

CoreSite Realty Corp  
Form 10-K  
February 10, 2017  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For The Fiscal Year Ended December 31, 2016

or

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 001-34877

CoreSite Realty Corporation

(Exact name of registrant as specified in its charter)

Maryland	27-1925611
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1001 17th Street, Suite 500	
Denver, CO	80202
(Address of principal executive offices)	(Zip Code)

(866) 777-2673

(Registrant's telephone number, including area code)

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

Title of Class	Name of Exchange On Which Registered
Common Stock, \$0.01 par value per share	New York Stock Exchange
7.25% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

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

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

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

The aggregate market value of common equity held by non-affiliates of the registrant was approximately \$2,493.3 million as of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter. For purposes of the foregoing calculation, all directors and executive officers of the registrant and holders of more than 10% of the registrant's common equity are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 8, 2017, there were 33,895,316 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed in conjunction with the registrant's 2017 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 31, 2016, are incorporated by reference in Part III of this report.

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Cautionary Note Regarding Forward Looking Statements

This Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (this “Annual Report”), together with other statements and information publicly disseminated by our company, contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”), namely Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We intend such forward looking statements to be covered by the safe harbor provisions for forward looking statements contained in the PSLRA and include this statement for purposes of complying with these safe harbor provisions.

In particular, statements pertaining to our capital resources, portfolio performance, business strategies and results of operations contain forward looking statements. You can identify forward looking statements by the use of forward looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “plans,” “pro forma” “anticipates” or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters. You can also identify forward looking statements by discussions of strategy, plans or intentions. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward looking statements: (i) the geographic concentration of our data centers in certain markets and any adverse developments in local economic conditions or the demand for data center space in these markets; (ii) fluctuations in interest rates and increased operating costs; (iii) difficulties in identifying properties to acquire and completing acquisitions; (iv) the significant competition in our industry and an inability to lease vacant space, renew existing leases or release space as leases expire; (v) lack of sufficient customer demand to realize expected returns on our investments to expand our property portfolio; (vi) decreased revenue from costs and disruptions associated with any failure of our physical infrastructure or services; (vii) our ability to lease available space to existing or new customers; (viii) our failure to obtain necessary outside financing; (ix) our failure to qualify or maintain our status as a Real Estate Investment Trust (“REIT”); (x) financial market fluctuations; (xi) changes in real estate and zoning laws and increases in real property tax rates; (xii) delays or disruptions in third party network connectivity; (xiii) service failures or price increases by third party power suppliers; (xiv) inability to renew net leases on the data center properties we lease; and (xv) other factors affecting the real estate industry generally.

In addition, important factors that could cause actual results to differ materially from the forward looking statements include the risk factors in Item 1A. “Risk Factors” and elsewhere in this Annual Report. New risks and uncertainties arise from time to time, and we cannot predict those events or how they might affect us. We assume no obligation to update any forward looking statements after the date of this Annual Report, except as required by applicable law. Given these risks and uncertainties, investors should not place undue reliance on forward looking statements as a prediction of actual results.

When we use the terms “we,” “us,” “our,” the “Company,” “CoreSite” and “our company” in this Annual Report, we are referring to CoreSite Realty Corporation, a Maryland corporation, together with our consolidated subsidiaries, including CoreSite, L.P., a Delaware limited partnership of which we are the sole general partner and which we refer to as “our Operating Partnership.”



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PART I

ITEM 1. BUSINESS

The Company

We deliver secure, reliable, high performance data center and interconnection solutions to a growing customer ecosystem across eight key North American markets. More than 1,000 of the world's leading enterprises, network operators, cloud providers, and supporting service providers choose CoreSite to connect, protect and optimize their performance-sensitive data, applications and computing workloads.

