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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36409

CITY OFFICE REIT, INC.
(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**98-1141883** **(I.R.S. Employer Identification No.)**

666 Burrard Street
Suite 3210
Vancouver, BC V6C 2X8
(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class	Trading Symbol(s)	Name of each Exchange on Which Registered
Common Stock, $0.01 par value	**"CIO"**	**New York Stock Exchange**
6.625% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share	**"CIO.PrA"**	**New York Stock Exchange**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The number of shares of Common Stock, $0.01 par value, of the registrant outstanding at July 29, 2024 was 40,154,055.

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City Office REIT, Inc.
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2024

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

City Office REIT, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except par value and share data)

	June 30, 2024	December 31, 2023
Assets		
Real estate properties		
Land	$ 193,524	$ 193,524
Building and improvement	1,181,387	1,194,819
Tenant improvement	158,980	152,540
Furniture, fixtures and equipment	1,284	820
	1,535,175	1,541,703
Accumulated depreciation	(238,097)	(218,628)
	1,297,078	1,323,075
Cash and cash equivalents	28,005	30,082
Restricted cash	15,337	13,310
Rents receivable, net	52,117	53,454
Deferred leasing costs, net	23,706	21,046
Acquired lease intangible assets, net	38,447	42,434
Other assets	25,811	27,975
Total Assets	$1,480,501	$ 1,511,376
Liabilities and Equity		
Liabilities:		
Debt	$ 649,318	$ 669,510
Accounts payable and accrued liabilities	34,153	29,070
Deferred rent	7,069	7,672
Tenant rent deposits	7,392	7,198
Acquired lease intangible liabilities, net	6,967	7,736
Other liabilities	16,506	17,557
Total Liabilities	721,405	738,743
Commitments and Contingencies (Note 9)		
Equity:		
6.625% Series A Preferred stock, $0.01 par value per share, 5,600,000 shares authorized, 4,480,000 issued and outstanding as of June 30, 2024 and December 31, 2023	112,000	112,000
Common stock, $0.01 par value, 100,000,000 shares authorized, 40,154,055 and 39,938,451 shares issued and outstanding as of June 30, 2024 and December 31, 2023	401	399
Additional paid-in capital	440,048	438,867
Retained earnings	205,031	221,213
Accumulated other comprehensive income/(loss)	1,037	(248)
Total Stockholders' Equity	758,517	772,231
Non-controlling interests in properties	579	402
Total Equity	759,096	772,633
Total Liabilities and Equity	$1,480,501	$ 1,511,376

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

City Office REIT, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Rental and other revenues	$42,342	$44,604	$ 86,836	$ 90,562
Operating expenses:				
Property operating expenses	17,492	17,246	35,237	34,966
General and administrative	3,820	3,668	7,531	7,433
Depreciation and amortization	14,723	15,768	29,798	31,072
Total operating expenses	36,035	36,682	72,566	73,471
Operating income	6,307	7,922	14,270	17,091
Interest expense:				
Contractual interest expense	(8,129)	(7,981)	(16,228)	(15,953)
Amortization of deferred financing costs and debt fair value	(343)	(323)	(661)	(647)
	(8,472)	(8,304)	(16,889)	(16,600)
Net loss on disposition of real estate property	(1,462)	(134)	(1,462)	(134)
Net (loss)/income	(3,627)	(516)	(4,081)	357
Less:				
Net income attributable to non-controlling interests in properties	(125)	(164)	(260)	(333)
Net (loss)/income attributable to the Company	(3,752)	(680)	(4,341)	24
Preferred stock distributions	(1,855)	(1,855)	(3,710)	(3,710)
Net loss attributable to common stockholders	$ (5,607)	$ (2,535)	$ (8,051)	$ (3,686)
Net loss per common share:				
Basic	$ (0.14)	$ (0.06)	$ (0.20)	$ (0.09)
Diluted	$ (0.14)	$ (0.06)	$ (0.20)	$ (0.09)
Weighted average common shares outstanding:				
Basic	40,154	39,938	40,126	39,906
Diluted	40,154	39,938	40,126	39,906
Dividend distributions declared per common share	$ 0.10	$ 0.10	$ 0.20	$ 0.30

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

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City Office REIT, Inc.
Condensed Consolidated Statements of Comprehensive (Loss)/Income
(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net (loss)/income	$ (3,627)	$ (516)	$(4,081)	$ 357
Other comprehensive (loss)/income:				
Unrealized cash flow hedge gain	650	3,749	3,557	2,284
Amounts reclassified to interest expense	(1,131)	(812)	(2,249)	(1,289)
Other comprehensive (loss)/income	(481)	2,937	1,308	995
Comprehensive (loss)/income	(4,108)	2,421	(2,773)	1,352
Less:				
Comprehensive income attributable to non-controlling interests in properties	(122)	(164)	(283)	(333)
Comprehensive (loss)/income attributable to the Company	$ (4,230)	$ 2,257	$(3,056)	$ 1,019

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

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City Office REIT, Inc.
Condensed Consolidated Statements of Changes in Equity
(Unaudited)

(In thousands)

	Number of shares of preferred stock	Preferred stock	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss)/income	Total stockholders' equity	Non-controlling interests in properties	Total equity
Balance—December 31, 2023	4,480	$112,000	39,938	$ 399	$438,867	$221,213	$ (248)	$ 772,231	$ 402	$772,633
Restricted stock award grants and vesting	—	—	216	2	42	(45)	—	(1)	—	(1)
Common stock dividend distribution declared	—	—	—	—	—	(4,015)	—	(4,015)	—	(4,015)
Preferred stock dividend distribution declared	—	—	—	—	—	(1,855)	—	(1,855)	—	(1,855)
Distributions	—	—	—	—	—	—	—	—	(444)	(444)
Net (loss)/income	—	—	—	—	—	(589)	—	(589)	135	(454)
Other comprehensive income	—	—	—	—	—	—	1,763	1,763	26	1,789
Balance—March 31, 2024	4,480	$112,000	40,154	$ 401	$438,909	$214,709	$ 1,515	$ 767,534	$ 119	$767,653
Restricted stock award grants and vesting	—	—	—	—	1,139	(56)	—	1,083	—	1,083
Common stock dividend distribution declared	—	—	—	—	—	(4,015)	—	(4,015)	—	(4,015)
Preferred stock dividend distribution declared	—	—	—	—	—	(1,855)	—	(1,855)	—	(1,855)
Contributions	—	—	—	—	—	—	—	—	442	442
Distributions	—	—	—	—	—	—	—	—	(104)	(104)
Net (loss)/income	—	—	—	—	—	(3,752)	—	(3,752)	125	(3,627)
Other comprehensive loss	—	—	—	—	—	—	(478)	(478)	(3)	(481)
Balance—June 30, 2024	4,480	$112,000	40,154	$ 401	$440,048	$205,031	$ 1,037	$ 758,517	$ 579	$759,096

	Number of shares of preferred stock	Preferred stock	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Total stockholders' equity	Non-controlling interests in properties	Total equity
Balance—December 31, 2022	4,480	$112,000	39,718	$ 397	$436,161	$251,542	$ 2,731	$ 802,831	$ 343	$803,174
Restricted stock award grants and vesting	—	—	220	2	(535)	(85)	—	(618)	—	(618)
Common stock dividend distribution declared	—	—	—	—	—	(7,988)	—	(7,988)	—	(7,988)
Preferred stock dividend distribution declared	—	—	—	—	—	(1,855)	—	(1,855)	—	(1,855)
Contributions	—	—	—	—	—	—	—	—	110	110
Distributions	—	—	—	—	—	—	—	—	(235)	(235)
Net income	—	—	—	—	—	704	—	704	169	873
Other comprehensive loss	—	—	—	—	—	—	(1,942)	(1,942)	—	(1,942)
Balance—March 31, 2023	4,480	$112,000	39,938	$ 399	$435,626	$242,318	$ 789	$ 791,132	$ 387	$791,519
Restricted stock award grants and vesting	—	—	—	—	1,107	(84)	—	1,023	—	1,023
Common stock dividend distribution declared	—	—	—	—	—	(3,994)	—	(3,994)	—	(3,994)
Preferred stock dividend distribution declared	—	—	—	—	—	(1,855)	—	(1,855)	—	(1,855)
Distributions	—	—	—	—	—	—	—	—	(226)	(226)
Net (loss)/income	—	—	—	—	—	(680)	—	(680)	164	(516)
Other comprehensive income	—	—	—	—	—	—	2,937	2,937	—	2,937
Balance—June 30, 2023	4,480	$112,000	39,938	$ 399	$436,733	$235,705	$ 3,726	$ 788,563	$ 325	$788,888

