

Rexford Industrial Realty, Inc.
Form 10-Q
May 07, 2018

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 March 31, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36008

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

MARYLAND 46-2024407
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

11620 Wilshire Boulevard, Suite 1000, 90025
Los Angeles, California
(Address of principal executive offices) (Zip Code)

(310) 966-1680
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

Edgar Filing: Rexford Industrial Realty, Inc. - Form 10-Q

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 outstanding at May 1, 2018 was 81,076,390.

REXFORD INDUSTRIAL REALTY, INC.
 QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2018
 TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets as of March 31, 2018 (unaudited) and December 31, 2017 3

Consolidated Statements of Operations for the Three Months Ended March 31, 2018 and 2017 (unaudited) 4

Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2018 and 2017 (unaudited) 5

Consolidated Statements of Changes in Equity for the Three Months Ended March 31, 2018 and 2017 (unaudited) 6

Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017 (unaudited) 8

Notes to the Consolidated Financial Statements 9

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations 35

Item 3. Quantitative and Qualitative Disclosures About Market Risk 57

Item 4. Controls and Procedures 58

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 59

Item 1A. Risk Factors 59

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 59

Item 3. Defaults Upon Senior Securities 59

Item 4. Mine Safety Disclosures 59

Item 5. Other Information 59

Item 6. Exhibits 61

Signatures 62

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REXFORD INDUSTRIAL REALTY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands – except share and per share data)

	March 31, 2018	December 31, 2017
ASSETS		
Land	\$ 1,020,652	\$ 997,588
Buildings and improvements	1,098,695	1,079,746
Tenant improvements	50,998	49,692
Furniture, fixtures and equipment	151	167
Construction in progress	45,688	34,772
Total real estate held for investment	2,216,184	2,161,965
Accumulated depreciation	(186,234)	(173,541)
Investments in real estate, net	2,029,950	1,988,424
Cash and cash equivalents	15,625	6,620
Restricted cash	4,211	250
Rents and other receivables, net	3,328	3,664
Deferred rent receivable, net	17,766	15,826
Deferred leasing costs, net	12,097	12,014
Deferred loan costs, net	1,775	1,930
Acquired lease intangible assets, net	45,876	49,239
Acquired indefinite-lived intangible	5,156	5,156
Interest rate swap asset	11,294	7,193
Other assets	5,961	6,146
Acquisition related deposits	4,525	2,475
Assets associated with real estate held for sale	8,300	12,436
Total Assets	\$2,165,864	\$ 2,111,373
LIABILITIES & EQUITY		
Liabilities		
Notes payable	\$ 659,417	\$ 668,941
Interest rate swap liability	—	219
Accounts payable, accrued expenses and other liabilities	21,441	21,134
Dividends payable	13,294	11,727
Acquired lease intangible liabilities, net	17,783	18,067
Tenant security deposits	19,936	19,521
Prepaid rents	5,540	6,267
Liabilities associated with real estate held for sale	132	243
Total Liabilities	737,543	746,119
Equity		
Rexford Industrial Realty, Inc. stockholders' equity		
Preferred stock, \$0.01 par value per share, 10,000,000 shares authorized, 5.875% series A cumulative redeemable preferred stock, 3,600,000 shares outstanding at March 31, 2018 and December 31, 2017 (\$90,000 liquidation preference)	86,651	86,651
	72,443	73,062

Edgar Filing: Rexford Industrial Realty, Inc. - Form 10-Q

5.875% series B cumulative redeemable preferred stock, 3,000,000 shares outstanding at March 31, 2018 and December 31, 2017, respectively (\$75,000 liquidation preference)		
Common Stock, \$0.01 par value per share, 490,000,000 authorized and 80,667,789 and 78,495,882 shares outstanding at March 31, 2018, 2018 and December 31, 2017, respectively	804	782
Additional paid in capital	1,297,391	1,239,810
Cumulative distributions in excess of earnings	(67,622)	(67,058)
Accumulated other comprehensive income	11,014	6,799
Total stockholders' equity	1,400,681	1,340,046
Noncontrolling interests	27,640	25,208
Total Equity	1,428,321	1,365,254
Total Liabilities and Equity	\$2,165,864	\$2,111,373

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

3

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

	Three Months Ended March 31,	
	2018	2017
RENTAL REVENUES		
Rental income	\$40,911	\$ 29,614
Tenant reimbursements	7,293	5,155
Other income	229	232
TOTAL RENTAL REVENUES	48,433	35,001
Management, leasing and development services	103	126
Interest income	—	227
TOTAL REVENUES	48,536	35,354
OPERATING EXPENSES		
Property expenses	11,960	9,222
General and administrative	6,162	5,086
Depreciation and amortization	19,452	13,599
TOTAL OPERATING EXPENSES	37,574	27,907
OTHER EXPENSES		
Acquisition expenses	9	385
Interest expense	5,852	3,998
TOTAL OTHER EXPENSES	5,861	4,383
TOTAL EXPENSES	43,435	32,290
Equity in income from unconsolidated real estate entities	—	11
Loss on extinguishment of debt	—	(22)
Gains on sale of real estate	9,983	2,668
NET INCOME	15,084	5,721
Less: net income attributable to noncontrolling interest	(318)	(132)
NET INCOME ATTRIBUTABLE TO REXFORD INDUSTRIAL REALTY, INC.	14,766	5,589
Less: preferred stock dividends	(2,423)	(1,322)
Less: earnings allocated to participating securities	(97)	(91)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$12,246	\$ 4,176
Net income attributable to common stockholders per share - basic	\$0.16	\$ 0.06
Net income attributable to common stockholders per share - diluted	\$0.15	\$ 0.06
Weighted average shares of common stock outstanding - basic	78,694,166	66,341,138
Weighted average shares of common stock outstanding - diluted	79,196,066	66,626,239
Dividends declared per common share	\$0.160	\$ 0.145

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

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

	Three Months Ended March 31,	
	2018	2017
Net income	\$15,084	\$5,721
Other comprehensive income: cash flow hedge adjustment	4,320	752
Comprehensive income	19,404	6,473
Comprehensive income attributable to noncontrolling interests	(423)	(153)
Comprehensive income attributable to Rexford Industrial Realty, Inc.	\$18,981	\$6,320

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

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

	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Cumulative Distributions in Excess of Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2018	\$159,713	78,495,882	\$782	\$1,239,810	\$(67,058)	\$6,799	\$1,340,046	\$25,208	\$1,365,254
Issuance of common stock	—	2,085,663	21	58,430	—	—	58,451	—	58,451
Offering costs	(32)	—	—	(1,048)	—	—	(1,080)	—	(1,080)
Share-based compensation	—	79,427	1	409	—	—	410	2,604	3,014
Shares acquired to satisfy employee tax withholding requirements on vesting restricted stock	—	(15,287)	—	(418)	—	—	(418)	—	(418)
Conversion of units to common stock	—	22,104	—	208	—	—	208	(208)	—
Net income	2,423	—	—	—	12,343	—	14,766	318	15,084
Other comprehensive income	—	—	—	—	—	4,215	4,215	105	4,320
Preferred stock dividends	(3,010)	—	—	—	—	—	(3,010)	—	(3,010)
Common stock dividends	—	—	—	—	(12,907)	—	(12,907)	—	(12,907)
Distributions	—	—	—	—	—	—	—	(387)	(387)
Balance at March 31, 2018	\$159,094	80,667,789	\$804	\$1,297,391	\$(67,622)	\$11,014	\$1,400,681	\$27,640	\$1,428,321

Edgar Filing: Rexford Industrial Realty, Inc. - Form 10-Q

	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Cumulative Distributions in Excess of Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2017	\$86,651	66,454,375	\$ 662	\$907,834	\$(59,277)	\$ 3,445	\$939,315	\$ 22,825	\$962,140
Issuance of common stock	—	168,685	1	3,905	—	—	3,906	—	3,906
Offering costs	—	—	—	(166)	—	—	(166)	—	(166)
Share-based compensation	—	78,829	1	562	—	—	563	833	1,396
Shares acquired to satisfy employee tax withholding requirements on vesting restricted stock	—	(11,989)	—	(277)	—	—	(277)	—	(277)
Conversion of units to common stock	—	18,852	—	189	—	—	189	(189)	—
Net income	1,322	—	—	—	4,267	—	5,589	132	5,721
Other comprehensive income	—	—	—	—	—	731	731	21	752
Preferred stock dividends	(1,322)	—	—	—	—	—	(1,322)	—	(1,322)
Common stock dividends	—	—	—	—	(9,672)	—	(9,672)	—	(9,672)
Distributions	—	—	—	—	—	—	—	(336)	(336)
Balance at March 31, 2017	\$86,651	66,708,752	\$ 664	\$912,047	\$(64,682)	\$ 4,176	\$938,856	\$ 23,286	\$962,142

