 31, 2016, we had no balance outstanding under our revolving credit facility.

Our term loans currently bear interest at a rate of LIBOR plus a spread, which was 140 and 180 basis points for the 5-year and 7-year term loan, respectively, as of December 31, 2016. The interest rate spread is subject to adjustment based upon changes to our credit ratings. As of December 31, 2016, the interest rate for the amounts outstanding under our term loan was 2.17% and 2.57% for the 5-year and 7-year term loan, respectively. As of December 31, 2016, our 5-year and 7-year term loans each had outstanding balances of $200.0 million.

On February 16, 2016, we redeemed at par $139.1 million of our 6.25% senior unsecured notes due 2016. On November 10, 2016, we repaid at par $167.8 million of mortgage debt at 1735 Market Street. On December 15, 2016, we redeemed at par $250.0 million of our 6.25% senior unsecured notes due 2017.

During the year ended December 31, 2016, we paid an aggregate of $18.0 million of distributions on our series D and series E preferred shares. On May 15, 2016, we redeemed all of our 11,000,000 outstanding series E preferred shares at a price of $25.00 per share, for a total of $275.0 million, plus any accrued and unpaid dividends. The redemption payment occurred on May 16, 2016 (the first business day following the redemption date). On January 12, 2017, we announced that our Board of Trustees declared a dividend of $0.40625 per series D preferred share, which was paid on February 15, 2017 to shareholders of record on January 30, 2017.

On March 17, 2016, our Board of Trustees authorized the repurchase of up to an additional $150.0 million of our outstanding common shares over the twelve month period following the date of authorization. This is in addition to the $200.0 million previously authorized by our Board of Trustees in 2015. During the year ended December 31, 2016, we purchased and retired 2,491,675 of our common shares at a weighted average price of $27.68 per share for a total investment of $69.0 million. Since the inception of the common share repurchase plan through December 31, 2016, we have purchased and retired a total of 5,901,975 of our common shares at a weighted average price of $26.57 per share, for a total of $156.8 million. In August and September 2016, the first two share repurchase authorizations, of which $86.6 million was not utilized, expired. The $106.6 million of remaining authorization available under our share repurchase program as of December 31, 2016 is scheduled to expire in March 2017.

Our outstanding debt maturities and weighted average interest rates as of December 31, 2016, were as follows (dollars in thousands):

	Scheduled Principal Payments During Period					
Year	Unsecured Floating Rate Debt	Unsecured Fixed Rate Debt	Secured Fixed Rate Debt	Total(1)	Weighted Average Interest Rate(2)	
2017	$—	$—	$42,675	$42,675	5.7	%
2018	—	250,000	1,488	251,488	6.6	%
2019	—	—	1,580	1,580	6.0	%
2020	200,000	250,000	1,674	451,674	4.2	%
2021	—	—	25,982	25,982	5.7	%
2022	200,000	—	799	200,799	2.6	%

2023	—	—		702	702	5.7 %
2024	—	—		743	743	5.7 %
2025	—	—		787	787	5.7 %
2026	—	—		204	204	5.7 %
Thereafter	—	175,000	(3)	—	175,000	5.8 %
	$400,000	$675,000		$76,634	$1,151,634	4.8 %

40

(1) Total debt outstanding as of December 31, 2016, including net unamortized premiums and discounts and net unamortized deferred financing costs, equals $1,141,667.
(2) Weighted based on current contractual interest rates.
(3) The 5.75% senior unsecured notes due 2042 are callable at par on or after August 1, 2017.

For further information about our indebtedness, see Note 8 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference.

When significant amounts are outstanding under our revolving credit facility, or as the maturity dates of our revolving credit facility and term debts approach, we explore alternatives to repay amounts due. Such alternatives may include incurring additional debt and issuing new equity securities, extending the maturity of our revolving credit facility and entering into a new revolving credit facility. We have an effective shelf registration statement that allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for such securities.

We believe that we will have access to various types of financings, including debt or equity offerings, to fund our future acquisitions and to pay our debts and other obligations as they become due. The completion and the costs of our future debt transactions will depend primarily upon market conditions and our credit ratings. We have no control over market conditions. Our credit ratings depend upon evaluations by credit rating agencies of our business practices and plans and, in particular, whether we appear to have the ability to maintain our earnings, to space our debt maturities and to balance our use of debt and equity capital so that our financial performance and leverage ratios afford us flexibility to withstand any reasonably foreseeable adverse changes. We intend to conduct our business activities in a manner which will continue to afford us reasonable access to capital for investment and financing activities. However, there can be no assurance regarding our credit ratings or our ability to complete any debt or equity offerings or that our cost of any future public or private financings will not increase.