Our Business

We are a fully integrated, self administered, and self managed real estate investment trust ("REIT") for federal income tax purposes and we conduct certain activities through our taxable REIT subsidiaries. Through our controlling interest in CoreSite, L.P., a Delaware limited partnership, our "Operating Partnership," we are engaged in the business of ownership, acquisition, construction and operation of strategically located data centers in some of the largest and fastest growing data center markets in the United States, including the Northern Virginia (including Washington D.C.), New York, and San Francisco Bay areas, Chicago, Los Angeles, Boston, Miami and Denver. We are a Maryland corporation organized in 2010.

Our data centers are highly specialized and secure buildings that house networking, storage and communications technology infrastructure, including servers, storage devices, switches, routers and fiber optic transmission equipment. These buildings are designed to provide the power, cooling and network connectivity necessary to efficiently operate this mission critical equipment. Data centers located at points where many communications networks converge can also function as interconnection hubs where customers are able to connect to multiple networks and exchange traffic with each other. Our data centers feature advanced reliable and efficient power, cooling and security systems, including generally twenty-four-hours-a-day, seven-days-a-week in house security staffing, and many are points of network interconnection that provide the evolved ecosystems our customers need to meet their own competitive challenges and business goals. We believe we have the flexibility and scalability to satisfy the full spectrum of our customers' growth requirements and corresponding data center needs by providing data center space ranging in size from an entire building or large dedicated suite to a cage or half cabinet.

The first data center in our portfolio was purchased in 2000 by certain real estate funds (the "Funds") affiliated with The Carlyle Group, our Predecessor, and since then we have continued to acquire, develop and operate these types of data center facilities. Our properties are self managed, including construction project management in connection with our development initiatives. As of December 31, 2016, our property portfolio included 20 operating data center facilities, office and light industrial space and multiple development projects and space, which collectively comprise over 3.5 million net rentable square feet ("NRSF"), of which over 2.2 million NRSF is existing data center space.

Our Competitive Strengths

We believe the following key competitive strengths position us to efficiently scale our business, capitalize on the demand for data center space and interconnection services, and thereby grow our cash flow.

**Secure, Reliable, and Compliant.** We help businesses protect mission critical data, performance sensitive applications and IT infrastructure by delivering secure, reliable, and compliant data center solutions. Our data centers feature advanced efficient power and cooling infrastructure to support our customers' IT infrastructure with additional power capacity to support continued growth. We provide twenty four hours a day, seven days a week in house security guard

monitoring with customizable security features. We also provide the infrastructure and physical security required to support many of our customers' information, data, and security compliance needs.

**High Performance.** We offer cloud-enabled, network rich data center campuses with over 20,000 interconnections across our portfolio and direct access to over 375 carriers and ISPs (Internet Service Providers), over 300 leading cloud and IT service providers and inter site connectivity. Our offerings include the CoreSite Open Cloud Exchange and the Any2 Internet Exchange. We believe that the diverse network connectivity options at many of our data centers provide us with a competitive advantage because network dense facilities offering high levels of connectivity

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typically take many years to establish. Many providers in our data center facilities can leverage our sites as revenue opportunities by offering their services directly to other customers within our data centers, while enterprises can reduce their total cost of operations by directly connecting to service providers in the same data center in a cost effective manner.

**Scalable.** Across 20 operating data centers in eight key North American markets, we lease space to enterprises, cloud and IT service providers, and network and mobility providers. We believe our ability to be both flexible and scalable is a key differentiator. We offer many space, power, and interconnection options that allow customers to select products and services that meet their needs. We believe we have a compelling combination of presence in most of the top data center markets in the U.S. with the ability to meet customers' growing capacity requirements within those markets.

At December 31, 2016, our data center facilities have approximately 281,000 NRSF of unoccupied space. We have the ability to increase our occupied data center square footage by approximately 1,275,000 NRSF, or 66%, through leasing our unoccupied space and the development of 27,000 NRSF space under construction as of December 31, 2016, and approximately 967,000 NRSF at multiple facilities that are available for future development based on market supply and demand.