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

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

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,084	\$ 5,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in income from unconsolidated real estate entities	—	(11)
Provision for doubtful accounts	221	303
Depreciation and amortization	19,452	13,599
Amortization of (below) above market lease intangibles, net	(1,116)	(117)
Accretion of loan origination fees	—	(75)
Deferred interest income on notes receivable	—	(81)
Loss on extinguishment of debt	—	22
Gain on sale of real estate	(9,983)	(2,668)
Amortization of debt issuance costs	312	275
Amortization of discount (premium) on notes payable	1	(58)
Equity based compensation expense	2,963	1,346
Straight-line rent	(1,969)	(956)
Change in working capital components:		
Rents and other receivables	128	(475)
Deferred leasing costs	(1,843)	(905)
Other assets	59	(829)
Accounts payable, accrued expenses and other liabilities	2,529	2,424
Tenant security deposits	179	216
Prepaid rents	(817)	1,346
Net cash provided by operating activities	25,200	19,077
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of investments in real estate	(52,753)	(17,099)
Capital expenditures	(14,861)	(6,093)
Acquisition related deposits	(2,050)	(500)
Distributions from unconsolidated real estate entities	—	11
Proceeds from sale of real estate	24,896	6,537
Net cash used in investing activities	(44,768)	(17,144)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of stock, net	57,371	3,740
Proceeds from notes payable	59,000	135,000
Repayment of notes payable	(68,232)	(124,971)
Debt issuance costs	(450)	(1,940)
Debt extinguishment costs	—	(193)
Dividends paid to preferred stockholders	(3,010)	(1,322)
Dividends paid to common stockholders	(11,382)	(8,971)
Distributions paid to common unitholders	(345)	(311)
Repurchase of common shares to satisfy employee tax withholding requirements	(418)	(277)
Net cash provided by financing activities	32,534	755
Increase in cash and cash equivalents	12,966	2,688
Cash, cash equivalents and restricted cash, beginning of period	6,870	15,525

Edgar Filing: Rexford Industrial Realty, Inc. - Form 10-Q

Cash, cash equivalents and restricted cash, end of period	\$19,836	\$18,213
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of capitalized interest of \$371 and \$466 for the three months ended March 31, 2018 and 2017, respectively)	\$6,663	\$4,948
Supplemental disclosure of noncash investing and financing transactions:		
(Decrease) increase in capital expenditure accrual	\$(1,045)	\$1,485
Accrual of dividends	\$13,294	\$10,008

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

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

1. Organization

Rexford Industrial Realty, Inc. is a self-administered and self-managed full-service real estate investment trust (“REIT”) focused on owning and operating industrial properties in Southern California infill markets. We were formed as a Maryland corporation on January 18, 2013, and Rexford Industrial Realty, L.P. (the “Operating Partnership”), of which we are the sole general partner, was formed as a Maryland limited partnership on January 18, 2013. Through our controlling interest in our Operating Partnership and its subsidiaries, we own, manage, lease, acquire and develop industrial real estate principally located in Southern California infill markets, and, from time to time, acquire or provide mortgage debt secured by industrial property. As of March 31, 2018, our consolidated portfolio consisted of 153 properties with approximately 18.7 million rentable square feet. In addition, we currently manage 19 properties with approximately 1.2 million rentable square feet.

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

As of March 31, 2018, and December 31, 2017, and for the three months ended March 31, 2018 and 2017, the financial statements presented are the consolidated financial statements of Rexford Industrial Realty, Inc. and its subsidiaries, including our Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Under consolidation guidance, we have determined that our Operating Partnership is a variable interest entity because the holders of limited partnership interests do not have substantive kick-out rights or participating rights. Furthermore, we are the primary beneficiary of the Operating Partnership because we have the obligation to absorb losses and the right to receive benefits from the Operating Partnership and the exclusive power to direct the activities of the Operating Partnership. As of March 31, 2018 and December 31, 2017, the assets and liabilities of the Company and the Operating Partnership are substantially the same, as the Company does not have any significant assets other than its investment in the Operating Partnership.

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. The accompanying unaudited financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The interim financial statements should be read in conjunction with the consolidated financial statements in our 2017 Annual Report on Form 10-K and the notes thereto.

Any references to the number of properties and square footage are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash is generally comprised of cash proceeds from property sales that are being held by qualified intermediaries for purposes of facilitating tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code (“1031 Exchange”). As of March 31, 2018, net proceeds of \$4.2 million from the sale of our property located at 200-220 South Grand Avenue were included in restricted cash. As of December 31, 2017, a non-refundable deposit of \$250,000 we received in connection with the execution of a contract to sell our property located at 700 Allen Avenue was included in restricted cash.

Restricted cash balances are included with cash and cash equivalents balances as of the beginning and ending of each period presented in the consolidated statements of cash flows. The following table provides a reconciliation of our cash and cash equivalents and restricted cash at the beginning and end of the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31,	
	2018	2017
Cash and cash equivalents	\$6,620	\$15,525
Restricted cash	250	—
Cash, cash equivalents and restricted cash, beginning of period	\$6,870	\$15,525
Cash and cash equivalents	\$15,625	\$11,676
Restricted cash	4,211	6,537
Cash, cash equivalents and restricted cash, end of period	\$19,836	\$18,213

Notes Receivable

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

Investments in Real Estate

Acquisitions

Effective January 1, 2017, we adopted Accounting Standards Update (“ASU”) 2017-01, Business Combinations - Clarifying the Definition of a Business (“ASU 2017-01”), which provides a new framework for determining whether transactions should be accounted for as acquisitions of assets or businesses. ASU 2017-01 clarifies that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar assets, the set of assets and activities is not a business. ASU 2017-01 also revises the definition of a business to include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output.

We evaluated the acquisitions that we completed during the three months ended March 31, 2018 and determined that under the new framework these transactions should be accounted for as asset acquisitions. We expect that most of our property acquisitions will generally not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets or because the acquisition does not include a substantive process.

For acquisitions that are accounted for as asset acquisitions, because they do not meet the business combination accounting criteria, we allocate the cost of the acquisition, which includes the purchase price and any associated acquisition transaction costs, to the individual assets acquired and liabilities assumed on a relative fair value basis. These individual assets and liabilities typically include land, building and improvements, tenant improvements, intangible assets related to above and

below market leases, intangible assets related to in-place leases, and from time to time, assumed debt. As there is no measurement period concept for an asset acquisition, the allocated cost of the acquired assets is finalized in the period in which the acquisition occurs.

We determine the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. This “as-if vacant” value is estimated using an income, or discounted cash flow, approach that relies upon Level 3 inputs, which are unobservable inputs based on the Company’s assumptions about the assumptions a market participant would use. These Level 3 inputs include discount rates, capitalization rates, market rents and comparable sales data for similar properties. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. In determining the “as-if-vacant” value for the properties we acquired during the three months ended March 31, 2018, we used discount rates ranging from 6.50% to 7.00% and a capitalization rate of 5.50%.

In determining the fair value of intangible lease assets or liabilities, we also consider Level 3 inputs. Acquired above- and below-market leases are valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases, if applicable. The estimated fair value of acquired in-place at-market tenant leases are the costs that would have been incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the value associated with leasing commissions, legal and other costs, as well as the estimated period necessary to lease such property that would be incurred to lease the property to its occupancy level at the time of its acquisition. In determining the fair value of acquisitions completed during the three months ended March 31, 2018, we used an estimated average lease-up period of six months.

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

Capitalization of Costs

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

We capitalized interest costs of \$0.4 million and \$0.5 million during the three months ended March 31, 2018 and 2017, respectively. We capitalized real estate taxes and insurance costs aggregating \$0.2 million and \$0.3 million during the three months ended March 31, 2018 and 2017, respectively. We capitalized compensation costs for employees who provide construction services of \$0.5 million and \$0.4 million during the three months ended March 31, 2018 and 2017, respectively.

Depreciation and Amortization

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

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

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

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

Assets Held for Sale

We classify a property as held for sale when all of the criteria set forth in ASC Topic 360: Property, Plant and Equipment (“ASC 360”) have been met. The criteria are as follows: (i) management, having the authority to approve the action, commits to a plan to sell the property; (ii) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale of the property is probable and is expected to be completed within one year; (v) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. At the time we classify a property as held for sale, we cease recording depreciation and amortization. A property classified as held for sale is measured and reported at the lower its carrying amount or its estimated fair value less cost to sell. See Note 11.

Deferred Leasing Costs

We capitalize costs directly related to the successful origination of a lease. These costs include leasing commissions paid to third parties for new leases or lease renewals, as well as an allocation of compensation costs, including payroll, bonus and non-cash equity compensation of employees who spend time on lease origination activities. In determining the amount of compensation costs to be capitalized for these employees, allocations are made based on estimates of the actual amount of time spent working on successful leases in comparison to time spent on unsuccessful origination efforts. We capitalized compensation costs for these employees of \$0.2 million and \$0.2 million during the three months ended March 31, 2018 and 2017, respectively.

Impairment of Long-Lived Assets

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

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

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

Investment in Unconsolidated Real Estate Entities

Investment in unconsolidated real estate entities in which we have the ability to exercise significant influence (but not control) are accounted for under the equity method of investment. Under the equity method, we initially record our investment at cost, and subsequently adjust for equity in earnings or losses and cash contributions and distributions. Any difference between the carrying amount of these investments on the balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in income (loss) from unconsolidated real estate entities over the life of the related asset. Under the equity method of accounting, our net equity investment is reflected within the consolidated balance sheets, and our share of net income or loss from the joint venture is included within the

consolidated statements of operations. Furthermore, distributions

12

received from equity method investments are classified as either operating cash inflows or investing cash inflows in the consolidated statements of cash flows using the “nature of the distribution approach,” in which each distribution is evaluated on the basis of the source of the payment.

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”) commencing with our initial taxable year ended December 31, 2013. To qualify as a REIT, we are required (among other things) to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the Code relating to matters such as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we are generally not subject to corporate-level income tax on the earnings distributed currently to our stockholders. If we fail to qualify as a REIT in any taxable year, and were unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

In addition, we are subject to taxation by various state and local jurisdictions, including those in which we transact business or reside. Our non-taxable REIT subsidiaries, including our Operating Partnership, are either partnerships or disregarded entities for federal income tax purposes. Under applicable federal and state income tax rules, the allocated share of net income or loss from disregarded entities and flow-through entities such as partnerships is reportable in the income tax returns of the respective equity holders. Accordingly, no income tax provision is included in the accompanying consolidated financial statements for the three months ended March 31, 2018 and 2017.