During the year ended December 31, 2016, we sold 30 properties (62 buildings) with a combined 8.0 million square feet for an aggregate sales price of $1.3 billion, excluding closing costs. In January 2017, we sold 111 Market Place (one building), with 589,380 square feet for $60.1 million, excluding closing costs. For more information regarding these transactions, see Notes 3 and 20 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, which are incorporated herein by reference.

During the years ended December 31, 2016, 2015 and 2014 amounts capitalized at our properties, including properties sold and properties classified in discontinued operations, for tenant improvements, leasing costs, building improvements were as follows (amounts in thousands):

	Years Ended December 31,		
	2016	2015	2014
Tenant improvements(1)	$80,975	$54,272	$58,238
Leasing costs(2)	34,329	44,590	37,091
Building improvements(3)	29,767	21,403	33,370

(1) Tenant improvements include capital expenditures to improve tenants' space.
(2) Leasing costs primarily include brokerage commissions and legal expenses.
(3) Building improvements generally include expenditures to replace obsolete building components and expenditures that extend the useful life of existing assets. Tenant-funded capital expenditures are excluded.

During the year ended December 31, 2016, commitments made for expenditures in connection with leasing space at our properties were as follows (dollar and square foot measures in thousands):

New Leases	Renewals	Total
1,191	3,112	4,303

Rentable square feet leased during the period			
Tenant improvements and leasing commissions	$ 83,827	$ 59,187	$ 143,014
Tenant improvements and leasing commissions per rentable square foot	$ 70.40	$ 19.02	$ 33.31
Weighted average lease term by square foot (years)	10.4	8.1	8.7
Tenant improvements and leasing commissions per rentable square foot per year	$ 6.78	$ 2.42	$ 3.88

Debt Covenants

Our unsecured debt obligations at December 31, 2016 were our term loans and our publicly issued senior unsecured notes. Our public debt indenture and related supplements and our credit agreement contain a number of financial ratio covenants which generally restrict our ability to incur debts, in excess of calculated amounts, restrict our ability to make distributions under certain circumstances and require us to maintain other financial ratios. At December 31, 2016, we believe we were in compliance with all covenants under both our indenture and related supplements and under our credit agreement. In addition to our unsecured debt obligations, we had $77.7 million (including net unamortized premiums and net unamortized deferred financing costs) of mortgage notes outstanding at December 31, 2016.

None of our indenture and related supplements, our credit agreement, or our mortgage notes contain provisions for acceleration or require us to provide collateral security which could be triggered by our debt ratings. However, our senior debt rating is used to determine the interest rate and the fees payable under our credit agreement.

OFF BALANCE SHEET ARRANGEMENTS

As of December 31, 2016, we had no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. We had no swaps or hedges as of December 31, 2016, other than the interest rate cap described in Note 12 of the Notes to Consolidated Financial Statements and under “Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk—Cap Agreement” in Part II, Item 7A of this Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS

As of December 31, 2016, our contractual obligations were as follows (dollars in thousands):

	Payment Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt obligations	$1,151,634	$42,675	$253,068	$477,656	$378,235
Tenant related obligations(1)	91,769	65,128	24,257	626	1,758
Projected interest expense(2)	378,030	53,865	72,944	43,273	207,948
Operating lease obligations—corporate office space	3,437	837	1,719	881	—
Total	$1,624,870	$162,505	$351,988	$522,436	$587,941

(1) Committed tenant related obligations are leasing commissions and tenant improvements and are based on leases in effect as of December 31, 2016.

(2) Projected interest expense is attributable to only the long term debt obligations listed above at existing rates and is not intended to project future interest costs which may result from debt prepayments, new debt issuances or changes in interest rates. Projected interest expense does not include interest that may become payable related to future borrowings under our revolving credit facility.

FUNDS FROM OPERATIONS (FFO) AND NORMALIZED FFO

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (NAREIT). NAREIT defines FFO as net income (loss), calculated in accordance with GAAP, excluding real estate depreciation and amortization, gains (or losses) from sales of depreciable property, impairment of depreciable real estate, and our portion of these items related to equity investees and non-controlling interests. Our calculation of

Normalized FFO differs from NAREIT's definition of FFO because we exclude certain items that we view as nonrecurring or impacting comparability from period to period. We consider FFO and Normalized FFO to be appropriate measures of operating performance for a REIT, along with net income, net income attributable to Equity Commonwealth common shareholders, operating income and cash flow from operating activities.