**Best in Class Customer Experience.** We believe our 422 professionals deliver best in class service by placing customer needs first in supporting the planning, implementation and operating requirements of customers. We provide dedicated implementation resources to ensure a seamless onboarding process for customers. Our leasing and sales professionals can develop complex data center solutions for the most demanding customer requirements and our experienced and committed operations and facilities personnel are available for extensive management support.

**Facilities in Key Markets.** Our portfolio is concentrated in some of the largest and most important U.S. metropolitan markets and we expect to continue benefitting from this concentration as customers seek new, high quality data center space and interconnections within our markets, which are many of the key North American network, financial, cloud and commercial hubs. Our data centers are located in the Northern Virginia (including Washington D.C.), New York and San Francisco Bay areas, Chicago, Los Angeles, Boston, Miami and Denver. Many of our facilities are also situated in close proximity to a concentration of key businesses and corporations, driving demand for our data center space and interconnection services.

**Diversified Customer Base.** We have a diverse, global customer base, which we believe is a reflection of our strong reputation and proven track record, as well as our customers' trust in our ability to house their mission critical applications and vital communications technology. Our diverse customer base spans many industries across eight key North America markets. In addition to geographic markets, we group our customers into the following industry verticals:

- Enterprises: digital content and multimedia, systems integrators and managed services providers ("SI & MSP"), financial, healthcare, education, government, manufacturing and professional services
- Cloud and IT Service Providers
- Networks and Mobility: domestic and international telecommunications carriers, ISPs and CDNs (Content Delivery Networks)

### Business and Growth Strategies

Our business objective is to continue growing our position as a provider of strategically located data center space in North America. Key components of our strategy include the following:



Increase Cash Flow of In Place Data Center Space. We actively manage and lease our properties to increase cash flow by:

- Leasing Available Space. We have the ability to increase both our revenue and our revenue per square foot by leasing additional space, power and interconnection services to new and existing data center customers. As of December 31, 2016, substantially all of our data center facilities had space and power available to offer our customers the ability to increase their square footage under lease as well as the amount of power

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they use per square foot. Our existing data center facilities have approximately 281,000 NRSF, or 12.6% of space currently unoccupied. We believe this space, together with available power, enables us to generate incremental revenue within our existing data center footprint.

· **Increasing Interconnection in our Facilities.** As more customers locate in our data center facilities, it benefits their business partners and customers to colocate with CoreSite in order to gain the full economic and performance benefits of our interconnection services. We believe this ecosystem of customers continues to drive new and existing customer growth, and in turn, increases the volume of interconnection services and the amount of value add power services such as breakered AC and DC primary and redundant power.

**Capitalize on Embedded Expansion Opportunities.** We plan to grow by developing new secure, reliable and high performance data center space. Our development opportunities include leveraging existing in place infrastructure and entitlements in currently operating properties or campuses. In many cases, we are able to strategically deploy capital by developing space in incremental phases to meet customer demand. Including the space currently under construction at December 31, 2016, vacant space and land targeted for future development, we own land and buildings sufficient to develop approximately 994,000 NRSF of data center space.

The following table summarizes the NRSF under construction and NRSF held for development throughout our portfolio, each as of December 31, 2016:

Facilities	Development Opportunities (in NRSF)		
	Under Construction(1)	Held for Development(2)	Total
One Wilshire campus			
LA1	—	10,352	10,352
LA2	4,726	122,476	127,202
Los Angeles Total	4,726	132,828	137,554
Northern Virginia			
Reston Campus Expansion(3)	—	611,072	611,072
Boston			
BO1	13,735	59,884	73,619
New York			
NY2	—	134,508	134,508
Miami			
MI1	—	13,154	13,154
Denver			
DE1	8,276	15,630	23,906
Total Facilities(4)	26,737	967,076	993,813