We periodically evaluate our tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of March 31, 2018, and December 31, 2017, we have not established a liability for uncertain tax positions.

Derivative Instruments and Hedging Activities

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

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

Revenue Recognition

Our primary sources of revenue are rental income, tenant reimbursements, other income, management, leasing and development services and gains on sale of real estate.

Rental Income

Minimum annual rental revenues are recognized in rental income on a straight-line basis over the term of the related lease, regardless of when payments are contractually due. Rental revenue recognition commences when the tenant

takes possession or controls the physical use of the leased space. Lease termination fees, which are included in rental income, are recognized when the related lease is canceled and we have no continuing obligation to provide services to such former tenant.

Tenant Reimbursements

Our lease agreements with tenants generally contain provisions that require tenants to reimburse us for certain property expenses. Estimated reimbursements from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, we perform final reconciliations on a lease-by-lease basis and bill or credit each tenant for any cumulative annual adjustments.

Other Income

Other income primarily consists of late payment fees and other miscellaneous tenant related revenues.

Management, leasing and development services

We provide property management services and leasing services to related party and third party property owners, our customers, in exchange for fees and commissions. Property management services include performing property inspections, monitoring repairs and maintenance, negotiating vendor contracts, maintaining tenant relations and providing financial and accounting oversight. For these services, we earn monthly management fees, which are based on a fixed percentage of each managed property's monthly tenant cash receipts. We have determined that control over the services is passed to our customers simultaneously as performance occurs. Accordingly, management fee revenue is earned as the services are provided to our customers.

Leasing commissions are earned when we provide leasing services that result in an executed lease with a tenant. We have determined that control over the services is transferred to the customer upon execution of each lease agreement. We earn leasing commissions based on a fixed percentage of rental income generated for each executed lease agreement and there is no variable income component.

Gain or Loss on Sale of Real Estate

We account for dispositions of real estate properties, which are considered nonfinancial assets, in accordance with ASC 610-20, and recognize a gain or loss on sale of real estate upon transferring control of the nonfinancial asset to the purchaser, which is generally satisfied at the time of sale. If we were to conduct a partial sale of real estate by transferring a controlling interest in a nonfinancial asset, while retaining a noncontrolling ownership interest, we would measure any noncontrolling interest received or retained at fair value, and recognize a full gain or loss. If we receive consideration before transferring control of a nonfinancial asset, we recognize a contract liability. If we transfer control of the asset before consideration is received, we recognize a contract asset.

Valuation of Receivables

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

Rents and other receivables, net and deferred rent receivable, net consisted of the following as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, December 31,	
	2018	2017
Rents and other receivables	\$ 5,199	\$ 5,369
Allowance for doubtful accounts	(1,871)	(1,705)
Rents and other receivables, net	\$ 3,328	\$ 3,664
Deferred rent receivable	\$ 17,856	\$ 15,912
Allowance for doubtful accounts	(90)	(86)
Deferred rent receivable, net	\$ 17,766	\$ 15,826

We recorded the following provision for doubtful accounts, including amounts related to deferred rents, as a reduction to rental revenues in our consolidated statements of operations for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31, 2018 2017	
Provision for doubtful accounts	\$ 225	\$ 326

Equity Based Compensation

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

Equity Offering Costs

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

Earnings Per Share

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

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

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

Segment Reporting

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

Adoption of New Accounting Pronouncements

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequently issued additional ASUs which provide practical expedients, technical corrections and clarification of the new standard (collectively "ASC 606"). ASC 606 establishes principles for reporting the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Effective January 1, 2018, we adopted ASC 606 using the modified retrospective approach. We evaluated each of our revenue streams to determine the sources of revenue that are impacted by ASC 606 and concluded that management services and leasing services fall within the scope of ASC 606. We evaluated the impact of ASC 606 on the timing and pattern of revenue recognition for our management and leasing services contracts and determined there was no change in the timing or pattern of revenue recognition for these contracts as compared to prior accounting practice. Accordingly, the adoption of ASC 606 did not have an impact on our consolidated financial statements. See "Revenue Recognition" above for further details.

Derecognition of Non-Financial Assets

On February 22, 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("ASU 2017-05"). ASU 2017-05 clarifies the scope of asset derecognition and adds further guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. Effective January 1, 2018, we adopted ASU 2017-05 using the modified retrospective approach. There was no cumulative effect adjustment recorded to retained earnings as of January 1, 2018 as a result of adoption of ASU 2017-05.

Derivatives

On August 28, 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). ASU 2017-12 simplifies hedge accounting by eliminating the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. For cash flow hedges, ASU 2017-12 requires all changes in the fair value of the hedging instrument to be deferred in other comprehensive income and recognized in earnings at the same time that the hedged item affects earnings. ASU 2017-12 also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. ASU 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Effective January 1, 2018, we early adopted ASU 2017-12 using the modified retrospective approach. We did not record a cumulative effect adjustment to eliminate ineffectiveness amounts as we did not have any ineffectiveness in our historical consolidated financial statements. In addition, certain provisions of ASU 2017-12 require modifications to existing presentation and disclosure requirements on a prospective basis. See Note 7 for disclosures relating to our derivative instruments.

Stock Compensation

On May 10, 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"), which clarifies the scope of modification accounting for share-based compensation arrangements by providing guidance on the types of changes to the terms and conditions of share-based compensation awards to which an entity would be required to apply modification accounting under ASC 718. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. Effective January 1, 2018, we early adopted ASU 2017-09. There was change to our consolidated financial statements or notes to our consolidated financial statements as a result of the adoption of ASU 2017-09.

Recently Issued Accounting Pronouncements

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

Leases

On February 25, 2016, the FASB issued ASU 2016-02, Leases ("ASC 842"), which sets out the principals for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors.

ASC 842 requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASC 842 also requires lessees to classify leases as either finance or operating leases based on whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification is used to evaluate whether the lease expense should be recognized based on an effective interest method or on a straight-line basis over the term of the lease. As of March 31, 2018, we are the lessee on one ground lease and multiple office space leases. We currently expect that upon the adoption of ASC 842, we will be required to record a lease liability and a right-of-use asset for these leases on our consolidated balance sheets. See Note 10 for a summary of rent expense and remaining contractual payments under our ground lease and office space leases.

ASC 842 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. ASC 842 specifies that payments for certain lease-related services (for example, maintenance services, including common area maintenance), which are often included in lease agreements, represent "non-lease" components that will become subject to the guidance in ASC 606 when ASC 842 becomes effective. In March 2018, the FASB tentatively approved an optional practical expedient that would allow lessors to elect to not separate lease and non-lease components if both of the following criteria are met: (1) the timing and pattern of transfer of the lease and non-lease component(s) are the same and (2) the lease component would be classified as an operating lease, if it were accounted for separately. We anticipate the majority of our leases would qualify for the practical expedient and as such, we expect to adopt the practical expedient if it is included in an approved amendment to ASC 842.

Additionally, ASC 842 requires lessors to capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. As a result, compensation costs related to employees who spend time on lease origination activities, regardless of whether their time leads to a successful lease, will no longer be capitalized as initial direct costs and instead will be expensed as incurred. See "Deferred Leasing Costs" above for a summary of employee related compensation costs capitalized during the three months ended March 31, 2018 and 2017.

ASC 842 is effective for annual periods beginning after December 15, 2018, and early adoption is permitted. ASC 842 requires the use of a modified retrospective approach for all leases existing at, or entered into after, the beginning of the earliest period presented in the consolidated financial statements, with certain practical expedients available. We are currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

3. Investments in Real Estate

Acquisitions

The following table summarizes the wholly-owned industrial properties we acquired during the three months ended March 31, 2018:

Property	Submarket	Date of Acquisition	Rentable Square Feet	Number of Buildings	Contractual Purchase Price ⁽¹⁾ (in thousands)
13971 Norton Avenue ⁽²⁾	Inland Empire - West	1/17/2018	103,208	1	\$ 11,364
	Inland Empire - West	2/23/2018	213,603	3	24,122

Ontario Airport Commerce
Center⁽³⁾

16010 Shoemaker Avenue ⁽⁴⁾	Los Angeles - Mid-Counties	3/13/2018	115,600	1	17,218
Total 2018 Wholly-Owned Property Acquisitions			432,411	5	\$ 52,704

17

(1) Represents the gross contractual purchase price before prorations, closing costs and other acquisition related costs.

This acquisition was partially funded through a 1031 Exchange using \$10.7 million of net cash proceeds from the (2) sale of our property located at 8900-8980 Benson Avenue and 5637 Arrow Highway and borrowings under our unsecured revolving credit facility.

The Ontario Airport Commerce Center is an industrial park which includes the following three properties: (i) 1900 Proforma Avenue, (ii) 1910 Archibald Avenue and (iii) 1920 Archibald Avenue. This acquisition was partially (3) funded through a 1031 Exchange using \$10.3 million of net cash proceeds from the sale of our property located at 700 Allen Avenue and 1851 Flower Street, borrowings under our unsecured revolving credit facility and available cash on hand.

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

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

	2018 Acquisitions
Assets:	
Land	\$ 31,309
Buildings and improvements	20,006
Tenant improvements	476
Acquired lease intangible assets ⁽¹⁾	2,570
Other acquired assets ⁽²⁾	29
Total assets acquired	54,390
Liabilities:	
Acquired lease intangible liabilities ⁽³⁾	1,204
Other assumed liabilities ⁽²⁾	433
Total liabilities assumed	1,637
Net assets acquired	\$ 52,753

Acquired lease intangible assets is comprised of \$2.5 million of in-place lease intangibles with a weighted average (1) amortization period of 2.8 years and \$0.1 million of above-market lease intangibles with a weighted average amortization period of 3.1 years.