We believe that FFO and Normalized FFO provide useful information to investors because by excluding the effects of certain historical amounts, such as depreciation expense, FFO and Normalized FFO may facilitate a comparison of our operating performance between periods and with other REITs. FFO and Normalized FFO do not represent cash generated by operating activities in accordance with GAAP and should not be considered as alternatives to net income, net income attributable to Equity Commonwealth common shareholders, operating income or cash flow from operating activities, determined in accordance with GAAP, or as indicators of our financial performance or liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of our needs. These measures should be considered in conjunction with net income, net income attributable to Equity Commonwealth common shareholders, operating income and cash flow from operating activities as presented in our consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Other REITs and real estate companies may calculate FFO and Normalized FFO differently than we do.

The following table provides a reconciliation of net income attributable to Equity Commonwealth to FFO attributable to Equity Commonwealth common shareholders and a calculation to Normalized FFO attributable to Equity Commonwealth common shareholders (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Reconciliation to FFO:			
Net income attributable to Equity Commonwealth	$232,894	$99,857	$24,012
Real estate depreciation and amortization	130,765	194,001	227,532
Loss on asset impairment from continuing operations	58,476	17,162	185,067
Loss on asset impairment from discontinued operations	—	—	2,238
FFO from equity investees	—	—	33,007
Gain on sale of properties	(250,886)	(84,421)	—
Equity in earnings of investees	—	—	(24,460)
FFO attributable to Equity Commonwealth	171,249	226,599	447,396
Preferred distributions	(17,956)	(27,924)	(32,095)
Excess fair value of consideration paid over carrying value of preferred shares	(9,609)	—	—
FFO attributable to Equity Commonwealth common shareholders	$143,684	$198,675	$415,301
Reconciliation to Normalized FFO:			
FFO attributable to Equity Commonwealth common shareholders	$143,684	$198,675	$415,301
Lease value amortization	6,531	7,515	10,650
Straight line rent from continuing operations	(14,083)	(5,328)	(12,531)
Straight line rent from discontinued operations	—	—	(226)
Loss (gain) on early extinguishment of debt from continuing operations	2,680	(6,661)	(4,909)
Loss on early extinguishment of debt from discontinued operations	—	—	3,345
Minimum cash rent from direct financing lease	—	7,451	8,128
Gain on sale of equity investment	—	—	(171,561)
Gain on issuance of shares by an equity investee	—	—	(17,020)
Interest earned from direct financing lease	—	(407)	(787)
Normalized FFO from equity investees, net of FFO	—	—	(3,353)
Shareholder litigation costs and transition-related expenses	999	10,869	37,681
Transition services fee	—	2,679	3,600
Acquisition related costs	—	—	5
Gain on sale of securities	—	(3,080)	—
Foreign currency exchange loss	5	8,857	—
Excess fair value of consideration paid over carrying value of preferred shares	9,609	—	—
Normalized FFO attributable to Equity Commonwealth common shareholders	$149,425	$220,570	$268,323

43

PROPERTY NET OPERATING INCOME (NOI)

We use property net operating income, or NOI, to evaluate the performance of our properties. We define NOI as income from our real estate including lease termination fees received from tenants less our property operating expenses. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions and corporate level expenses.

The following table includes the reconciliation of NOI to net income, the most directly comparable financial measure under GAAP reported in our consolidated financial statements. We consider NOI to be an appropriate supplemental measure to net income because it helps to understand the operations of our properties. We use NOI internally to evaluate property level performance, and we believe that NOI provides useful information to investors regarding our results of operations because it reflects only those income and expense items that are incurred at the property level and may facilitate comparisons of our operating performance between periods and with other REITs. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered as an alternative to net income, net income attributable to Equity Commonwealth common shareholders, operating income or cash flow from operating activities, determined in accordance with GAAP, or as an indicator of our financial performance or liquidity, nor is this measure necessarily indicative of sufficient cash flow to fund all of our needs. This measure should be considered in conjunction with net income, net income attributable to Equity Commonwealth common shareholders, operating income and cash flow from operating activities as presented in our consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Other REITs and real estate companies may calculate NOI differently than we do.