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

City Office REIT, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2024	2023
Cash Flows from Operating Activities:		
Net (loss)/income	$ (4,081)	$ 357
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	29,798	31,072
Amortization of deferred financing costs and debt fair value	661	647
Amortization of above and below market leases	(64)	34
Straight-line rent/expense	32	(4,795)
Non-cash stock compensation	2,154	2,048
Net loss on disposition of real estate property	1,462	134
Changes in non-cash working capital:		
Rents receivable, net	1,128	534
Other assets	(218)	(1,416)
Accounts payable and accrued liabilities	880	(141)
Deferred rent	(472)	(1,032)
Tenant rent deposits	422	141
Net Cash Provided By Operating Activities	31,702	27,583
Cash Flows to Investing Activities:		
Additions to real estate properties	(11,570)	(17,826)
Reduction of cash on disposition of real estate property	(2,477)	(4,051)
Deferred leasing costs	(4,647)	(1,927)
Net Cash Used In Investing Activities	(18,694)	(23,804)
Cash Flows (to)/from Financing Activities:		
Debt issuance and extinguishment costs	(516)	(236)
Proceeds from borrowings	9,000	35,000
Repayment of borrowings	(8,645)	(8,513)
Dividend distributions paid to stockholders	(11,719)	(19,641)
Distributions to non-controlling interests in properties	(548)	(461)
Shares withheld for payment of taxes on restricted stock unit vesting	(1,072)	(1,643)
Contributions from non-controlling interests in properties	442	110
Net Cash (Used In)/Provided By Financing Activities	(13,058)	4,616
Net (Decrease)/Increase in Cash, Cash Equivalents and Restricted Cash	(50)	8,395
Cash, Cash Equivalents and Restricted Cash, Beginning of Period	43,392	44,262
Cash, Cash Equivalents and Restricted Cash, End of Period	$ 43,342	$ 52,657
Reconciliation of Cash, Cash Equivalents and Restricted Cash:		
Cash and Cash Equivalents, End of Period	28,005	38,350
Restricted Cash, End of Period	15,337	14,307
Cash, Cash Equivalents and Restricted Cash, End of Period	$ 43,342	$ 52,657
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 16,434	$ 14,827
Purchase of additions in real estate properties included in accounts payable	$ 11,004	$ 8,753
Purchase of deferred leasing costs included in accounts payable	$ 1,874	$ 1,404

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

City Office REIT, Inc.
Notes to the Condensed Consolidated Financial Statements

1. Organization and Description of Business

City Office REIT, Inc. (the "Company") was organized in the state of Maryland on November 26, 2013. On April 21, 2014, the Company completed its initial public offering ("IPO") of shares of the Company's common stock. The Company contributed the net proceeds of the IPO to City Office REIT Operating Partnership, L.P., a Maryland limited partnership (the "Operating Partnership"), in exchange for common units of limited partnership interest in the Operating Partnership ("common units").

The Company's interest in the Operating Partnership entitles the Company to share in distributions from, and allocations of profits and losses of, the Operating Partnership in proportion to the Company's percentage ownership of common units. As the sole general partner of the Operating Partnership, the Company has the exclusive power under the Operating Partnership's partnership agreement to manage and conduct the Operating Partnership's business, subject to limited approval and voting rights of the limited partners.

The Company has elected to be taxed and will continue to operate in a manner that will allow it to continue to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to qualification as a REIT, the Company will be permitted to deduct dividend distributions paid to its stockholders, eliminating the U.S. federal taxation of income represented by such distributions at the Company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and, for years prior to 2018, any applicable alternative minimum tax.

2. Summary of Significant Accounting Policies

Basis of Preparation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with Securities and Exchange Commission ("SEC") rules and regulations and generally accepted accounting principles in the United States of America ("US GAAP") and in the opinion of management contain all adjustments (including normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2023-07 ("ASU 2023-07") Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which will enhance segment disclosures. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods beginning after December 15, 2024, with early adoption permitted. This standard must be applied retrospectively to all periods presented in the financial statements. The Company has not yet adopted the standard and is currently evaluating the impact of ASU 2023-07 on the Company's consolidated financial statements and disclosures.

3. Real Estate Investments

Disposition of Real Estate Property

Cascade Station

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On June 27, 2024, the Company entered into an assignment in lieu of foreclosure agreement to transfer possession and control of the Cascade Station property to the lender as a result of an event of default as defined in the property's non-recourse loan agreement. Given the terms of the assignment in lieu of foreclosure agreement, the Company assessed whether the entity holding the property should be reassessed for consolidation as a Variable Interest Entity ("VIE") in accordance with ASC 810 – Consolidation.

Based on its analysis, the Company concluded that it is not the primary beneficiary of the VIE and therefore deconsolidated the property as of June 27, 2024. The Company deconsolidated the net carrying value of real estate assets of $17.9 million, the mortgage loan of $20.6 million, cash and restricted cash of $2.5 million and net current assets of $1.7 million. For the three months ended June 30, 2024, the Company recognized a loss on deconsolidation of $1.5 million, which has been included within net loss on disposition of real estate property on the Company's condensed consolidated statement of operations and statement of cash flows.

190 Office Center

On May 15, 2023, the Company consented to the appointment of a receiver to assume possession and control of the 190 Office Center property as a result of an event of default as defined in the property's non-recourse loan agreement. Given the appointment of the receiver, the Company assessed whether the entity holding the property should be reassessed for consolidation as a VIE in accordance with ASC 810 – Consolidation.

Based on its analysis, the Company concluded that it is not the primary beneficiary of the VIE and therefore deconsolidated the property as of May 15, 2023. The Company deconsolidated the net carrying value of real estate assets of $35.7 million, the mortgage loan of $38.6 million, cash and restricted cash of $4.0 million and net current liabilities of $1.0 million. For the three months ended June 30, 2023, the Company recognized a loss on deconsolidation of $0.1 million, which has been included within net loss on disposition of real estate property on the Company's condensed consolidated statement of operations and statement of cash flows.

4. Lease Intangibles

Lease intangibles and the value of assumed lease obligations as of June 30, 2024 and December 31, 2023 were comprised of the following (in thousands):

	Lease Intangible Assets				Lease Intangible Liabilities		
June 30, 2024	**Above Market Leases**	**In Place Leases**	**Leasing Commissions**	**Total**	**Below Market Leases**	**Below Market Ground Lease**	**Total**
Cost	$ 16,729	$ 72,287	$ 31,567	$120,583	$(14,536)	$ (138)	$(14,674)
Accumulated amortization	(10,110)	(52,448)	(19,578)	(82,136)	7,649	58	7,707
	$ 6,619	$ 19,839	$ 11,989	$ 38,447	$ (6,887)	$ (80)	$ (6,967)

	Lease Intangible Assets				Lease Intangible Liabilities		
December 31, 2023	**Above Market Leases**	**In Place Leases**	**Leasing Commissions**	**Total**	**Below Market Leases**	**Below Market Ground Lease**	**Total**
Cost	$ 17,463	$ 73,128	$ 32,541	$123,132	$(14,968)	$ (138)	$(15,106)
Accumulated amortization	(10,222)	(51,290)	(19,186)	(80,698)	7,314	56	7,370
	$ 7,241	$ 21,838	$ 13,355	$ 42,434	$ (7,654)	$ (82)	$ (7,736)

The estimated aggregate amortization expense for lease intangibles for the next five years and in the aggregate are as follows (in thousands):

2024	$ 3,150
2025	6,197
2026	5,889
2027	4,903
2028	4,209
Thereafter	7,132
	$31,480

5. Debt

The following table summarizes the indebtedness as of June 30, 2024 and December 31, 2023 (dollars in thousands), including the impact of the effective interest rate swaps described in Note 6:

Property	June 30, 2024	December 31, 2023	Interest Rate as of June 30, 2024[1]	Maturity
Unsecured Credit Facility [2][4]	$ 205,000	$ 200,000	SOFR +1.50%[1][2]	November 2025
Term Loan [3]	50,000	50,000	SOFR +1.35%[1][3]	September 2024
Term Loan [4]	25,000	25,000	6.00%[4]	January 2026
Mission City	45,549	45,994	3.78%	November 2027
Canyon Park [5]	38,550	38,932	4.30%	March 2027
Circle Point	38,509	38,789	4.49%	September 2028
SanTan [6]	31,141	31,501	4.56%	March 2027
The Quad	30,600	30,600	4.20%	September 2028
Intellicenter	30,366	30,682	4.65%	October 2025
2525 McKinnon	27,000	27,000	4.24%	April 2027
FRP Collection	25,943	26,139	7.05%[7]	August 2028
Greenwood Blvd	20,580	20,856	3.15%	December 2025
5090 N. 40th St	20,143	20,370	3.92%	January 2027
AmberGlen	20,000	20,000	3.69%	May 2027
Central Fairwinds [8]	15,614	15,826	7.68%[8]	June 2029
Carillon Point	14,310	14,419	7.05%[7]	August 2028
FRP Ingenuity Drive [9]	14,124	15,860	4.44%	December 2026
Cascade Station [10]	—	20,752	—	—
Total Principal	652,429	672,720		
Deferred financing costs, net	(3,111)	(3,258)		
Unamortized fair value adjustments	—	48		
Total	$ 649,318	$ 669,510		

(1) As of June 30, 2024, the daily-simple Secured Overnight Financing Rate ("SOFR") was 5.33%.

(2) Borrowings under our unsecured credit facility (the "Unsecured Credit Facility") bear interest at a rate equal to the daily-simple SOFR rate plus a margin of between 135 to 235 basis points depending upon the Company's consolidated leverage ratio. On February 9, 2023, the Company entered into a three-year interest rate swap for a notional amount of $140 million, effective March 8, 2023, effectively fixing the SOFR component of the borrowing rate for $140 million of the Unsecured Credit Facility at 4.19%. As of June 30, 2024, the Unsecured Credit Facility had $205.0 million drawn and a $2.5 million letter of credit to satisfy escrow requirements for a mortgage lender. The Unsecured Credit Facility matures in November 2025 and may be extended 12 months at the Company's option upon meeting certain conditions. The Unsecured Credit Facility requires the Company to maintain a fixed charge coverage ratio of no less than 1.50x.