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

(3) Represents below-market lease intangibles with a weighted average amortization period of 4.3 years.

4. Intangible Assets

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

	March 31, December 31,	
	2018	2017
Acquired Lease Intangible Assets:		
In-place lease intangibles	\$97,017	\$ 95,750
Accumulated amortization	(56,040)	(51,735)
In-place lease intangibles, net	40,977	44,015
Above-market tenant leases	10,631	10,718
Accumulated amortization	(5,732)	(5,494)
Above-market tenant leases, net	4,899	5,224
Acquired lease intangible assets, net	\$45,876	\$ 49,239
Acquired Lease Intangible Liabilities:		
Below-market tenant leases	\$(26,047)	\$ (24,843)
Accumulated accretion	8,405	6,925
Below-market tenant leases, net	(17,642)	(17,918)
Above-market ground lease	(290)	(290)
Accumulated accretion	149	141
Above-market ground lease, net	(141)	(149)
Acquired lease intangible liabilities, net	\$(17,783)	\$ (18,067)

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

	Three Months	
	Ended March 31,	
	2018	2017
In-place lease intangibles ⁽¹⁾	\$5,191	\$2,955
Net below-market tenant leases ⁽²⁾	\$(1,108)	\$(109)
Above-market ground lease ⁽³⁾	\$(8)	\$(8)

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

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

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

5. Notes Payable

The following table summarizes the balance of our indebtedness as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Principal amount	\$662,425	\$671,658
Less: unamortized discount and debt issuance costs ⁽¹⁾	(3,008)	(2,717)
Carrying value	\$659,417	\$668,941

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

The following table summarizes the components and significant terms of our indebtedness as of March 31, 2018, and December 31, 2017 (dollars in thousands):

	March 31, 2018		December 31, 2017		Contractual Maturity Date	Stated Interest Rate ⁽¹⁾	Effective Interest Rate ⁽²⁾
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Principal Amount	Unamortized Discount and Debt Issuance Costs			
Secured Debt							
\$60M Term Loan ⁽³⁾	\$58,695	\$ (105)	\$58,891	\$ (125)	8/1/2019	⁽⁴⁾ LIBOR+1.90%	3.95 %
Gilbert/La Palma ⁽⁵⁾	2,730	(135)	2,767	(138)	3/1/2031	5.125 %	5.42 %
Unsecured Debt							
\$100M Term Loan Facility	100,000	(322)	100,000	(343)	2/14/2022	LIBOR+1.20% ⁽⁶⁾	3.18 % ⁽⁷⁾
Revolving Credit Facility	51,000	—	60,000	—	2/12/2021	⁽⁸⁾ LIBOR+1.10%	⁽⁶⁾⁽⁹⁾ 2.98 %
\$225M Term Loan Facility	225,000	(1,756)	225,000	(1,398)	1/14/2023	LIBOR+1.20% ⁽⁶⁾	2.95 % ⁽¹⁰⁾
\$100M Notes	100,000	(557)	100,000	(576)	8/6/2025	4.290 %	4.37 %
\$125M Notes	125,000	(133)	125,000	(137)	7/13/2027	3.930 %	3.94 %
Total	\$662,425	\$ (3,008)	\$671,658	\$ (2,717)			

⁽¹⁾ Reflects the contractual interest rate under the terms of the loan, as of March 31, 2018.

⁽²⁾ Reflects the effective interest rate as of March 31, 2018, which includes the effect of the amortization of discounts and debt issuance costs and the effect of interest rate swaps that are effective as of March 31, 2018.

⁽³⁾ This term loan is secured by six properties. Beginning August 15, 2016, monthly payments of interest and principal are based on a 30-year amortization table. As of March 31, 2018, the interest rate on this variable-rate term loan has been effectively fixed through the use of two interest rate swaps, one of which is an amortizing swap. See Note 7 for details.

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

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

⁽⁶⁾ The LIBOR margin will range from 1.20% to 1.70% for the \$100.0 million term loan facility, 1.10% to 1.50% for the unsecured revolving credit facility and 1.20% to 1.70% for the \$225.0 million term loan facility depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value, or leverage ratio, which is measured on a quarterly basis.

⁽⁷⁾ As of March 31, 2018, interest on the \$100.0 million term loan facility has been effectively fixed through the use of two interest rate swaps. See Note 7 for details.

⁽⁸⁾ Two additional six-month extensions are available at the borrower’s option.

The unsecured revolving credit facility is subject to an applicable facility fee which is calculated as a percentage of (9) the total lenders' commitment amount, regardless of usage. The applicable facility fee will range from 0.15% to 0.30% depending upon our leverage ratio.

(10) As of March 31, 2018, interest on \$125.0 million of this \$225.0 million term loan facility has been effectively fixed through the use of an interest rate swap. See Note 7 for details.

The following table summarizes the contractual debt maturities and scheduled amortization payments, excluding debt discounts/premiums and debt issuance costs, as of March 31, 2018, and does not consider extension options available to us as noted in the table above (in thousands):

April 1, 2018 - December 31, 2018	\$ 700
2019	58,266
2020	166
2021	51,175
2022	100,184
Thereafter	451,934
Total	\$ 662,425

Fourth Amendment to Credit Agreement

On January 16, 2018, we entered into the Fourth Amendment to Credit Agreement (the "Fourth Amendment") to amend our Credit Agreement, dated as of January 14, 2016 (as amended from time to time) for our \$225.0 million unsecured term loan facility (the "\$225 Million Term Loan Facility").

Amounts outstanding under the \$225 Million Term Loan Facility bear interest at a rate equal to, at our option, either (i) LIBOR plus an applicable margin that is based upon our leverage ratio or (ii) the Base Rate, as defined in the \$225 Million Term Loan Facility, plus an applicable margin that is based on our leverage ratio. The Fourth Amendment decreases the applicable margin for LIBOR-based borrowings from a range of 1.50% to 2.25% per annum to a range of 1.20% to 1.70% per annum and decreases the applicable margin for Base Rate-based borrowings from a range of 0.50% to 1.25% per annum to a range of 0.20% to 0.70%.

If we obtain one additional investment grade rating by one or more of Standard & Poor's ("S&P") or Moody's Investor Services ("Moody's") to complement our current investment grade Fitch rating, we may elect to convert the pricing structure under the \$225 Million Term Loan Facility to be based on such rating. Under this pricing structure, the Fourth Amendment decreases the applicable margin for LIBOR-based borrowings from a range of 1.40% to 2.35% per annum to a range of 0.90% to 1.75% per annum and decreases the applicable margin for Base Rate-based borrowings from a range of 0.40% to 1.35% per annum to a range of 0.00% to 0.75% per annum.

Credit Facility

We have a \$450.0 million senior unsecured credit facility (the "Credit Facility"), comprised of a \$350.0 million unsecured revolving credit facility (the "Revolver") and a \$100.0 million unsecured term loan facility (the "\$100 Million Term Loan Facility"). The Revolver is scheduled to mature on February 12, 2021, and has two six-month extension options available, and the \$100 Million Term Loan Facility is scheduled to mature on February 14, 2022. Under the terms of the Credit Facility, we may request additional lender commitments up to an additional aggregate \$550.0 million, which may be comprised of additional revolving commitments under the Revolver, an increase to the \$100 Million Term Loan Facility, additional term loan tranches or any combination of the foregoing.

Interest on the Credit Facility is generally to be paid based upon, at our option, either (i) LIBOR plus an applicable margin that is based upon our leverage ratio or (ii) the Base Rate (which is defined as the highest of (a) the federal funds rate plus 0.50%, (b) the administrative agent's prime rate or (c) the Eurodollar Rate plus 1.00%) plus an applicable margin that is based on our leverage ratio. The margins for the Revolver range in amount from 1.10% to 1.50% for LIBOR-based loans and 0.10% to 0.50% for Base Rate-based loans, depending on our leverage ratio. The margins for the \$100 Million Term Facility

range in amount from 1.20% to 1.70% for LIBOR-based loans and 0.20% to 0.70% for Base Rate-based loans, depending on our leverage ratio.

If we attain one additional investment grade rating by one or more of S&P or Moody's to complement our current investment grade Fitch rating, we may elect to convert the pricing structure under the Credit Facility to be based on such rating. In that event, the margins for the Revolver will range in amount from 0.825% to 1.55% for LIBOR-based loans and 0.00% to 0.55% for Base Rate-based loans, depending on such rating, and the margins for the \$100 Million Term Loan Facility will range in amount from 0.90% to 1.75% for LIBOR-based loans and 0.00% to 0.75% for Base Rate-based loans, depending on such rating.

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

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

The Revolver and the \$100 Million Term Loan Facility may be voluntarily prepaid in whole or in part at any time without premium or penalty. Amounts borrowed under the \$100 Million Term Loan Facility and repaid or prepaid may not be reborrowed.

The Credit Facility contains usual and customary events of default including defaults in the payment of principal, interest or fees, defaults in compliance with the covenants set forth in the Credit Facility and other loan documentation, cross-defaults to certain other indebtedness, and bankruptcy and other insolvency defaults. If an event of default occurs and is continuing under the Credit Facility, the unpaid principal amount of all outstanding loans, together with all accrued unpaid interest and other amounts owing in respect thereof, may be declared immediately due and payable.

On March 31, 2018, we had \$51.0 million outstanding under the Revolver, leaving \$299.0 million available for additional borrowings.