A reconciliation of NOI to net income for the years ended December 31, 2016, 2015 and 2014, is as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Rental income	$409,071	$570,382	$691,699
Tenant reimbursements and other income	91,609	144,509	170,158
Operating expenses	(200,706)	(324,948)	(387,982)
NOI	$299,974	$389,943	$473,875
NOI	$299,974	$389,943	$473,875
Depreciation and amortization	(131,806)	(194,001)	(227,532)
General and administrative	(50,256)	(57,457)	(113,155)
Loss on asset impairment	(58,476)	(17,162)	(185,067)
Acquisition related costs	—	—	(5)
Operating income (loss)	59,436	121,323	(51,884)
Interest and other income	10,331	5,989	1,561
Interest expense	(84,329)	(107,316)	(143,230)
(Loss) gain on early extinguishment of debt	(2,680)	6,661	4,909
Gain on sale of equity investments	—	—	171,561
Gain on issuance of shares by an equity investee	—	—	17,020
Foreign currency exchange loss	(5)	(8,857)	—
Gain on sale of properties	250,886	84,421	—
Income (loss) from continuing operations before income taxes and equity in earnings of investees	233,639	102,221	(63)
Income tax expense	(745)	(2,364)	(3,191)
Equity in earnings of investees	—	—	24,460
Income from continuing operations	232,894	99,857	21,206
Income from discontinued operations	—	—	8,389
Loss on asset impairment from discontinued operations	—	—	(2,238)
Loss on early extinguishment of debt from discontinued operations	—	—	(3,345)
Net income	$232,894	$99,857	$24,012

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are those that will have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and estimates are consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in real property. These policies affect our:

- allocation of purchase price among various asset categories and the related impact on the recognition of rental income and depreciation and amortization expense;
- assessment of the carrying values and impairments of long lived assets; and
- classification of leases.

We allocate the consideration paid for our properties among land, buildings and improvements and, for properties that qualify as acquired businesses under the Business Combinations Topic of The FASB Accounting Standards Codification™, identified intangible assets and liabilities, consisting of the value of above market and below market leases, the value of acquired in place leases and the value of tenant relationships. Purchase price allocations and the determination of useful lives are based on our estimates and, under some circumstances, studies from independent real estate appraisal firms to provide

market information and evaluations that are relevant to our purchase price allocations and determinations of useful lives; however, we are ultimately responsible for the purchase price allocations and determination of useful lives.
We allocate the consideration to land, buildings and improvements based on a determination of the fair values of these assets assuming the property is vacant. We determine the fair value of a property using methods that we believe are similar to those used by independent appraisers. Purchase price allocations to above market and below market leases are based on the estimated present value (using an interest rate which reflects our assessment of the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the acquired in place leases and (2) our estimate of fair market lease rates for the corresponding leases, measured over a period equal to the remaining non-cancelable terms of the respective leases. Purchase price allocations to acquired in place leases and tenant relationships are determined as the excess of (1) the purchase price paid for a property after adjusting existing acquired in place leases to estimated market rental rates over (2) the estimated fair value of the property as if vacant. We aggregate this value between acquired in place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease; however, the value of tenant relationships has not been separated from acquired in place lease value for our properties because we believe such value and related amortization expense is immaterial for acquisitions reflected in our historical financial statements. We consider certain factors in performing these analyses including estimates of carrying costs during the expected lease up periods, including real estate taxes, insurance and other operating income and expenses and costs to execute similar leases in current market conditions, such as leasing commissions, legal and other related costs. If we believe the value of tenant relationships is material in the future, those amounts will be separately allocated and amortized over the estimated lives of the relationships. We recognize the excess, if any, of the consideration paid over amounts allocated to land, buildings and improvements and identified intangible assets and liabilities as goodwill and we recognize gains if amounts allocated exceed the consideration paid.
We compute depreciation expense using the straight line method over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property. We do not depreciate the allocated cost of land. We amortize capitalized above market lease values (presented in our consolidated balance sheets as acquired real estate leases) as a reduction to rental income over the remaining non-cancelable terms of the respective leases. We amortize capitalized below market lease values (presented in our consolidated balance sheets as assumed real estate lease obligations) as an increase to rental income over the remaining terms of the respective leases. We amortize the value of acquired in place leases exclusive of the value of above market and below market in place leases to expense over the remaining non-cancelable periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. Purchase price allocations require us to make certain assumptions and estimates. Incorrect assumptions and estimates may result in inaccurate depreciation and amortization charges over future periods.
We periodically evaluate our properties for possible impairments. Impairment indicators may include declining tenant occupancy, lack of progress releasing vacant space, tenant bankruptcies, low long term prospects for improvement in property performance, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life and legislative, market or industry changes that could permanently reduce the value of a property. If indicators of impairment are present, we evaluate the carrying value of the related property by comparing it to the expected future undiscounted cash flows to be generated from that property. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. Projections of expected future operating cash flows require that we estimate future market rental revenue amounts subsequent to the expiration of current lease agreements, future property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property's fair value and could result in the misstatement of the carrying value of our real estate assets and net income (loss).