(3) Borrowings under the $50 million term loan bear interest at a rate equal to the daily-simple SOFR rate plus a margin of between 135 to 225 basis points depending upon the Company's consolidated leverage ratio. The SOFR component of the borrowing rate is effectively fixed for the remainder of the five-year term by a $50 million interest rate swap at 1.17%.

(4) On January 5, 2023, the Company entered into a second amendment to its amended and restated credit agreement, dated November 16, 2021, for the Unsecured Credit Facility and entered into a three-year $25 million term loan, increasing its total authorized borrowings from $350 million to $375 million. Borrowings under the $25 million term loan bear interest at a rate equal to the daily-simple SOFR rate plus a margin of 210 basis points. In conjunction with the term loan, the Company also entered into a three-year interest rate swap for a notional amount of $25 million, effectively fixing the SOFR component of the borrowing rate of the term loan at 3.90%.

(5) The mortgage loan anticipated repayment date ("ARD") is March 1, 2027. The final scheduled maturity date can be extended up to 5 years beyond the ARD. If the loan is not paid off at ARD, the loan's interest rate shall be adjusted to the greater of (i) the initial interest rate plus 200 basis points or (ii) the yield on the five-year "on the run" treasury reported by Bloomberg market data service plus 450 basis points.

(6) In the second quarter of 2023, the Debt Service Coverage Ratio ("DSCR") and debt yield covenants for SanTan were not met, which triggered a 'cash-sweep period' that began in the second quarter of 2023. As of June 30, 2024, the DSCR and debt yield covenants were still not met. As of June 30, 2024, and December 31, 2023, total restricted cash for the property was $2.6 million and $4.1 million, respectively.

(7) The FRP Collection and Carillon Point loans bear interest at a rate equal to the daily-simple SOFR rate plus a margin of 275 basis points. The SOFR component of the borrowing rate is effectively fixed for the remainder of the five-year term via interest rate swaps at 4.30%.

(8) On May 23, 2024, the Company entered into an amended and restated loan agreement for Central Fairwinds, extending the term for an additional five years and amending the interest rate from fixed to floating. The loan bears interest at a rate equal to the daily-simple SOFR rate plus a margin of 325 basis points. The Company also entered into a five-year interest rate swap agreement, effectively fixing the SOFR component of the borrowing rate of the loan at 4.43%.

(9) In the third quarter of 2022, the DSCR covenant for FRP Ingenuity Drive was not met, which triggered a 'cash-sweep period' that began in the fourth quarter of 2022. As of June 30, 2024, and December 31, 2023, total restricted cash for the property was $4.1 million and $3.2 million, respectively. On June 27, 2024, the Company entered into a loan modification and extension agreement for FRP Ingenuity Drive, which among other things, included a principal repayment of $1.6 million and extended the term for an additional two years to December 2026 with a one-year extension option. Under the terms of the agreement the 'cash-sweep period' will continue through the maturity of the loan.

(10) On May 1, 2024, the non-recourse property loan at our Cascade Station property in Portland, Oregon matured, and an event of default was triggered under the terms of the Cascade Station loan, following non-payment of the principal amount outstanding at loan maturity. On June 27, 2024, the non-recourse debt associated with the Cascade Station property was deconsolidated as a result of the Company entering into an assignment in lieu of foreclosure agreement to transfer possession and control of the property to the lender. The loan balance as of the date of deconsolidation was $20.6 million.

The scheduled principal repayments of debt as of June 30, 2024 are as follows (in thousands):

2024	$ 52,792
2025	259,929
2026	43,899
2027	176,734
2028	104,586
Thereafter	14,489
	$652,429

6. Fair Value of Financial Instruments

Fair value measurements are based on assumptions that market participants would use in pricing an asset or a liability. The hierarchy for inputs used in measuring fair value is as follows:

Level 1 Inputs – quoted prices in active markets for identical assets or liabilities

Level 2 Inputs – observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 Inputs – unobservable inputs

In September 2019, the Company entered into a London Interbank Offered Rate ("LIBOR") interest rate swap for a notional amount of $50.0 million. In January 2023, the Company amended the $50.0 million interest rate swap to transition from LIBOR to daily-simple SOFR. The Company applied the practical expedients available for hedging relationships under the reference rate reform guidance, which preserves the presentation of the derivative consistent with past presentation and does not result in dedesignation of the hedging relationship. The interest rate swap effectively fixes the SOFR component of the corresponding loan at approximately 1.17% for the remainder of the five-year term.

In January 2023, the Company entered into an interest rate swap for a notional amount of $ 25.0 million. The interest rate swap effectively fixes the SOFR component of the corresponding loan at approximately 3.90% for the three-year term.

In February 2023, the Company entered into an interest rate swap for a notional amount of $ 140.0 million. The interest rate swap effectively fixes the SOFR component of the corresponding loan at approximately 4.19% for the three-year term.

In August 2023, the Company entered into an interest rate swap at FRP Collection for an initial notional amount of $ 26.3 million. The interest rate swap effectively fixes the SOFR component of the corresponding loan at approximately 4.30% for the five-year term. The notional amount of the interest rate swap amortizes over the term consistent with the balance of the corresponding loan.

In August 2023, the Company entered into an interest rate swap at Carillon Point for an initial notional amount of $ 14.5 million. The interest rate swap effectively fixes the SOFR component of the corresponding loan at approximately 4.30% for the five-year term. The notional amount of the interest rate swap amortizes over the term consistent with the balance of the corresponding loan.

In May 2024, the Company entered into an interest rate swap at Central Fairwinds for an initial notional amount of $ 15.6 million. The interest rate swap effectively fixes the SOFR component of the corresponding loan at approximately 4.43% for the five-year term. The notional amount of the interest rate swap amortizes over the term consistent with the balance of the corresponding loan.

The fair value of the interest rate swaps have been classified as Level 2 fair value measurements.

The interest rate swaps have been designated and qualify as cash flow hedges and have been recognized on the condensed consolidated balance sheets at fair value, presented within other assets and other liabilities. Gains and losses resulting from changes in the fair value of derivatives that have been designated and qualify as cash flow hedges are reported as a component of other comprehensive income/(loss) and reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings.

The following table summarizes the Company’s derivative financial instruments as of June 30, 2024 and December 31, 2023 (in thousands):

	Notional Value			Fair Value Assets/(Liabilities)	
	June 30, 2024	Effective Date	Maturity Date	June 30, 2024	December 31, 2023
Interest Rate Swap	$ 50,000	September 2019	September 2024	$ 366	$ 1,268
Interest Rate Swap	25,000	January 2023	January 2026	283	49
Interest Rate Swap	140,000	March 2023	November 2025	993	(295)
Interest Rate Swap	25,943	August 2023	August 2028	(215)	(846)
Interest Rate Swap	14,310	August 2023	August 2028	(118)	(466)
Interest Rate Swap	15,614	May 2024	June 2029	(291)	—
	$ 270,867			$ 1,018	$ (290)

For the six months ended June 30, 2024, approximately $ 2.2 million of realized gains were reclassified to interest expense due to payments made to or received from the swap counterparty. For the six months ended June 30, 2023, approximately $1.3 million of realized gains were reclassified to interest expense due to payments made to or received from the swap counterparty.

Cash, Cash Equivalents, Restricted Cash, Rents Receivable, Accounts Payable and Accrued Liabilities

The Company estimates that the fair value approximates carrying value due to the relatively short-term nature of these instruments.

Fair Value of Financial Instruments Not Carried at Fair Value

With the exception of fixed rate mortgage loans payable, the carrying amounts of the Company’s financial instruments approximate their fair value. The Company determines the fair value of its fixed rate mortgage loan payable based on a discounted cash flow analysis using a discount rate that approximates the current borrowing rates for instruments of similar maturities. Based on this, the Company has determined that the fair value of these instruments was $300.3 million and $343.1 million (compared to a carrying value of $ 316.6 million and $357.2 million) as of June 30, 2024, and December 31, 2023, respectively. Accordingly, the fair value of mortgage loans payable have been classified as Level 3 fair value measurements.

7. Related Party Transactions

Administrative Services Agreement

For the six months ended June 30, 2024 and 2023, the Company earned $ 0.1 million and $0.2 million, respectively, in administrative services performed for Second City Real Estate II Corporation, Clarity Real Estate Ventures GP, Limited Partnership and their affiliates.

8. Leases

Lessor Accounting

The Company is focused on acquiring, owning and operating office properties for lease to a stable and diverse tenant base. The Company's properties have both full-service gross and net leases which are generally classified as operating leases. Rental income related to such leases is recognized on a straight-line basis over the remaining lease term. The Company's total revenue includes fixed base rental payments provided under the lease and variable payments, which principally consist of tenant expense reimbursements for certain property operating expenses as provided under the lease.