Debt Covenants

The Credit Facility, the \$225 Million Term Loan Facility, the \$100 million unsecured guaranteed senior notes (the "\$100 Million Notes"), and the \$125 million unsecured guaranteed senior notes (the "\$125 Million Notes") all include a series of financial and other covenants that we must comply with, including the following covenants which are tested on a quarterly basis:

- Maintaining a ratio of total indebtedness to total asset value of not more than 60%;
- For the Credit Facility and the \$225 Million Term Loan Facility, maintaining a ratio of secured debt to total asset value of not more than 45%;
- For the \$100 Million Notes and the \$125 Million Notes, maintaining a ratio of secured debt to total asset value of not more than 40%;
- Maintaining a ratio of total secured recourse debt to total asset value of not more than 15%;
- Maintaining a minimum tangible net worth of at least the sum of (i) \$760,740,750, and (ii) an amount equal to at least 75% of the net equity proceeds received by the Company after September 30, 2016;
- Maintaining a ratio of adjusted EBITDA (as defined in each of the loan agreements) to fixed charges of at least 1.5 to 1.0;
- Maintaining a ratio of total unsecured debt to total unencumbered asset value of not more than 60%;
and
- Maintaining a ratio of unencumbered NOI (as defined in each of the loan agreements) to unsecured interest expense of at least 1.75 to 1.00.

The Credit Facility, the \$225 Million Term Loan Facility, the \$100 Million Notes and the \$125 Million Notes also provide that our distributions may not exceed the greater of (i) 95.0% of our funds from operations or (ii) the amount required for us to qualify and maintain our status as a REIT and avoid the payment of federal or state income or excise

tax in any 12-month period.

22

Additionally, subject to the terms of the \$100 Million Notes and the \$125 Million Notes (together the “Notes”), upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, make-whole payment amount, or interest under the Notes, (ii) a default in the payment of certain of our other indebtedness, (iii) a default in compliance with the covenants set forth in the Notes agreement, and (iv) bankruptcy and other insolvency defaults, the principal and accrued and unpaid interest and the make-whole payment amount on the outstanding Notes will become due and payable at the option of the purchasers.

Our \$60.0 million term loan contains a financial covenant that is tested on a quarterly basis, which requires us to maintain a minimum Debt Service Coverage Ratio (as defined in the term loan agreement) of at least 1.10 to 1.00. We were in compliance with all of our required quarterly debt covenants as of March 31, 2018.

6. Operating Leases

We lease space to tenants primarily under non-cancelable operating leases that generally contain provisions for a base rent plus reimbursement for certain operating expenses. Operating expense reimbursements are reflected in the consolidated statements of operations as tenant reimbursements.

Future minimum base rent under operating leases as of March 31, 2018, is summarized as follows (in thousands):

Twelve months ended March 31,	
2019	\$ 148,022
2020	129,932
2021	99,818
2022	66,007
2023	45,186
Thereafter	131,405
Total	\$ 620,370

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

7. Interest Rate Swaps

Risk Management Objective of Using Derivatives

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

Derivative Instruments

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

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

The following table sets forth a summary of our interest rate swaps at March 31, 2018 and December 31, 2017 (dollars in thousands):

Derivative Instrument	Effective Date	Maturity Date	Interest Strike Rate	Current Notional Value ⁽¹⁾		Fair Value of Interest Rate Derivative Assets/(Derivative Liabilities) ⁽²⁾	
				March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Interest Rate Swap	1/15/2015	2/15/2019	1.826%	\$30,000	\$ 30,000	\$72	\$ (11)
Interest Rate Swap	7/15/2015	2/15/2019	2.010%	\$28,695	\$ 28,891	\$22	\$ (70)
Interest Rate Swap	8/14/2015	12/14/2018	1.790%	\$50,000	\$ 50,000	\$89	\$ (18)
Interest Rate Swap	2/16/2016	12/14/2018	2.005%	\$50,000	\$ 50,000	\$14	\$ (120)
Interest Rate Swap	2/14/2018	1/14/2022	1.349%	\$125,000	\$ —	\$5,209	\$ 3,582
Interest Rate Swap	8/14/2018	1/14/2022	1.406%	\$—	\$ —	\$3,782	\$ 2,521
Interest Rate Swap	12/14/2018	8/14/2021	1.764%	\$—	\$ —	\$2,106	\$ 1,090

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

The fair value of derivative assets are included in the line item “Interest rate swap asset” in the accompanying (2) consolidated balance sheets and the fair value of (derivative liabilities) are included in the line item “Interest rate swap liability” in the accompanying consolidated balance sheets.

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

	Three Months Ended March 31,	
	2018	2017
Interest Rate Swaps in Cash Flow Hedging Relationships:		
Amount of gain recognized in AOCI on derivatives	\$4,246	\$304
Amount of loss reclassified from AOCI into earnings under “Interest expense”	\$(74)	\$(448)
Total interest expense presented in the Consolidated Statement of Operations in which the effects of cash flow hedges are recorded (line item “Interest expense”)	\$5,852	\$3,998

During the next twelve months, we estimate that an additional \$1.9 million will be reclassified from AOCI into earnings as a decrease to interest expense.

Offsetting Derivatives

We enter into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. Derivative instruments that are subject to master netting arrangements and qualify for net presentation in the consolidated balance sheets are presented on a gross basis in the consolidated balance sheets as of March 31, 2018 and December 31, 2017.

The following tables present information about the potential effects of netting if we were to offset our interest rate swap assets and interest rate swap liabilities in the accompanying consolidated balance sheets as of March 31, 2018 and December 31, 2017 (in thousands).

Offsetting of Derivative Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
March 31, 2018						
Interest rate swaps	11,294	—	11,294	—	—	11,294
December 31, 2017						
Interest rate swaps	7,193	—	7,193	(219)	—	6,974

Offsetting of Derivative Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
March 31, 2018						
Interest rate swaps	—	—	—	—	—	—
December 31, 2017						
Interest rate swaps	219	—	219	(219)	—	—

Credit-risk-related Contingent Features

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

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

8. Fair Value Measurements

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

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Recurring Measurements – Interest Rate Swaps

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

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

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. However, as of March 31, 2018, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, we have determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below sets forth the estimated fair value of our interest rate swaps as of March 31, 2018 and December 31, 2017, which we measure on a recurring basis by level within the fair value hierarchy (in thousands).

	Fair Value Measurement Using			
	Total	Quoted	Significant	Significant
	Fair	Price in	Other	Unobservable
	Value	Active	Observable	Inputs
		Markets	Inputs	(Level 3)
		for	(Level 2)	
		Identical		
		Assets and		
		Liabilities		
		(Level 1)		
March 31, 2018				
Interest Rate Swap Asset	\$11,294	\$	—\$ 11,294	\$
Interest Rate Swap Liability	\$—	\$	—\$ —	\$
December 31, 2017				
Interest Rate Swap Asset	\$7,193	\$	—\$ 7,193	\$
Interest Rate Swap Liability	\$(219)	\$	—\$ (219)	\$

Financial Instruments Disclosed at Fair Value

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

The fair value of our notes payable was estimated by calculating the present value of principal and interest payments, using discount rates that best reflect current market rates for financings with similar characteristics and credit quality, and assuming each loan is outstanding through its respective contractual maturity date.

The table below sets forth the carrying value and the estimated fair value of our notes payable as of March 31, 2018 and December 31, 2017 (in thousands):

Liabilities	Total Fair Value	Fair Value Measurement Using			Carrying Value
		Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Notes Payable at:					
March 31, 2018	\$659,444	\$	—\$	—\$ 659,444	\$659,417
December 31, 2017	\$673,377	\$	—\$	—\$ 673,377	\$668,941

9. Related Party Transactions

Howard Schwimmer

We engage in transactions with Howard Schwimmer, our Co-Chief Executive Officer, earning management fees and leasing commissions from entities controlled individually by Mr. Schwimmer. Fees and commissions earned from these entities are included in "Management, leasing and development services" in the consolidated statements of operations. We recorded \$0.1 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively, in management, leasing and development services revenue.

Disposition of 200-220 South Grand Avenue

On November 30, 2017, we entered into a purchase and sale agreement (the "Agreement") with 6110-6114 Cahuenga Avenue, LLC (the "Buyer"), which was subsequently amended on January 2, 2018, for the sale of our property located at 200-220 South Grand Avenue for a contract price of approximately \$4.5 million. Larry Schwimmer is the general partner of the Buyer and father of Howard Schwimmer, our Co-Chief Executive Officer. Prior to entering into the Agreement, the relevant facts and circumstances relating to this transaction were presented to our audit committee, in accordance with our corporate governance guidelines, and to our board of directors. This transaction was unanimously approved by our audit committee in accordance with our corporate governance guidelines. On March 7, 2018, the sale of this property was completed.

On March 7, 2018, we also entered into management agreements with the Buyer and Howard Schwimmer to provide property management and leasing services for the property. Fees and commission earned from managing this property are included in "Management, leasing and development services" in the consolidated statements of operations.

10. Commitments and Contingencies

Legal

From time to time, we are party to various lawsuits, claims and legal proceedings that arise in the ordinary course of business. We are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

Environmental

We generally will perform environmental site assessments at properties we are considering acquiring. After the acquisition of such properties, we continue to monitor the properties for the presence of hazardous or toxic substances. From time to time, we acquire properties with known adverse environmental conditions. If at the time of acquisition, losses associated with environmental remediation obligations are probable and can be reasonably estimated, we record

a liability.

On February 25, 2014, we acquired the property located at West 228th Street. Before purchasing the property during the due diligence phase, we engaged a third party environmental consultant to perform various environmental site assessments

27

to determine the presence of any environmental contaminants that might warrant remediation efforts. Based on their investigation, they determined that hazardous substances existed at the property and that additional assessment and remediation work would likely be required to satisfy regulatory requirements. The total remediation costs were estimated to be \$1.3 million, which includes remediation, processing and oversight costs.