Each time we enter a new lease or materially modify an existing lease we evaluate its classification as either a capital or operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and fair market value of a leased property, appropriate discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases.

These policies involve significant judgments made based upon experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual value, the ability and willingness of our tenants to perform their obligations to us, current and future economic conditions and competitive factors in the markets in which our properties are located. Competition, economic conditions and other factors may cause occupancy declines in the future. In the future, we may need to revise our carrying value assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense related to properties we own, result in the classification of our leases as other than operating leases or decrease the carrying values of our assets.

RELATED PERSON TRANSACTIONS

For information about our related person transactions, see Note 18 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to risks associated with market changes in interest rates, as set forth below.

Interest Rate Risk

We manage our exposure to interest rate risk by monitoring available financing alternatives. Other than as described below, we do not currently foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

At December 31, 2016, our outstanding fixed rate debt consisted of the following senior unsecured notes and secured mortgage notes (dollars in thousands):

Senior Unsecured Notes:

Debt	Principal Balance(1)	Annual Interest Rate(1)	Annual Interest Expense(1)	Maturity	Open at Par Date
6.650% senior unsecured notes due 2018	$ 250,000	6.65 %	$ 16,625	1/15/2018	7/15/2017
5.875% senior unsecured notes due 2020	250,000	5.88 %	14,688	9/15/2020	3/15/2020
5.750% senior unsecured notes due 2042	175,000	5.75 %	10,063	8/1/2042	8/1/2017
	$ 675,000		$ 41,376		

(1) The principal balance, annual interest rate and annual interest expense are the amounts stated in the applicable contracts. In accordance with GAAP, our carrying values and recorded interest expense may differ from these amounts because of market conditions and issuance costs at the time we issued these debts. For more information, see Note 8 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K.

No principal repayments are due under our senior unsecured notes until maturity.

Secured Mortgage Notes:

Debt	Principal Balance(1)	Annual Interest Rate(1)	Annual Interest Expense(1)	Maturity	Open at Par Date
Parkshore Plaza(2)	$ 41,275	5.67 %	$ 2,373	5/1/2017	12/1/2016
206 East 9th Street	27,041	5.69 %	1,601	1/5/2021	7/5/2020
33 Stiles Lane	2,415	6.75 %	201	3/1/2022	12/1/2021
97 Newberry Road	5,903	5.71 %	378	3/1/2026	None
	$ 76,634		$ 4,553		

(1) The principal balance, annual interest rate and annual interest expense are the amounts stated in the applicable contracts. In accordance with GAAP, our carrying values and recorded interest expense may differ from these amounts because of market conditions and issuance costs at the time we assumed or issued these debts. For more information, see Note 8 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K.

(2) The Company guarantees $3.2 million of this non-recourse loan.

Some of our secured notes require principal and interest payments through maturity pursuant to amortization schedules, and one of our secured notes requires interest only payments through maturity.

Swap Agreements

We have utilized and may utilize in the future interest rate swap agreements to manage our interest rate risk exposure on mortgage notes. We previously had interest rate swap agreements on $167.8 million of mortgage debt at 1735 Market Street, which required us to pay interest at a rate equal to a spread over LIBOR. These interest rate swap agreements effectively modified our exposure to interest rate risk arising from this floating rate mortgage loan by converting this floating rate debt to a fixed rate through December 1, 2016, thus reducing the impact of interest rate changes on future interest expense. In November 2016, we repaid at par the mortgage debt at 1735 Market Street and terminated these related interest rate swap agreements. We may use interest rate swap agreements in the future.