The Company recognized fixed and variable lease payments for operating leases for the three and six months ended June 30, 2024 and 2023 as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Fixed payments	$36,042	$37,571	$73,634	$76,484
Variable payments	6,237	6,742	13,015	13,485
	$42,279	$44,313	$86,649	$89,969

The Company ceased recognizing rental lease income with respect to the Cascade Station property on the deconsolidation of the entity on June 27, 2024. The Company ceased recognizing rental lease income with respect to the 190 Office Center property on the deconsolidation of the entity on May 15, 2023. Refer to Note 3 for further details.

Future minimum lease payments to be received by the Company as of June 30, 2024 under non-cancellable operating leases for the next five years and thereafter are as follows (in thousands):

2024	$ 63,562
2025	120,194
2026	109,715
2027	92,873
2028	78,586
Thereafter	163,746
	$628,676

The Company's leases may include various provisions such as scheduled rent increases, renewal options and termination options. The majority of the Company's leases include defined rent increases rather than variable payments based on an index or unknown rate.

Lessee Accounting

As a lessee, the Company has ground and office leases which are classified as operating and financing leases. As of June 30, 2024, these leases had remaining terms of two to 64 years and a weighted average remaining lease term of 50 years. Right-of-use assets and lease liabilities have been included within other assets and other liabilities on the Company's condensed consolidated balance sheets as follows (in thousands):

	June 30, 2024	December 31, 2023
Right-of-use asset – operating leases	$ 10,245	$ 12,564
Lease liability – operating leases	$ 8,417	$ 8,550
Right-of-use asset – financing leases	$ 9,706	$ 9,820
Lease liability – financing leases	$ 1,594	$ 1,551

Lease liabilities are measured at the commencement date based on the present value of future lease payments. One of the Company's operating ground leases includes rental payment increases over the lease term based on increases in the Consumer Price Index ("CPI"). Changes in the CPI were not estimated as part of the measurement of the operating lease liability. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. The Company used a weighted average discount rate of 6.2% in determining its lease liabilities. The discount rates were derived from the Company's assessment of the credit quality of the Company and adjusted to reflect secured borrowing, estimated yield curves and long-term spread adjustments.

Right-of-use assets include any prepaid lease payments and exclude any lease incentives and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The lease terms may include options to extend or terminate the lease if it is reasonably certain that the Company will exercise that option.

Operating lease expense for the three and six months ended June 30, 2024 was $ 0.2 million and $0.4 million, respectively. Operating lease expense for the three and six months ended June 30, 2023 was $0.2 million and $0.5 million, respectively. Financing lease expense for the three and six months ended June 30, 2024 was $0.1 million and $0.2 million, respectively. Financing lease expense for the three and six months ended June 30, 2023 was $0.1 million and $0.2 million, respectively.

Future minimum lease payments to be paid by the Company as a lessee for operating and financing leases as of June 30, 2024 for the next five years and thereafter are as follows (in thousands):

	Operating Leases	Financing Leases
2024	$ 266	$ 4
2025	770	8
2026	724	8
2027	587	8
2028	587	8
Thereafter	25,976	6,930
Total future minimum lease payments	28,910	6,966
Discount	(20,493)	(5,372)
Total	$ 8,417	$ 1,594

9. Commitments and Contingencies

The Company is obligated under certain tenant leases to fund tenant improvements and the expansion of the underlying leased properties.

Under various federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for the cost of removal or remediation of certain hazardous or toxic substances disposed, stored, generated, released, manufactured or discharged from, on, at, under, or in a property. As such, the Company may be potentially liable for costs associated with any potential environmental remediation at any of its formerly or currently owned properties.

The Company believes that it is in compliance in all material respects with all federal, state and local ordinances and regulations regarding hazardous or toxic substances. Management is not aware of any environmental liability that it believes would have a material adverse impact on the Company's financial position or results of operations. Management is unaware of any instances in which the Company would incur significant environmental costs if any or all properties were sold, disposed of or abandoned. However, there can be no assurance that any such non-compliance, liability, claim or expenditure will not arise in the future.

The Company is involved from time to time in lawsuits and other disputes which arise in the ordinary course of business. As of June 30, 2024, management believes that these matters will not have a material adverse effect, individually or in the aggregate, on the Company's financial position or results of operations.

10. Stockholders' Equity

Share Repurchase Plan

On May 4, 2023, the Company's Board of Directors (the "Board of Directors") approved a share repurchase plan ("Repurchase Program") authorizing the Company to repurchase up to $50 million of its outstanding shares of common stock or Series A Preferred Stock. Under the share repurchase program, the shares may be repurchased from time to time using a variety of methods, which may include open market transactions, privately negotiated transactions or otherwise, all in accordance with the rules of the SEC and other applicable legal requirements.

Repurchased shares of common stock will be classified as authorized and unissued shares. The Company recognizes the cost of shares of common stock it repurchases, including direct costs incurred, as a reduction in stockholders' equity. Such reductions of stockholders equity due to the repurchases of shares of common stock will be applied first, to reduce common stock in the amount of the par value associated with the shares of common stock repurchased and second, to reduce additional paid-in capital by the amount that the purchase price for the shares of common stock repurchased exceed the par value.

There were no shares repurchased during the six months ended June 30, 2024 and 2023.

Common Stock and Common Unit Distributions

On June 14, 2024, the Board of Directors approved and the Company declared a cash dividend distribution of $ 0.10 per common share for the quarterly period ended June 30, 2024. The dividend was paid subsequent to quarter end on July 24, 2024 to common stockholders and common unitholders of record as of the close of business on July 10, 2024, resulting in an aggregate payment of $4.0 million.

Preferred Stock Distributions

On June 14, 2024, the Board of Directors approved and the Company declared a cash dividend distribution of $ 0.4140625 per share of the Company's 6.625% Series A Preferred Stock ("Series A Preferred Stock") for an aggregate amount of $ 1.9 million for the quarterly period ended June 30, 2024. The dividend was paid subsequent to quarter end on July 24, 2024 to the holders of record of Series A Preferred Stock as of the close of business on July 10, 2024.

Equity Incentive Plan

The Company has an equity incentive plan ("Equity Incentive Plan") for executive officers, directors and certain non-executive employees, and with approval of the Board of Directors, for subsidiaries and their respective affiliates. The Equity Incentive Plan provides for grants of restricted common stock, restricted stock units, phantom shares, stock options, dividend equivalent rights and other equity-based awards (including the grant of Operating Partnership long-term incentive plan units), subject to the total number of shares available for issuance under the plan. The Equity Incentive Plan is administered by the compensation committee of the Board of Directors (the “Compensation Committee”). The Equity Incentive Plan provides for the issuance of up to 3,763,580 shares of common stock. To the extent an award granted under the Equity Incentive Plan expires or terminates, the shares subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards.

On January 27, 2020, each of the Board of Directors and the Compensation Committee approved a new form of performance-based restricted unit award agreement that will be used to grant performance-based restricted stock unit awards (“Performance RSU Awards”) pursuant to the Equity Incentive Plan. The Performance RSU Awards are based upon the total stockholder return (“TSR”) of the Company’s common stock over a three-year measurement period beginning January 1 of the year of grant (the “Measurement Period”) relative to the TSR of a defined peer group list of other US Office REIT companies (the “Peer Group”) as of the first trading date in the year of grant. The payouts under the Performance RSU Awards are evaluated on a sliding scale as follows: TSR below the 30th percentile of the Peer Group would result in a 50% payout; TSR at the 50th percentile of the Peer Group would result in a 100% payout; and TSR at or above the 75th percentile of the Peer Group would result in a 150% payout. Payouts are mathematically interpolated between these stated percentile targets, subject to a 150% maximum. To the extent earned, the payouts of the Performance RSU Awards are intended to be settled in the form of shares of the Company’s common stock, pursuant to the Equity Incentive Plan. Upon satisfaction of the vesting conditions, dividend equivalents in an amount equal to all regular and special dividends declared with respect to the Company’s common stock during each annual measurement period during the Measurement Period are determined and paid on a cumulative, reinvested basis over the term of the applicable Performance RSU Award, at the time such award vests and based on the number of shares of the Company’s common stock that are earned.

During the first quarter of 2024, the Performance RSU Awards granted in January 2021, with a January 1, 2021 through December 31, 2023 Measurement Period, were earned at 120% of the target number of shares granted based on achievement of a TSR that was at or above the 60th percentile of the 2021 RSU Peer Group.

The following table summarizes the activity of the awards under the Equity Incentive Plan for the three and six months ended June 30, 2024:

	Number of RSUs	Number of Performance RSUs
Outstanding at December 31, 2023	451,741	424,888
Granted	324,414	324,952
Issuance of dividend equivalents	8,290	—
Vested	(228,747)	(120,000)
Outstanding at March 31, 2024	555,698	629,840
Issuance of dividend equivalents	12,161	—
Outstanding at June 30, 2024	567,859	629,840

The following table summarizes the activity of the awards under the Equity Incentive Plan for the three and six months ended June 30, 2023:

	Number of RSUs	Number of Performance RSUs
Outstanding at December 31, 2022	428,320	307,500
Granted	198,022	214,888
Issuance of dividend equivalents	9,485	—
Vested	(216,520)	(97,500)
Outstanding at March 31, 2023	419,307	424,888
Issuance of dividend equivalents	14,356	—
Outstanding at June 30, 2023	433,663	424,888

During the six months ended June 30, 2024 and June 30, 2023, the Company granted the following restricted stock units (“RSUs”) and Performance RSU Awards to directors, executive officers and certain non-executive employees:

	Units Granted		Grant Date Fair Value (in thousands)	Weighted Average Grant Date Fair Value Per Share
	RSUs	Performance RSUs		
2024	324,414	324,952	$ 3,539	$ 5.45
2023	198,022	214,888	3,729	9.03

The RSU Awards will vest in three equal, annual installments on each of the first three anniversaries of the grant date. The Performance RSU Awards will vest on the last day of the three-year measurement period.