To address the estimated costs associated with the environmental issues at the West 228th Street property, we entered into an Environmental Holdback Escrow Agreement (the "Holdback Agreement") with the former owner, whereby \$1.4 million was placed into an escrow account to be used to pay remediation costs. To fund the \$1.4 million, the escrow holder withheld \$1.3 million of the purchase price, which would have otherwise been paid to the seller at closing, and the Company funded an additional \$0.1 million. According to the Holdback Agreement, the seller has no liability or responsibility to pay for remediation costs in excess of \$1.3 million.

As of March 31, 2018, and December 31, 2017, we had a \$1.1 million and \$1.1 million contingent liability recorded in our consolidated balance sheets included in the line item "Accounts payable and accrued expenses," reflecting the estimated remaining cost to remediate environmental liabilities at West 228th Street that existed prior to the acquisition date. As of March 31, 2018, and December 31, 2017, we also had a \$1.1 million and \$1.1 million corresponding indemnification asset recorded in our consolidated balance sheets included in the line item "Other assets," reflecting the estimated costs we expect the former owner to cover pursuant to the Holdback Agreement.

We expect that the resolution of the environmental matters relating to the above will not have a material impact on our consolidated financial condition, results of operations or cash flows. However, we cannot assure you that we have identified all environmental liabilities at our properties, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that such environmental liabilities arise. Furthermore, we cannot assure you that future changes to environmental laws or regulations and their application will not give rise to loss contingencies for future environmental remediation.

Rent Expense

As of March 31, 2018, we lease a parcel of land that is currently being sub-leased to a tenant for a parking lot. The ground lease is scheduled to expire on June 1, 2062. We recognized rental expense for our ground lease in the amount of \$36 thousand and \$36 thousand for the three months ended March 31, 2018 and 2017, respectively. As part of conducting our day-to-day business, we also lease office space under operating leases. We recognized rental expense for our office space leases in the amount of \$0.1 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively.

The future minimum commitment under our ground lease and office space leases as of March 31, 2018, is as follows (in thousands):

	Office Leases	Ground Lease
April 1, 2018 - December 31, 2018	\$591	\$108
2019	569	144
2020	164	144
2021	120	144
2022	—	144
Thereafter	—	5,676
Total	\$1,444	\$6,360

Tenant and Construction Related Commitments

As of March 31, 2018, we had commitments of approximately \$30.8 million for tenant improvement and construction work under the terms of leases with certain of our tenants and contractual agreements with our construction vendors.

Concentrations of Credit Risk

We have deposited cash with financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. Although we have deposits at institutions in excess of federally insured limits as of March 31, 2018,

we do not believe we are exposed to significant credit risk due to the financial position of the institutions in which those deposits are held.

As of March 31, 2018, all of our properties are located in the Southern California infill markets. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate.

During the three months ended March 31, 2018, no single tenant accounted for more than 5% of our total consolidated rental revenues.

11. Dispositions and Real Estate Held for Sale

Dispositions

The following table summarizes the properties we sold during the three months ended March 31, 2018:

Property	Submarket	Date of Disposition	Rentable Square Feet	Contractual Sales Price ⁽¹⁾ (in thousands)	Gain Recorded (in thousands)
8900-8980 Benson Avenue and 5637 Arrow Highway	Inland Empire West	1/2/2018	88,016	\$ 11,440	\$ 4,029
700 Allen Avenue and 1851 Flower Street	Los Angeles - San Fernando Valley	1/17/2018	25,168	\$ 10,900	\$ 4,753
200-220 South Grand Avenue	Orange County - Airport	3/7/2018	27,200	\$ 4,515	\$ 1,201
Total			140,384	\$ 26,855	\$ 9,983

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

Real Estate Held for Sale

As of March 31, 2018, our properties located at (i) 1910 Archibald and (ii) 1920 Archibald were classified as held for sale. These properties are owned by entities that are wholly owned by the Company's taxable REIT subsidiary, Rexford Industrial Realty and Management, Inc., which is wholly owned by the Operating Partnership.

As of December 31, 2017, our properties located at (i) 700 Allen Avenue and 1830 Flower Street and (ii) 8900-8980 Benson Avenue and 5637 Arrow Highway were classified as held for sale.

The following table summarizes the major classes of assets and liabilities associated with real estate properties classified as held for sale (in thousands):

	March 31, December 31,	
	2018	2017
Land	\$ 5,874	\$ 5,671
Buildings and improvements	1,949	7,180
Tenant improvements	82	429
Construction in progress	—	16
Real estate held for sale	7,905	13,296
Accumulated depreciation	—	(1,609)
Real estate held for sale, net	7,905	11,687
Acquired lease intangible assets, net	371	71
Other assets associated with real estate held for sale	24	678
Total assets associated with real estate held for sale, net	\$ 8,300	\$ 12,436
Tenant security deposits	\$ 75	\$ 193
Other liabilities associated with real estate held for sale	57	50
Total liabilities associated with real estate held for sale	\$ 132	\$ 243

12. Equity

Common Stock

On September 21, 2017, we established a new at-the-market equity offering program (the “ATM Program”) pursuant to which we may sell from time to time up to an aggregate of \$300.0 million of our common stock through sales agents. During the three months ended March 31, 2018, we sold a total of 2,085,663 shares of our common stock under the ATM Program, at a weighted average price of \$28.02 per share, for gross proceeds of \$58.5 million, and net proceeds of \$57.6 million, after deducting the sales agents’ fee. As of March 31, 2018, we had the capacity to issue up to an additional \$170.6 million of common stock under the ATM Program. Actual sales going forward, if any, will depend on a variety of factors, including among others, market conditions, the trading price of our common stock, determinations by us of the appropriate sources of funding for us and potential uses of funding available to us.

Noncontrolling Interests

Noncontrolling interests in our Operating Partnership relate to interests in the Operating Partnership that are not owned by us. As of March 31, 2018, noncontrolling interests consisted of 1,883,636 OP Units and 157,539 fully-vested LTIP units and represented approximately 2.5% of our Operating Partnership. OP Units and shares of our common stock have essentially the same economic characteristics, as they share equally in the total net income or loss and distributions of our Operating Partnership. Investors who own OP Units have the right to cause our Operating Partnership to redeem any or all of their units in our Operating Partnership for an amount of cash per unit equal to the then current market value of one share of common stock, or, at our election, shares of our common stock on a one-for-one basis.

During the three months ended March 31, 2018, 22,104 OP Units were converted into an equivalent number of shares of common stock, resulting in the reclassification of \$0.2 million of noncontrolling interest to Rexford Industrial Realty, Inc.’s stockholders’ equity.

2013 Incentive Award Plan

In July 2013, we established the Rexford Industrial Realty, Inc. and Rexford Industrial Realty, L.P. 2013 Incentive Award Plan (the “Plan”), pursuant to which we may make grants of stock options, restricted stock, dividend equivalents, stock payments, restricted stock units, performance shares, LTIP units of partnership interest in our Operating Partnership (“LTIP units”), performance units in our Operating Partnership (“Performance Units”), and other stock based and cash awards to our non-employee directors, employees and consultants. The aggregate number of shares of our common stock, LTIP units and Performance Units that may be issued or transferred pursuant to the Plan is 2,272,689 shares (of which 403,862 shares of common stock, LTIP units and Performance Units remain available for issuance as of March 31, 2018).

Shares of our restricted common stock generally may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent or the administrator of the Plan, a domestic relations order, unless and until all restrictions applicable to such shares have lapsed. Such restrictions generally expire upon vesting. Shares of our restricted common stock are participating securities and have full voting rights and nonforfeitable rights to dividends.

LTIP units and Performance Units are each a class of limited partnership units in the Operating Partnership. Initially, LTIP units and Performance Units do not have full parity with OP Units with respect to liquidating distributions. However, upon the occurrence of certain events described in the Operating Partnership's partnership agreement, the LTIP units and Performance Units can over time achieve full parity with the OP Units for all purposes. If such parity is reached, vested LTIP units and Performance Units may be converted into an equal number of OP Units, and, upon conversion, enjoy all rights of OP Units. LTIP Units, whether vested or not, receive the same quarterly per-unit distributions as OP Units, which equal the per-share distributions on shares of our common stock. Performance Units that have not vested receive a quarterly per-unit distribution equal to 10% of the distributions paid on OP Units.

The following table sets forth our share-based award activity for the three months ended March 31, 2018:

	Unvested Awards		
	Restricted Common Stock	LTIP Units	Performance Units
Balance at January 1, 2018	190,695	293,485	703,248
Granted	89,637	57,443	—
Forfeited	(10,210)	—	—
Vested ⁽¹⁾	(43,671)	(45,034)	—
Balance at March 31, 2018	226,451	305,894	703,248

During the three months ended March 31, 2018, 15,287 shares of the Company's common stock were tendered in (1) accordance with the terms of the Plan to satisfy minimum statutory tax withholding requirements associated with the vesting of restricted shares of common stock.