Cap Agreement

We entered into an interest rate cap agreement on March 4, 2016, effective April 1, 2016, to manage our interest rate risk exposure on $400.0 million of floating rate debt, which requires us to pay interest at a rate equal to a spread over LIBOR. The interest rate cap has a maturity date of March 1, 2019. From and after the effective date, this interest rate cap agreement reduces our exposure to variability in expected future cash outflows attributable to changes in LIBOR, relating to a portion of our outstanding floating rate debt, by protecting us from increases in the hedged cash flows on our floating rate debt attributable to changes in LIBOR above the strike rate of the interest rate cap. As of December 31, 2016, the fair value of our derivative instrument included in other assets and cumulative other comprehensive loss in our consolidated balance sheet totaled $0.3 million.

Fixed Rate Debt

Because our fixed rate unsecured and secured notes bear interest at fixed rates, changes in market interest rates during the term of these debts will not affect our interest obligations. If all of these notes were refinanced at interest rates which are 100 basis points higher or lower than shown above, our per annum interest cost would increase or decrease, respectively, by approximately $7.5 million.

Each of our fixed rate unsecured debt arrangements and some of our secured debt arrangements allow us to make repayments earlier than the stated maturity date. In some cases, we are not allowed to make early repayment prior to a cutoff date, and we are generally allowed to make prepayments only at a premium equal to a make whole amount, as defined, which is generally designed to preserve a stated yield to the note holder. Also, we have repurchased and retired some of our outstanding debts and we may do so again in the future. These prepayment rights and our ability to repurchase and retire outstanding debt may afford us opportunities to mitigate the risk of refinancing our debts at maturity at higher rates by refinancing prior to maturity.

Floating Rate Debt

At December 31, 2016, our outstanding floating rate debt consisted of our term loans. Our $200.0 million 5-year term loan matures in January 2020 and our $200.0 million 7-year term loan matures in January 2022. As of December 31, 2016, we had no balance outstanding and $750.0 million available under our revolving credit facility. Borrowings under our revolving credit facility and term loan are in U.S. dollars and bear interest at LIBOR plus spreads that are subject to adjustment based upon changes to our credit ratings. Accordingly, we are vulnerable to changes in U.S. dollar based short term rates, specifically LIBOR. Effective April 1, 2016, we entered into an interest rate cap agreement with respect to $400.0 million of floating rate debt, as described above under “Cap Agreement.” In addition, upon renewal or refinancing of our revolving credit facility or term loans, we are vulnerable to increases in interest rates due to market conditions or our perceived credit risk. Generally, a change in market interest rates would not affect the value of these floating rate debts, but would affect our operating results.

The following table presents the impact a 100 basis point increase in interest rates, including the impact of the interest rate cap, would have on our floating rate interest expense as of December 31, 2016 (dollars in thousands):

	Impact of Changes in Interest Rates		
	Interest Rate Per Year(1)	Outstanding Debt	Total Interest Expense Per Year
Term loans at December 31, 2016	2.17%/2.57%	$ 400,000	$ 9,487
100 basis point increase	3.17%/3.57%	$ 400,000	$ 13,487

(1) Based on the interest rates and outstanding borrowings of our floating rate debt as of December 31, 2016.

Foreign Currency Risk

Prior to the sale of our Australian portfolio, there was a risk that our financial results were affected by changes in currency exchange rates. As a result of the sale of our Australian portfolio, our primary exposure to foreign currency exchange rates subsequent to the June 2015 disposition related to the translation of the cash and cash equivalent balance at our Australian subsidiary from Australian dollars into U.S. dollars. As of December 31, 2016, we no longer have any foreign currency risk.

Item 8. Financial Statements and Supplementary Data.

The information required by Item 8 is included in Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2016.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Assessment of Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in Internal Control—Integrated Framework. Based on our assessment, we believe that, as of December 31, 2016 our internal control over financial reporting is effective.

Ernst & Young LLP, the independent registered public accounting firm that audited our 2016 consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting. The report appears elsewhere herein.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Our Code of Business Conduct and Ethics applies to all our representatives, including our officers and Trustees. Our Code of Business Conduct and Ethics is posted on our website, www.eqcre.com. A printed copy of our Code of Business Conduct and Ethics is also available free of charge to any person who requests a copy by writing to our Secretary, Equity Commonwealth, Two North Riverside Plaza, Suite 2100, Chicago, IL 60606. We intend to disclose any amendments or waivers to our Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller (or any person performing similar functions) on our website.

The remainder of the information required by Item 10 is incorporated by reference to our definitive Proxy Statement.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 is incorporated by reference to our definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is incorporated by reference to our definitive Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 is incorporated by reference to our definitive Proxy Statement.