During the three months ended June 30, 2024 and June 30, 2023, the Company recognized net compensation expense for the RSUs and Performance RSU Awards as follows (in thousands):

	RSUs	Performance RSUs	Total
2024	$ 642	$ 441	$ 1,083
2023	633	390	1,023

During the six months ended June 30, 2024 and June 30, 2023, the Company recognized net compensation expense for the RSUs and Performance RSU Awards as follows (in thousands):

	RSUs	Performance RSUs	Total
2024	$ 1,284	$ 870	$ 2,154
2023	1,276	771	2,047

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is based on, and should be read in conjunction with, the condensed consolidated financial statements and the related notes thereto of the City Office REIT, Inc. contained in this Quarterly Report on Form 10-Q (this "Report").

As used in this section, unless the context otherwise requires, references to "we," "our," "us," and "our company" refer to City Office REIT, Inc., a Maryland corporation, together with our consolidated subsidiaries, including City Office REIT Operating Partnership L.P., a Maryland limited partnership, of which we are the sole general partner and which we refer to in this section as our Operating Partnership, except where it is clear from the context that the term only means City Office REIT, Inc.

Cautionary Statement Regarding Forward-Looking Statements

This Report, including "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," contains both historical and forward-looking statements. All statements, other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have used the words "approximately," "anticipate," "assume," "believe," "budget," "contemplate," "continue," "could," "estimate," "expect," "future," "hypothetical," "intend," "may," "outlook," "plan," "potential," "predict," "project," "seek," "should," "target," "will" and similar terms and phrases to identify forward-looking statements in this Report. All of our forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we are expecting, including:

- adverse economic or real estate developments in the office sector or the markets in which we operate;
- increased interest rates, any resulting increase in financing or operating costs, the impact of inflation and a stall in economic growth or an economic recession;
- changes in local, regional, national and international economic conditions, including as a result of recent pandemics or any future epidemics or pandemics;
- the extent to which "work-from-home" and hybrid work policies continue;
- our inability to compete effectively;
- our inability to collect rent from tenants or renew tenants' leases on attractive terms if at all;
- our dependence upon significant tenants, bankruptcy or insolvency of a major tenant or a significant number of small tenants or borrowers, or defaults on or non-renewal of leases by tenants;
- demand for and market acceptance of our properties for rental purposes, including as a result of near-term market fluctuations or long-term trends that result in an overall decrease in the demand for office space;
- decreased rental rates or increased vacancy rates;
- our failure to obtain necessary financing or access the capital markets on favorable terms or at all;
- changes in the availability of acquisition opportunities;
- availability of qualified personnel;
- our inability to successfully complete real estate acquisitions or dispositions on the terms and timing we expect, or at all;
- our failure to successfully operate acquired properties and operations;
- changes in our business, financing or investment strategy or the markets in which we operate;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- environmental uncertainties and risks related to adverse weather conditions and natural disasters;

- our failure to maintain our qualification as a REIT for U.S. federal income tax purposes;
- government approvals, actions and initiatives, including the need for compliance with environmental requirements;
- outcome of claims and litigation involving or affecting us;
- financial market fluctuations;
- changes in real estate, taxation and zoning laws and other legislation and government activity and changes to real property tax rates and the taxation of REITs in general; and
- other factors described in our news releases and filings with the SEC, including but not limited to those described in our Annual Report on Form 10-K for the year ended December 31, 2023 under the sections captioned "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and in our subsequent reports filed with the SEC.

The forward-looking statements contained in this Report are based on historical performance and management's current plans, estimates and expectations in light of information currently available to us and are subject to uncertainty and changes in circumstances. There can be no assurance that future developments affecting us will be those that we have anticipated. Actual results may differ materially from these expectations due to the factors, risks and uncertainties described above, changes in global, regional or local political, economic, business, competitive, market, regulatory and other factors described in our news releases and filings with the SEC, including but not limited to those described in our Annual Report on Form 10-K for the year ended December 31, 2023 under the heading "Risk Factors" and elsewhere in this Form 10-Q and any updates to those factors set forth in our subsequent Quarterly Reports on Form 10-Q or other public filings with the SEC, many of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove to be incorrect, our actual results may vary in material respects from what we may have expressed or implied by these forward-looking statements. We caution that you should not place undue reliance on any of our forward-looking statements. Any forward-looking statement made by us in this Report speaks only as of the date of this Report. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by applicable securities laws.

Overview

Company

We were formed as a Maryland corporation on November 26, 2013. On April 21, 2014, we completed our IPO of shares of common stock. We contributed the net proceeds of the IPO to our Operating Partnership in exchange for common units in our Operating Partnership. Both we and our Operating Partnership commenced operations upon completion of the IPO and certain related formation transactions.

Revenue Base

As of June 30, 2024, we owned 23 properties comprised of 56 office buildings with a total of approximately 5.6 million square feet of net rentable area ("NRA"). As of June 30, 2024, our properties were approximately 83.0% leased.

Office Leases

Historically, most leases for our properties have been on a full-service gross or net lease basis, and we expect to continue to use such leases in the future. A full-service gross lease generally has a base year expense “stop,” whereby we pay a stated amount of expenses as part of the rent payment while future increases (above the base year stop) in property operating expenses are billed to the tenant based on such tenant’s proportionate square footage in the property. The property operating expenses are reflected in operating expenses; however, only the increased property operating expenses above the base year stop recovered from tenants are reflected as tenant recoveries within rental and other revenues on our condensed consolidated statements of operations. In a triple net lease, the tenant is typically responsible for all property taxes and operating expenses. As such, the base rent payment does not include any operating expenses, but rather all such expenses are billed to or paid by the tenant. The full amount of the expenses for this lease type is reflected in operating expenses, and the reimbursement is reflected as tenant recoveries. We are also a lessor for a fee simple ground lease at the AmberGlen property.

Factors That May Influence Our Operating Results and Financial Condition

Economic Environment and Inflation

The broader economy in the U.S. has been experiencing increased levels of inflation, higher interest rates and tightening monetary and fiscal policies. The banking and lending sector in particular has been impacted by the interest rate environment. While it remains difficult to predict the full impact of recent events and any future changes in interest rates or inflation, this evolving economic environment impacts our operating activities as:

- business leaders may generally become more reticent to make large capital allocation decisions, such as entry into a new lease, given the uncertain economic environment;
- our cost of capital has increased due to higher interest rates and credit spreads, and private market debt financing is significantly more challenging to arrange; and
- retaining and attracting new tenants has become increasingly challenging due to potential business layoffs, downsizing and industry slowdowns.

Despite the challenging economic environment, there is increasing evidence that many businesses have or will tighten up in-person work policies particularly if economic conditions worsen. Many of these companies increased their workforce beginning in 2020 without increasing their available space. We expect these factors will help offset, at least partially, the headwinds to office space demand.

Work-From-Home Trends

Our business has been and will likely continue to be impacted by tenant uncertainty regarding office space needs given the evolving remote and hybrid working trends. Usage of our assets in the near future depends on corporate and individual decisions regarding return to usage of office space, which is impossible to estimate. As of June 30, 2024, 12.7% of net rentable area under our portfolio was vacant, as compared to 13.0% as of June 30, 2023.

Leasing activity has been and is expected to be impacted by the evolving work-from-home trend until and unless tenants increase the utilization of their spaces. We have experienced and we expect that we will continue to experience slower new leasing, and there remains uncertainty over existing tenants’ long-term space requirements. Overall, this could reduce our anticipated rental revenues. In addition, certain tenants in our markets have and may explore opportunities to sublease all or a portion of their leased square footage to other tenants or third parties. While subleasing generally does not impact the ability to collect payment from the original lessee and will not result in any decrease in the rental revenues expected to be received from the primary tenant, this trend could reduce our ability to lease incremental square footage to new tenants, could increase the square footage of our properties that “goes dark,” could reduce anticipated rental revenue should tenants determine their long-term needs for square footage are lower than originally anticipated and could impact the pricing and competitiveness for leasing office space in our markets.

We will continue to actively evaluate business operations and strategies to optimally position ourselves given current economic and industry conditions.

Business and Strategy

We focus on owning and acquiring office properties in our footprint of growth markets predominantly in the Sun Belt. Our markets generally possess growing populations with above-average employment growth forecasts, a large number of government offices, large international, national and regional employers across diversified industries, generally lower-cost centers for business operations and a high quality of life. We believe these characteristics have made our markets desirable, as evidenced by domestic net migration generally towards our geographic footprint. A majority of our properties are well located, have good access and functionality to our markets, are new or in new condition, attract high-quality tenants and are professionally managed. We utilize our management's market-specific knowledge and relationships as well as the expertise of local real estate property and leasing managers to identify acquisition opportunities that we believe will offer cash flow stability and long-term value appreciation.