The following table sets forth the vesting schedule of all unvested share-based awards outstanding as of March 31, 2018:

	Unvested Awards		
	Restricted Common Stock	LTIP Units	Performance Units ⁽¹⁾
March 1, 2018 - December 31, 2018	37,957	111,721	315,998
2019	69,991	114,818	199,000
2020	56,462	73,151	188,250
2021	40,102	3,102	—
2022	21,939	3,102	—
Total	226,451	305,894	703,248

Represents the maximum number of Performance Units that would become earned and vested on December 14, 2018, December 28, 2019 and December 14, 2020, in the event that the specified maximum total shareholder return (“TSR”) goals are achieved over the three-year performance period from December 15, 2015 through December 14, 2018, the three-year performance period from December 29, 2016 through December 28, 2019, and the three-year performance period from December 15, 2017 through December 14, 2020, respectively. The number of Performance Units that ultimately vest will be based on both the Company’s absolute TSR and the Company’s (1) TSR performance relative to a peer group over each three-year performance period. The maximum number of Performance Units will be earned only if the Company both (i) achieves 50% or higher absolute TSR, inclusive of all dividends paid, over each three-year performance period with respect to the awards vesting on December 14, 2018 and December 28, 2019, and achieves 36% or higher absolute TSR, inclusive of all dividends paid, over the three-year performance period with respect to the awards vesting on December 14, 2020, and (ii) finishes in the 75th or greater percentile of the peer group for TSR over each three-year performance period.

The following table sets forth the amounts expensed and capitalized for all share-based awards for the reported periods presented below (in thousands):

	Three Months Ended March 31, 2018 2017	
Expensed share-based compensation ⁽¹⁾	\$2,963	\$1,346
Capitalized share-based compensation ⁽²⁾	51	50
Total share-based compensation	\$3,014	\$1,396

(1) Amounts expensed are included in “General and administrative” and “Property expenses” in the accompanying consolidated statements of operations.

(2) Amounts capitalized, which relate to employees who provide construction and leasing services, are included in “Building and improvements” and “Deferred leasing costs, net” in the consolidated balance sheets.

As of March 31, 2018, total unrecognized compensation cost related to all unvested share-based awards was \$13.2 million and is expected to be recognized over a weighted average remaining period of 29 months.

Changes in Accumulated Other Comprehensive Income

The following table summarizes the changes in our AOCI balance for the three months ended March 31, 2018 and 2017, which consists solely of adjustments related to our cash flow hedges (in thousands):

	Three Months Ended March 31, 2018 2017	
Accumulated other comprehensive income - beginning balance	\$6,799	\$3,445
Other comprehensive income before reclassifications	4,246	304
Amounts reclassified from accumulated other comprehensive income to interest expense	74	448
Net current period other comprehensive income	4,320	752
Less other comprehensive income attributable to noncontrolling interests	(105)	(21)
Other comprehensive income attributable to common stockholders	4,215	731
Accumulated other comprehensive income - ending balance	\$11,014	\$4,176

13. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2018	2017
Numerator:		
Net income	\$ 15,084	\$ 5,721
Less: Preferred stock dividends	(2,423)	(1,322)
Less: Net income attributable to noncontrolling interests	(318)	(132)
Less: Net income attributable to participating securities	(97)	(91)
Net income attributable to common stockholders	\$ 12,246	\$ 4,176
Denominator:		
Weighted average shares of common stock outstanding – basic	78,694,166	66,341,138
Effect of dilutive securities - performance units	501,899	285,101
Weighted average shares of common stock outstanding – diluted	79,196,066	66,626,239

Earnings per share — Basic

Net income attributable to common stockholders	\$ 0.16	\$ 0.06
--	---------	---------

Earnings per share — Diluted

Net income attributable to common stockholders	\$ 0.15	\$ 0.06
--	---------	---------

Unvested share-based payment awards that contain non-forfeitable rights to dividends, whether paid or unpaid, are accounted for as participating securities. As such, unvested shares of restricted stock, unvested LTIP Units and unvested Performance Units are considered participating securities. Participating securities are included in the computation of basic EPS pursuant to the two-class method. The two-class method determines EPS for each class of common stock and each participating security according to dividends declared (or accumulated) and their respective participation rights in undistributed earnings. Participating securities are also included in the computation of diluted EPS using the more dilutive of the two-class method or treasury stock method for unvested shares of restricted stock and LTIP Units, and by determining if certain market conditions have been met at the reporting date for unvested Performance Units.

The effect of including unvested shares of restricted stock and unvested LTIP Units using the treasury stock method was excluded from our calculation of weighted average shares of common stock outstanding – diluted, as their inclusion would have been anti-dilutive.

Performance Units, which are subject to vesting based on the Company achieving certain TSR levels over a three-year performance period, are included as contingently issuable shares in the calculation of diluted EPS when TSR has been achieved at or above the threshold levels specified in the award agreements, assuming the reporting period is the end of the performance period, and the effect is dilutive.

We also consider the effect of other potentially dilutive securities, including OP Units, which may be redeemed for shares of our common stock under certain circumstances, and include them in our computation of diluted EPS when their inclusion is dilutive.

14. Subsequent Events

Acquisitions

On April 4, 2018, we acquired the property located at 4039 Calle Platino in Oceanside, California for a contract price of \$20.0 million. The property consists of one single-tenant building with 143,274 rentable square feet.

On April 5, 2018, we acquired the property located at 851 Lawrence Drive in Thousand Oaks, California for a contract price of \$6.6 million. The property consists of one single-tenant building with 49,976 rentable square feet.

On April 6, 2018, we acquired the property located at 1581 North Main Street in Orange, California for a contract price of approximately \$7.2 million. The property consists of one single-tenant building with 39,661 rentable square feet.

On April 26, 2018, we acquired the property located at 1580 West Carson Street in Long Beach, California for a contract price of \$7.5 million. The property consists of one single-tenant building with 43,787 rentable square feet.

On April 26, 2018, we acquired the property located at 660 & 664 North Twin Oaks Valley Road in San Marcos, California for a contract price of \$14.0 million. The property consists of one single-tenant building with 96,993 rentable square feet.

Dispositions

On April 9, 2018, we completed the sale of the building located at 6770 Central Avenue Suite B in Riverside, California for a contract price of approximately \$1.7 million.

Dividends Declared

On April 30, 2018, our board of directors declared a quarterly cash dividend of \$0.16 per share of common stock and a quarterly cash distribution of \$0.16 per OP Unit, to be paid on July 16, 2018, to holders of record as of June 29, 2018.

Also, on April 30, 2018, our board of directors declared a quarterly cash dividend of \$0.367188 per share of our 5.875% Series A Cumulative Redeemable Preferred Stock and 5.875% Series B Cumulative Redeemable Preferred Stock, to be paid on June 29, 2018, to preferred stockholders of record as of June 15, 2018.

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

The following discussion should be read in conjunction with the consolidated financial statements and the related notes thereto that appear in Part I, Item 1 “Financial Statements” of this Quarterly Report on Form 10-Q. The terms “Company,” “we,” “us,” and “our” refer to Rexford Industrial Realty, Inc. and its consolidated subsidiaries except where the context otherwise requires.

Forward-Looking Statements

We make statements in this quarterly report that are forward-looking statements, which are usually identified by the use of words such as “anticipates,” “believes,” “expects,” “intends,” “may,” “might,” “plans,” “estimates,” “projects,” “seeks,” “result” and variations of such words or similar expressions. Our forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by our forward-looking statements are reasonable, we can give no assurance that our plans, intentions, expectations, strategies or prospects will be attained or achieved and you should not place undue reliance on these forward-looking statements. Furthermore, actual results may differ materially from those described in the forward-looking statements and may be affected by a variety of risks and factors including, without limitation:

- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;
- decreased rental rates or increasing vacancy rates;
- potential defaults on or non-renewal of leases by tenants;
- potential bankruptcy or insolvency of tenants;
- acquisition risks, including failure of such acquisitions to perform in accordance with expectations;
- the timing of acquisitions and dispositions;
- potential natural disasters such as earthquakes, wildfires or floods;
- the consequence of any future security alerts and/or terrorist attacks;
- national, international, regional and local economic conditions;
- the general level of interest rates;
- potential changes in the law or governmental regulations that affect us and interpretations of those laws and regulations, including changes in real estate and zoning or real estate investment trust (“REIT”) tax laws, and potential increases in real property tax rates;
- financing risks, including the risks that our cash flows from operations may be insufficient to meet required payments of principal and interest and we may be unable to refinance our existing debt upon maturity or obtain new financing on attractive terms or at all;
- lack of or insufficient amounts of insurance;
- our failure to complete acquisitions;
- our failure to successfully integrate acquired properties;
- our ability to qualify and maintain our qualification as a REIT;
- our ability to maintain our current investment grade rating by Fitch;
- litigation, including costs associated with prosecuting or defending pending or threatened claims and any adverse outcomes; and
- possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should

review carefully our financial statements and the notes thereto, as well as the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Company Overview

Rexford Industrial Realty, Inc. is a self-administered and self-managed full-service REIT focused on owning and operating industrial properties in Southern California infill markets. We were formed as a Maryland corporation on January 18, 2013, and Rexford Industrial Realty, L.P. (the “Operating Partnership”), of which we are the sole general partner, was formed as a Maryland limited partnership on January 18, 2013. Through our controlling interest in our Operating Partnership and its subsidiaries, we acquire, own, improve, develop, lease and manage industrial real estate principally located in Southern California infill markets, and, from time to time, acquire or provide mortgage debt secured by industrial property. We are organized and conduct our operations to qualify as a REIT under the Internal Revenue Code of 1986 (the “Code”), as amended, and generally are not subject to federal taxes on our income to the extent we distribute our income to our shareholders and maintain our qualification as a REIT.

As of March 31, 2018, our consolidated portfolio consisted of 153 properties with approximately 18.7 million rentable square feet. In addition, we currently manage an additional 19 properties with approximately 1.2 million rentable square feet.

Our goal is to generate attractive risk-adjusted returns for our stockholders by providing superior access to industrial property investments and mortgage debt secured by industrial property in high-barrier Southern California infill markets. Our target markets provide us with opportunities to acquire both stabilized properties generating favorable cash flow, as well as properties where we can enhance returns through value-add renovations and redevelopment. Scarcity of available space and high barriers limiting new construction all contribute to create superior long-term supply/demand fundamentals within our target infill Southern California industrial property markets. With our vertically integrated operating platform and extensive value-add investment and management capabilities, we believe we are in a position to take advantage of the opportunities in our markets to achieve our objectives.