- (1) Represents NRSF for which substantial construction activities are ongoing to prepare the property for its intended use following development. The NRSF reflects management's estimate of engineering drawings and required support space and is subject to change based on final demising of space.
- (2) Represents estimated incremental data center capacity currently vacant in existing facilities in our portfolio that requires significant capital investment in order to develop into data center facilities.
- (3) During the fourth quarter of 2016, we acquired a 21.75-acre light-industrial / flex office park consisting of four operating buildings (the "Reston Campus Expansion"). Based upon our expectations regarding entitlements for the campus, we may build approximately 611,000 NRSF of incremental data center capacity across multiple phases. Currently, 178,712 NRSF and 48,928 NRSF is operating office and light-industrial space and powered shell data center space, respectively. We plan to begin construction of the first phase of the Reston Campus Expansion in the first quarter of 2017.

(4) In addition to our development opportunities disclosed within this table, we have entitled and unentitled land adjacent to our NY2 and LA2 facilities, in the form of existing parking lots. By utilizing existing parking lots, we

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believe that we could develop 100,000 NRSF and 200,000 NRSF buildings at NY2 and LA2, respectively, upon receipt of necessary entitlements.

**Selectively Pursue Acquisition and Development Opportunities in New and Existing Markets.** We evaluate opportunities to acquire or develop data center space with abundant power and/or dense points of interconnection in key markets that will expand our customer base and broaden our geographic footprint. Such acquisitions may entail subsequent development, which requires significant capital expenditures. We also intend to continue to implement the “hub and spoke strategy” that we have deployed in our four largest markets, namely Los Angeles, New York, the San Francisco Bay area and Northern Virginia. In these markets, we have extended our data center footprint by connecting our newer facilities, the spokes, to our established data centers, our hubs, which allows our customers leasing space at the spokes to leverage the significant interconnection capabilities of our hubs. In order to deploy our “hub and spoke strategy,” we typically rely on third party providers of network connectivity to establish highly reliable network connectivity within and between facilities.

**Leverage Existing Customer Relationships and Reach New Customers.** Our strong customer and industry relationships, combined with our national footprint and sales force, afford us insight into the size, timing and location of customers’ planned growth. We historically have been successful in leveraging this market visibility to expand our footprint and customer base in existing and new markets. We intend to continue to strengthen and expand our relationships with existing customers and to further grow and diversify our customer base by targeting growing customers and segments, such as domestic and international telecommunications carriers, content and media entertainment providers, cloud providers and other enterprise customers, including financial, health care, educational institutions and government agencies.

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## Our Portfolio

As of December 31, 2016, our property portfolio included 20 operating data center facilities, office and light industrial space and multiple development projects that collectively comprise over 3.5 million NRSF, of which over 2.2 million NRSF is existing data center space. The approximately 1.0 million NRSF of development projects includes space available for development and construction of new data center facilities. We expect that this development potential plus any incremental investment into existing or new markets will enable us to accommodate existing and future customer demand and position us to continue to increase our operating cash flows. The following table provides an overview of our property portfolio as of December 31, 2016:

Facilities	Data Center Operating NRSF (1)			Pre-Stabilized (2)		Total		Development NRSF (3)		Total Portfolio
	Annualized Rent (\$000)	Stabilized Total	Percent Occupied(5)	Total	Percent Occupied(5)	Total	Percent Occupied(5)	Total		
San Francisco	\$ 6,335	85,932	82.3	% —	—	% 85,932	82.3	% —	85,932	
	8,367	76,676	93.7	—	—	76,676	93.7	—	76,676	
San Francisco	61,508	538,615	99.4	76,885	25.5	615,500	90.2	—	615,500	
	76,210	701,223	96.7	76,885	25.5	778,108	89.6	—	778,108	
Virginia	28,930	139,053	93.7	—	—	139,053	93.7	10,352	149,405	
	30,910	254,343	92.0	43,345	24.3	297,688	82.1	127,202	424,890	
Virginia	59,840	393,396	92.6	43,345	24.3	436,741	85.8	137,554	574,295	
	26,779	201,719	94.0	—	—	201,719	94.0	—	201,719	