Rental Revenue and Tenant Recoveries

The amount of net rental revenue generated by our properties will depend principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space that becomes available from lease terminations. As of June 30, 2024, the operating properties in our portfolio were 83.0% leased, with 3.9% of our leases scheduled to expire over the remainder of the calendar year, without regard to renewal options. The amount of rental revenue generated also depends on our ability to maintain or increase rental rates at our properties. Our leases typically include rent escalation provisions designed to provide annual growth in our rental income as well as an ability to pass through cost escalations to our tenants, and in the normal course of business we do not typically waive these rent escalation provisions. Certain leases contain termination provisions which permit the tenant to terminate the arrangement generally upon payment of a termination fee, which we believe acts as a deterrent to cancelling the lease. These early termination provisions applied to approximately 17.3% of the net rentable area in our portfolio as of June 30, 2024. Negative trends in one or more of these factors could adversely affect our rental revenue in future periods. We continually monitor our tenants' ability to meet their lease obligations to pay us rent to determine if any adjustments should be reflected currently. Future economic downturns or regional downturns affecting our markets or submarkets or downturns in our tenants' industries, including as a result of high interest rates and the fluctuating likelihood of a U.S. recession, that impair our ability to renew or re-let space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties. In addition, growth in rental revenue will also partially depend on our ability to acquire additional properties that meet our investment criteria.

At the beginning of the year the Company, through wholly owned subsidiaries, was the landlord under leases at three of the Company's properties totaling approximately 177,000 square feet with subsidiaries of WeWork, which had announced that it had entered Chapter 11 bankruptcy protection during the previous year. During the first quarter of 2024, WeWork announced that it rejected the lease at our Block 23 property totaling 46,000 square feet. The Company recorded a termination fee of $0.9 million during the period ended March 31, 2024. During the second quarter of 2024, the Company entered into lease amendments with WeWork at our Bloc 83 and The Terraces properties to reduce WeWork's leased space by a total of 53,000 square feet by the end of 2024. WeWork exited Chapter 11 bankruptcy proceedings during the second quarter of 2024. The remaining 78,000 square feet are leased by subsidiaries of WeWork under long-term leases.

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Leasing Activity

The following table presents our leasing activity for the three months ended June 30, 2024.

Three Months Ended June 30, 2024 Leasing Activity	New Leasing	Renewal Leasing	Total Leasing
Square Feet (000's)	162	107	**269**
Average Effective Rents per Square Foot	$ 25.95	$ 25.52	**$ 25.78**
Tenant Improvements per Square Foot	$ 34.38	$ 4.54	**$ 22.51**
Leasing Commissions per Square Foot	$ 9.27	$ 5.74	**$ 7.87**
% Change in Renewal Cash Rent vs. Expiring		4.3%	
Retention Rate %		44%	

Our Properties

As of June 30, 2024, we owned 23 properties comprised of 56 office buildings with a total of approximately 5.6 million square feet of NRA in the metropolitan areas of Dallas, Denver, Orlando, Phoenix, Portland, Raleigh, San Diego, Seattle and Tampa. The following table presents an overview of our portfolio as of June 30, 2024.

Metropolitan Area	Property	Economic Interest	NRA (000's Square Feet)	In Place Occupancy	Annualized Average Effective Rent per Square Foot[1]	Annualized Base Rent per Square Foot	Annualized Gross Rent per Square Foot[2]	Annualiz Base Re ($000's
Phoenix, AZ								
(27.3% of NRA)	Block 23	100.0%	307	81.1%	$ 27.94	$ 29.03	$ 32.59	$ 7,
	Pima Center	100.0%	272	52.1%	$ 28.59	$ 30.00	$ 30.00	$ 4,
	SanTan	100.0%	267	50.4%	$ 32.00	$ 33.48	$ 33.48	$ 4,
	5090 N. 40th St	100.0%	175	66.3%	$ 32.04	$ 35.34	$ 35.34	$ 4,
	Camelback Square	100.0%	173	84.0%	$ 32.90	$ 35.30	$ 35.30	$ 5,
	The Quad	100.0%	163	97.4%	$ 33.01	$ 34.26	$ 34.61	$ 5,
	Papago Tech	100.0%	163	79.2%	$ 23.63	$ 26.32	$ 26.32	$ 3,
Tampa, FL								
(18.9%)	Park Tower	94.8%	481	92.5%	$ 28.88	$ 28.92	$ 28.92	$ 12,
	City Center	95.0%	243	86.7%	$ 32.24	$ 31.71	$ 31.71	$ 6,
	Intellicenter	100.0%	204	76.1%	$ 24.31	$ 25.96	$ 25.96	$ 4,
	Carillon Point	100.0%	124	100.0%	$ 30.41	$ 31.01	$ 31.01	$ 3,
Denver, CO								
(14.5%)	Denver Tech	100.0%	381	85.6%	$ 23.58	$ 24.38	$ 29.57	$ 7,
	Circle Point	100.0%	272	81.0%	$ 19.44	$ 20.60	$ 36.16	$ 4,
	Superior Pointe	100.0%	152	69.5%	$ 17.27	$ 19.11	$ 33.11	$ 2,
Orlando, FL								
(12.9%)	Florida Research Park	96.6%	397	87.2%	$ 25.58	$ 26.59	$ 28.75	$ 9,
	Central Fairwinds	97.0%	168	89.1%	$ 27.48	$ 28.83	$ 28.83	$ 4,
	Greenwood Blvd	100.0%	155	100.0%	$ 24.84	$ 25.25	$ 25.25	$ 3,
Raleigh, NC								
(8.9%)	Bloc 83	100.0%	495	83.6%	$ 41.33	$ 38.99	$ 39.39	$ 16,
Dallas, TX								
(5.1%)	The Terraces	100.0%	173	100.0%	$ 41.38	$ 39.83	$ 60.83	$ 6,
	2525 McKinnon	100.0%	111	70.1%	$ 29.51	$ 30.84	$ 50.84	$ 2,
San Diego, CA								
(5.1%)	Mission City	100.0%	281	83.1%	$ 38.65	$ 40.02	$ 40.02	$ 9,
Seattle, WA								
(3.7%)	Canyon Park	100.0%	207	100.0%	$ 22.31	$ 24.58	$ 30.58	$ 5,
Portland, OR								
(3.6%)	AmberGlen	76.0%	203	100.0%	$ 22.93	$ 24.34	$ 27.53	$ 4,
Total / Weighted Average – June 30, 2024[4]			**5,567**	**83.0%**	**$ 29.17**	**$ 29.92**	**$ 33.28**	**$ 138,**

(1) Annualized Average Effective Rent accounts for the impact of straight-line rent adjustments, including the amortization of rent escalations and base rent concessions (e.g., free rent abatements) contained in the lease. The square foot result per property is calculated by multiplying (i) Average Effective Rent for the month ended June 30, 2024 by (ii) 12, divided by the occupied square footage in that period.
(2) Annualized gross rent per square foot includes adjustment for estimated expense reimbursements of triple net leases.
(3) Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month ended June 30, 2024 by (ii) 12.
(4) Averages weighted based on the property’s NRA, adjusted for occupancy.

Operating Expenses

Our operating expenses generally consist of utilities, property and ad valorem taxes, insurance and site maintenance costs. Increases in these expenses over tenants’ base years (until the base year is reset at expiration) are generally passed along to tenants in our full-service gross leased properties and are generally paid in full by tenants in our net leased properties.

Conditions in Our Markets

Positive or negative changes in economic or other conditions in the markets we operate in, including state budgetary shortfalls, employment rates, natural hazards and other factors, may impact our overall performance. While we generally expect the trend of positive population and economic growth in our Sun Belt cities to continue, there is no way for us to predict whether these trends will continue, especially in light of inflation and rising interest rates as well as potential changes in tax policy, fiscal policy and monetary policy. In addition, it is uncertain and impossible to estimate the potential impact that the work-from-home trend will have on the short- and long-term demand for office space in our markets.

Critical Accounting Policies and Estimates

The interim condensed consolidated financial statements follow the same policies and procedures as outlined in the audited consolidated financial statements for the year ended December 31, 2023 included in our Annual Report on Form 10-K for the year ended December 31, 2023.

Results of Operations

Comparison of Three Months Ended June 30, 2024 to Three Months Ended June 30, 2023

Rental and Other Revenues. Rental and other revenues include net rental income, parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Rental and other revenues decreased $2.3 million, or 5%, to $42.3 million for the three months ended June 30, 2024 compared to $44.6 million for the three months ended June 30, 2023. Revenue decreased year over year due to the dispositions and tenant departures at Cascade Station in June 2024 and 190 Office Center in May 2023, which reduced revenue by $0.6 million and $0.6 million, respectively. Revenue also decreased at 2525 McKinnon and Intellicenter by $0.3 million and $0.2 million, respectively, due to lower occupancy at the properties compared to the prior year. Lastly, revenue also decreased at Block 23 and The Terraces by $0.3 million and $0.2 million, respectively, largely due to the write-off of straight-line rent associated with the WeWork leases at these two properties. The remaining properties’ rental and other revenues were relatively unchanged in comparison to the prior year period.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, general and administrative expenses and depreciation and amortization. Total operating expenses decreased $0.7 million, or 2%, to $36.0 million for the three months ended June 30, 2024, from $36.7 million for the three months ended June 30, 2023. The disposition of 190 Office Center in May 2023 decreased total operating expenses by $0.7 million. The remaining properties' total operating expenses were relatively unchanged in comparison to the prior year period.

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and re-leasing costs. Property operating expenses increased $0.3 million, or 1%, to $17.5 million for the three months ended June 30, 2024, from $17.2 million for the three months ended June 30, 2023. The disposition of 190 Office Center in May 2023 decreased property operating expenses by $0.4 million. The remaining properties' property operating expenses were $0.7 million higher in comparison to the prior year period, primarily due to inflation.

General and Administrative. General and administrative expenses are comprised of public company reporting costs and the compensation of our management team and Board of Directors, as well as non-cash stock-based compensation expenses. General and administrative expenses increased $0.1 million, or 4%, to $3.8 million for the three months ended June 30, 2024, from $3.7 million reported in the prior year period. General and administrative expenses increased due to marginally higher stock-based compensation expense.

Depreciation and Amortization. Depreciation and amortization decreased $1.1 million, or 7%, to $14.7 million for the three months ended June 30, 2024, from $15.8 million reported for the same period in 2023. The disposition of 190 Office Center in May 2023 decreased depreciation and amortization expense by $0.3 million. Depreciation and amortization expense at Circle Point also decreased by $0.4 million as the amortization expense associated with leases in place at the property was fully amortized in 2023. The remaining properties' depreciation expenses were marginally lower in comparison to the prior year period.

Other Expense (Income)

Interest Expense. Interest expense increased $0.2 million, or 2%, to $8.5 million for the three months ended June 30, 2024, from $8.3 million for the three months ended June 30, 2023. The increase was primarily attributable to higher interest rates.

Net Loss on Disposition of Real Estate Property. During the second quarter of 2024, the Company entered into an assignment in lieu of foreclosure agreement to transfer possession and control of the Cascade Station property to the lender as a result of an event of default as defined in the property's loan agreement. Given the terms of the assignment in lieu of foreclosure agreement, the Company deconsolidated the entity holding the property and related assets and liabilities during the second quarter of 2024. For the three months ended June 30, 2024, the Company recognized a loss on deconsolidation of $1.5 million. In the second quarter of 2023, the Company consented to the appointment of a receiver to assume possession and control of the 190 Office Center property as a result of an event of default as defined in the property's loan agreement. Given the appointment of the receiver, the Company deconsolidated the entity holding the property and related assets and liabilities during the second quarter of 2023. For the three months ended June 30, 2023, the Company recognized a loss on deconsolidation of $0.1 million.

Comparison of Six Months Ended June 30, 2024 to Six Months Ended June 30, 2023

Rental and Other Revenues. Rental and other revenues include net rental income, parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Rental and other revenues decreased $3.8 million, or 4%, to $86.8 million for the six months ended June 30, 2024 compared to $90.6 million for the six months ended June 30, 2023. Revenue decreased year over year due to the dispositions and tenant departures at Cascade Station in June 2024 and 190 Office Center in May 2023 which reduced revenue by $1.0 million and $2.3 million, respectively. Revenue also decreased at 2525 McKinnon by $0.5 million due to lower occupancy at the property compared to the prior year. The remaining properties' rental and other revenues were relatively unchanged in comparison to the prior year period.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, general and administrative expenses and depreciation and amortization. Total operating expenses decreased $0.9 million, or 1%, to $72.6 million for the six months ended June 30, 2024, from $73.5 million for the six months ended June 30, 2023. The disposition of 190 Office Center in May 2023 decreased total operating expenses by $1.9 million. Offsetting this decrease, total operating expenses at Bloc 83 increased by $0.4 million primarily due to higher electricity costs and property taxes. The remaining properties' total operating expenses were $0.6 million higher in comparison to the prior year period, primarily due to inflation.

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and re-leasing costs. Property operating expenses increased $0.2 million, or 1%, to $35.2 million for the six months ended June 30, 2024, from $35.0 million for the six months ended June 30, 2023. Property operating expenses at Bloc 83 increased by $0.5 million primarily due to higher electricity costs and property taxes. Offsetting this increase, the disposition of 190 Office Center in May 2023 decreased property operating expenses by $1.2 million. The remaining properties' property operating expenses were $0.9 million higher in comparison to the prior year period, primarily due to inflation.

General and Administrative. General and administrative expenses are comprised of public company reporting costs and the compensation of our management team and Board of Directors, as well as non-cash stock-based compensation expenses. General and administrative expenses increased $0.1 million, or 1%, to $7.5 million for the six months ended June 30, 2024, from $7.4 million reported for the same period in 2023. General and administrative expenses increased due to marginally higher stock-based compensation expense.

Depreciation and Amortization. Depreciation and amortization decreased $1.3 million, or 4%, to $29.8 million for the six months ended June 30, 2024, from $31.1 million reported for the same period in 2023. The disposition of 190 Office Center in May 2023 decreased depreciation and amortization expense by $0.6 million. Depreciation and amortization expense at Circle Point also decreased by $0.8 million as the amortization expense associated with leases in place was fully amortized in 2023. The remaining properties' depreciation expenses were relatively unchanged in comparison to the prior year period.

Other Expense (Income)

Interest Expense. Interest expense increased $0.3 million, or 2%, to $16.9 million for the six months ended June 30, 2024, from $16.6 million for the six months ended June 30, 2023. The increase was primarily attributable to higher interest rates.

Net Loss on Disposition of Real Estate Property. During the second quarter of 2024, the Company entered into an assignment in lieu of foreclosure agreement to transfer possession and control of the Cascade Station property to the lender as a result of an event of default as defined in the property's loan agreement. Given the terms of the assignment in lieu of foreclosure agreement, the Company deconsolidated the entity holding the property and related assets and liabilities during the second quarter of 2024. For the six months ended June 30, 2024, the Company recognized a loss on deconsolidation of $1.5 million. In the prior year, the Company consented to the appointment of a receiver to assume possession and control of the 190 Office Center property as a result of an event of default as defined in the property's loan agreement. Given the appointment of the receiver, the Company deconsolidated the entity holding the property and related assets and liabilities during the second quarter of 2023. For the six months ended June 30, 2023, the Company recognized a loss on deconsolidation of $0.1 million.

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Cash Flows

Comparison of Six Months Ended June 30, 2024 to Six Months Ended June 30, 2023

Cash, cash equivalents and restricted cash were $43.3 million and $52.7 million as of June 30, 2024 and June 30, 2023, respectively.

Cash flow from operating activities. Net cash provided by operating activities increased $4.1 million to $31.7 million for the six months ended June 30, 2024, compared to $27.6 million for the same period in 2023. The increase was primarily attributable to changes in working capital.

Cash flow to investing activities. Net cash used in investing activities decreased $5.1 million to $18.7 million for the six months ended June 30, 2024, compared to $23.8 million for the same period in 2023. The decrease in cash used in investing activities was primarily attributable to lower additions to real estate properties in the current year. This decrease was partially offset by an increase in cash used in investing activities attributable to higher deferred leasing costs in the current year.

Cash flow to financing activities. Net cash used in financing activities increased $17.7 million to $13.1 million for the six months ended June 30, 2024, compared to $4.6 million provided by financing activities for the same period in 2023. The increase in cash used by financing activities was primarily attributable to lower net proceeds from borrowings partially offset by lower dividend distributions paid to stockholders for the six months ended June 30, 2024.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

We had approximately $28.0 million of cash and cash equivalents and $15.3 million of restricted cash as of June 30, 2024.

On March 15, 2018, the Company entered into a credit agreement for the Unsecured Credit Facility that provided for commitments of up to $250 million, which included an accordion feature that allowed the Company to borrow up to $500 million, subject to customary terms and conditions. On September 27, 2019, the Company entered into a five-year $50 million term loan, increasing its authorized borrowings under the Company's Unsecured Credit Facility from $250 million to $300 million. On November 16, 2021, the Company entered into an Amended and Restated Credit Agreement that increased the total authorized borrowings from $300 million to $350 million. On January 5, 2023, the Company entered into a second amendment to the Amended and Restated Credit Agreement for the Unsecured Credit Facility and entered into a three-year $25 million term loan, increasing its total authorized borrowings from $350 million to $375 million. The Unsecured Credit Facility matures in November 2025 and may be extended 12 months at the Company's option upon meeting certain conditions. As of June 30, 2024, we had approximately $205.0 million outstanding under our Unsecured Credit Facility and a $2.5 million letter of credit to satisfy escrow requirements for a mortgage lender.

On May 23, 2024, the Company entered into an amended and restated loan agreement for Central Fairwinds, extending the term for an additional five years and amending the interest rate from fixed to floating. The loan bears interest at a rate equal to the daily-simple SOFR rate plus a margin of 325 basis points. The Company also entered into a five-year interest rate swap agreement, effectively fixing the SOFR component of the borrowing rate of the loan at 4.43%.

On June 27, 2024, the Company entered into a loan modification and extension agreement for FRP Ingenuity Drive, which among other things, included a principal repayment of $1.6 million and extended the term for an additional two years to December 2026 with a one-year extension option.

On February 26, 2020, the Company and the Operating Partnership entered into equity distribution agreements (collectively, the "Agreements") with each of KeyBanc Capital Markets Inc., Raymond James & Associates, Inc., BMO Capital Markets Corp., RBC Capital Markets, LLC, B. Riley FBR, Inc., D.A. Davidson & Co. and Janney Montgomery Scott LLC (the "Sales Agents") pursuant to which the Company may issue and sell from time to time up to 15,000,000 shares of common stock and up to 1,000,000 shares of Series A Preferred Stock through the Sales Agents, acting as agents or principals (the "ATM Program"). On May 7, 2021 the Company delivered to D.A. Davidson & Co. a notice of termination of the Agreement, effective May 7, 2021. The Company did not issue any shares of common stock or Series A Preferred Stock under the ATM Program during the six months ended June 30, 2024.

After considering the effect of the work-from-home trend on our consolidated operations, it is possible that we could fail certain financial covenants within certain property-level mortgage borrowings. For mortgages with financial covenants, the lenders' remedy of a covenant failure would be a requirement to escrow funds for the purpose of meeting our future debt payment obligations. As of June 30, 2024, the lenders for two of our mortgage borrowings have elected their right to direct property cash flows into lender-controlled restricted cash accounts to fund property operations until certain thresholds are met. For these two properties, the total restricted cash as of June 30, 2024 was $6.7 million.

Our short-term liquidity requirements primarily consist of operating expenses and other expenditures associated with our properties, distributions to our limited partners and distributions to our stockholders required to qualify for REIT status, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations and reserves established from existing cash. We have further sources such as proceeds from our public offerings, including under our ATM Program, and borrowings under our mortgage loans and our Unsecured Credit Facility.

Our long-term liquidity needs consist primarily of funds necessary for the repayment of debt at maturity, property acquisitions and non-recurring capital improvements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property acquisitions and non-recurring capital improvements using our Unsecured Credit Facility pending longer term financing.

We believe we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity securities. However, we cannot assure you that this is or will continue to be the case. Our ability to incur additional debt is dependent on a number of factors, including our degree of leverage, interest rates, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets is dependent on a number of factors as well, including general market conditions for REITs and market perceptions about us.

In addition to the incurrence of debt and the offering of equity securities, dispositions of property may serve as additional capital resources and sources of liquidity. We may recycle capital from stabilized assets or from sales of properties. Capital from these types of transactions is intended to be redeployed into property acquisitions, capital improvements, or to pay down existing debt.

Contractual Obligations and Other Long-Term Liabilities

The following table provides information with respect to our commitments as of June 30, 2024, including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extension options.

	Payments Due by Period (in thousands)				
Contractual Obligations	**Total**	**2024**	**2025-2026**	**2027-2028**	**More than 5 years**
Principal payments on mortgage loans	$652,429	$52,792	$303,828	$281,320	$ 14,489
Interest payments [(1)]	75,269	15,899	44,024	14,816	530
Tenant-related commitments	13,591	13,209	382	—	—
Lease obligations	35,876	270	1,510	1,190	32,906
Total	$777,165	$82,170	$349,744	$297,326	$ 47,925

(1) Contracted interest on the floating rate borrowings under our Unsecured Credit Facility was calculated based on the balance and interest rate at June 30, 2024. Contracted interest on our loans which we have applied interest rate swaps was calculated based on the swap rate fixing the SOFR component of the borrowing rates.

Inflation

Substantially all of our office leases include expense reimbursement provisions that provide for property operating expense escalations. In addition, most of the leases provide for fixed rent increases. We believe that expense increases due to inflation may be at least partially offset by these contractual rent increases and expense escalations. However, a longer period of inflation could affect our cash flows or earnings, or impact our borrowings, as discussed elsewhere in this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use derivative financial instruments to manage or hedge interest rate risks related to borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. We have entered, and we will only enter into, contracts with major financial institutions based on their credit rating and other factors. See Note 6 to our condensed consolidated financial statements in Item 1 of this Report for more information regarding our derivatives.

We currently consider our interest rate exposure to be moderate because as of June 30, 2024, approximately $587.4 million, or 90.0%, of our debt had fixed interest rates, or effectively fixed rates when factoring in interest rate swaps, and $65.0 million, or 10.0%, had variable interest rates. The $587.4 million fixed rate debt includes our loans against which we have applied interest rate swaps. The interest rate swaps effectively fix the SOFR component of the borrowing rates until maturity of the debt. A 1% increase in SOFR would result in a $0.7 million increase to our annual interest costs on debt outstanding as of June 30, 2024 and would decrease the fair value of our outstanding debt, as well as increase interest costs associated with future debt issuances or borrowings under our Unsecured Credit Facility. A 1% decrease in SOFR would result in a $0.7 million decrease to our annual interest costs on debt outstanding as of June 30, 2024 and would increase the fair value of our outstanding debt, as well as decrease interest costs associated with future debt issuances or borrowings under our Unsecured Credit Facility.

Interest rate risk amounts are our management’s estimates based on our Company’s capital structure and were determined by considering the effect of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. We may take actions to further mitigate our exposure to changes in interest rates. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our Company’s financial structure.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on the most recent evaluation, the Company’s Chief Executive Officer and Chief Financial Officer determined that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) were effective as of June 30, 2024.

Management’s Report on Internal Control Over Financial Reporting

There have been no changes to our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We and our subsidiaries are, from time to time, parties to litigation arising from the ordinary course of business. As of June 30, 2024, management does not believe that any such litigation will have a material adverse effect, individually or in the aggregate, on our financial position or results of operations.

Item 1A. Risk Factors

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, except for those included below. Any of those risk factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

Risks Related to Our Business and Our Properties

Real estate is a competitive business and that competition may adversely impact us.

We compete with a large number of property owners, operators and developers, some of whom may be willing to accept lower returns on their investments. Principal factors of competition are the quality of the property, attractiveness of location and the breadth and the quality of the amenities offered. Substantially all of our properties face competition from similar properties in the same market, which may adversely impact the rents we can charge at those properties, leasing costs, occupancy rates and our results of operations.

Our commercial office properties are located primarily in Sun Belt markets, which generally exhibit positive population and economic growth. The number of competitive office properties in these areas, which may be newer, more amenitized or better located than our properties, could have a material adverse effect on our ability to lease office space at our properties and on the effective rents we are able to charge.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended June 30, 2024, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

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Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of City Office REIT, Inc., as amended and supplemented (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on March 1, 2018).
3.2	Third Amended and Restated Bylaws of City Office REIT, Inc., effective as of August 2, 2023 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 3, 2023).
4.1	Certificate of Common Stock of City Office REIT, Inc. (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-11/A filed with the Commission on February 18, 2014).
4.2	Form of certificate representing the 6.625% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed with the Commission on September 30, 2016).
10.1	Amended and Restated Loan Agreement, dated as of August 16, 2023, by and among CIO Research Commons, LLC, CIO Technology Point I & II, LLC and CIO University Tech, LLC, each and collectively as borrower, and BankUnited, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on August 18, 2023).
10.2	Amended and Restated Renewal Promissory Note, dated as of August 16, 2023, by and among CIO Research Commons, LLC, CIO Technology Point I & II, LLC and CIO University Tech, LLC, each and collectively as borrower, and BankUnited, N.A. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Commission on August 18, 2023).
10.3	Form of Performance Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 3, 2024).*
31.1	Certification by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. †
31.2	Certification by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. †
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
101.INS	INLINE XBRL INSTANCE DOCUMENT†
101.SCH	INLINE XBRL SCHEMA DOCUMENT†
101.CAL	INLINE XBRL CALCULATION LINKBASE DOCUMENT†
101.LAB	INLINE XBRL LABELS LINKBASE DOCUMENT†
101.PRE	INLINE XBRL PRESENTATION LINKBASE DOCUMENT†
101.DEF	INLINE XBRL DEFINITION LINKBASE DOCUMENT†
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) †

† Filed herewith.
* Compensatory Plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITY OFFICE REIT, INC.

Date: August 1, 2024

By: /s/ James Farrar
James Farrar
Chief Executive Officer and Director
(Principal Executive Officer)

Date: August 1, 2024

By: /s/ Anthony Maretic
Anthony Maretic
Chief Financial Officer, Secretary and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

Certification

I, James Farrar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2024 of City Office REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

August 1, 2024	/s/ James Farrar
Date	James Farrar
	Chief Executive Officer and Director
	(Principal Executive Officer)

Exhibit 31.2

Certification

I, Anthony Maretic, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2024 of City Office REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

August 1, 2024	/s/ Anthony Maretic
Date	Anthony Maretic Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q for the period ended June 30, 2024 of City Office REIT, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James Farrar, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 1, 2024	/s/ James Farrar
Date	James Farrar Chief Executive Officer and Director (Principal Executive Officer)

This written report is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to City Office REIT, Inc. and will be retained by City Office REIT, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q for the period ended June 30, 2024 of City Office REIT, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony Maretic, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 1, 2024	/s/ Anthony Maretic
Date	Anthony Maretic Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)

This written report is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to City Office REIT, Inc. and will be retained by City Office REIT, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.