2018 Year to Date Highlights

Acquisitions

- During the first quarter of 2018, we completed the acquisition of five properties with a combined 432,411 rentable square feet, for a total gross purchase price of \$52.7 million.
- Subsequent to March 31, 2018, we completed the acquisition of five properties with a combined 373,691 rentable square feet, for a total gross purchase price of \$55.3 million.

Repositioning

During the first quarter of 2018, we completed the repositioning and lease-up of 43,927 rentable square feet of space at 3233 Mission Oaks Boulevard.

Dispositions

During the first quarter of 2018, we sold three properties with a combined 140,384 rentable square feet, for a total gross sales price of \$26.9 million, and total net cash proceeds of \$25.2 million, which were used to partially fund the acquisition of three properties through tax-deferred like-kind exchange transactions.

Financing

In January 2018, we amended our \$225.0 million unsecured term loan facility, resulting in the reduction of the applicable margin for LIBOR-based borrowings from a range of 1.50% to 2.25% per annum to a range of 1.20% to 1.70% per annum.

Equity

During the first quarter of 2018, we sold 2,085,663 shares of common stock under our at-the-market equity offering program for gross proceeds of \$58.5 million, or approximately \$28.02 per share, and net proceeds of approximately \$57.6 million after deducting the sales agents' fee.

Factors That May Influence Future Results of Operations

Market Fundamentals

Our operating results depend upon the infill Southern California industrial real estate market.

The infill Southern California industrial real estate sector has continued to exhibit strong fundamentals. These high-barrier infill markets are characterized by a relative scarcity of available product, operating at above 98% occupancy, coupled with limited ability to introduce new supply due to high land and development costs and a dearth of developable land in markets experiencing a net reduction in supply as more industrial property is converted to non-industrial uses than can be delivered. Consequently, available industrial supply continues to decrease in many of our target infill submarkets, landlord concessions are at cyclically low levels and construction deliveries are falling short of demand. Meanwhile, underlying tenant demand within our infill target markets continues to demonstrate growth, illustrated or driven by strong re-leasing spreads, an expanding regional economy, substantial growth in e-commerce transaction and delivery volumes, as well as further compression of delivery time-frames to consumers and to businesses, increasing the significance of last-mile facilities for timely fulfillment. Despite potential concerns related to global growth, tax reform and changes to trade and tariff policies and the impact of rising interest rates, we continue to observe a number of positive trends within our target infill markets that we expect will continue throughout 2018.

In Los Angeles County, market fundamentals were strong during the first quarter of 2018, as continued high tenant demand kept vacancy levels low and average asking lease rates reached a new record high. Current market conditions indicate rents are likely to continue their upward trend throughout 2018, as occupancy remains at near capacity levels and new development remains limited by a lack of land availability and an increase in land and development costs.

In Orange County, market fundamentals were favorable during the first quarter of 2018. With steady tenant demand, rents continued their upward trend and vacancy nominally decreased quarter-over-quarter. Regional market conditions indicate the potential for continued rental growth through the remainder of 2018.

In San Diego, average asking leasing rates increased to a record high, net absorption was positive and overall vacancy remained low.

In Ventura County, vacancy increased slightly quarter-over-quarter and asking lease rates increased slightly quarter-over-quarter.

Lastly, in the Inland Empire, new industrial product continues to be absorbed well in the market. In the Inland Empire West, which contains the infill markets in which we operate, vacancy remained low and asking lease rates were unchanged quarter-over-quarter. We expect the outlook for the Inland Empire West to be positive throughout 2018.

We generally do not focus on properties located within the Inland Empire East sub-market where the development and construction pipeline for new supply is substantial.

Acquisitions and Redevelopment of Properties

The Company's growth strategy comprises acquiring leased, stabilized properties as well as properties with value-add opportunities to improve functionality and to deploy our value-driven asset management programs in order to increase cash flow and value. A key component of our growth strategy is to acquire properties through off-market and lightly marketed transactions that are often operating at below-market occupancy or below-market rent at the time of acquisition or that have near-term lease roll-over or that provide opportunities to add value through functional or physical repositioning and improvements. Through various redevelopment, repositioning, and professional leasing and marketing strategies, we seek to increase the properties' functionality and attractiveness to prospective tenants and, over time, to stabilize the properties at occupancy rates that meet or exceed market rates.

A repositioning can consist of a range of improvements to a property. This may include a complete structural renovation of a property whereby we convert large underutilized spaces into a series of smaller and more functional spaces, or it may include the creation of additional square footage, the modernization of the property site, the elimination of functional obsolescence, the addition or enhancement of loading areas and truck access, the enhancement of fire-life-safety systems or other accretive improvements. Because each repositioning effort is unique and determined based on the property, targeted tenants and overall trends in the general market and specific submarket, the timing and effect of the repositioning on our rental revenue and occupancy levels will vary, and, as a result, will affect the comparison of our results of operations from period to period with limited predictability.

As of March 31, 2018, five of our properties were in various stages of repositioning and one of our properties was in the lease-up stage. In addition, we anticipate beginning repositioning work on two additional properties during the remainder of 2018. The table below sets forth a summary of these properties, as well as the one project that was

completed and leased during the quarter. In addition to the properties in the table below, we also have a range of smaller spaces in value-add repositioning or renovation, that due to their smaller size, are not presented below, however, in the aggregate, may be substantial.

Property (Submarket)	Market	Total Property Rentable Square Feet	Vacant Rentable Square Feet Under Repositioning/Lease-up	Estimated Development Rentable Square Feet	Estimated Construction Period ⁽¹⁾		Total Property Leased % at 3/31/18
					Start	Completion	
Current							
Repositioning: 14750 Nelson - Repositioning		138,090	138,090	—	3Q-2016	2Q-2018	—%
14750 Nelson - Development		—	—	63,900	3Q-2016	3Q-2018	—%
14750 Nelson (San Gabriel Valley)	LA	138,090	138,090	63,900	3Q-2016	3Q-2018	—%
301-445 Figueroa Street (South Bay) ⁽²⁾	LA	133,650	52,200	—	4Q-2016	3Q-2018	61%
28903 Avenue Paine - Repositioning		111,346	111,346	—	1Q-2017	2Q-2018	—%
28903 Avenue Paine - Development		—	—	115,817	1Q-2017	1Q-2019	—%
28903 Avenue Paine (SF Valley)	LA	111,346	111,346	115,817	1Q-2017	1Q-2019	—%
2722 Fairview Street (OC Airport)	OC	116,575	58,802	—	1Q-2018	2Q-2018	50%
3233 Mission Oaks Blvd - Unit 3233 (Ventura): Total	VC	461,210	111,419	—	2Q-2017	4Q-2018	67%
			471,857	179,717			
Lease-up Stage:							
1601 Alton Parkway (OC Airport) Total	OC	124,988	15,874	—	4Q-2014	4Q-2017	87%
			15,874	—			
Future							
Repositioning: 9615 Norwalk Boulevard (Mid-Counties)	LA	38,362	—	201,808	3Q-2018	3Q-2019	100% (3)
15401 Figueroa Street (South	LA	38,584	—	—	2Q-2018	3Q-2018	100% (3)

Bay)
 Total Current
 Repositioning,
 Lease-up Stage
 and Future
 Repositioning

487,731 381,525

Stabilized:⁽⁴⁾

3233 Mission

Oaks Blvd - Unit	VC	461,210	—	—	N/A	N/A	67%
------------------	----	---------	---	---	-----	-----	-----

H (Ventura):

(1) The estimated construction period is subject to change as a result of a number of factors including but not limited to permit requirements, delays in construction, changes in scope, and other unforeseen circumstances.

The property located at 301-445 Figueroa Street has 14 units, all of which will be repositioned in various phases.

As of March 31, 2018, the property consists of: five units (57,220 rentable square feet) that have been completed and leased; five units (45,240 RSF) that have been completed and are vacant; one unit (6,960 rentable square feet)

(2) that is currently under repositioning; and three units (24,230 rentable square feet) in which repositioning has not yet started. We estimate that the latter four units (31,190 rentable square feet) will be completed by the end of 3Q-2018.

(3) As of March 31, 2018, the tenants at these properties are either under a month-to-month (“MTM”) lease or have holdover tenancy.

(4) We consider a repositioning property to be stabilized at the earlier of the following: (i) upon reaching 90% occupancy or (ii) one year from the date of completion of repositioning construction work.

Properties that are nonoperational as a result of repositioning or redevelopment activity may qualify for varying levels of interest, insurance and real estate tax capitalization during the development and construction period. An increase in our

repositioning and development activities resulting from value-add acquisitions could cause an increase in the asset balances qualifying for interest, insurance and tax capitalization in future periods. We capitalized \$0.4 million of interest expense and \$0.2 million of insurance and real estate tax expense during the three months ended March 31, 2018, respectively, related to our repositioning and redevelopment projects.

Rental Revenues

Our operating results depend primarily upon generating rental revenue from the properties in our consolidated portfolio. The amount of rental revenue generated by these properties is affected by our ability to maintain or increase occupancy levels and rental rates at our properties, which will depend upon our ability to lease vacant space and re-lease expiring space at favorable rates.

Occupancy Rates

As of March 31, 2018, our consolidated portfolio, inclusive of space in repositioning as described in the subsequent paragraph, was approximately 95.2% occupied, while our stabilized consolidated portfolio exclusive of such space was approximately 97.7% occupied. We believe the opportunity to increase occupancy at our properties will be an important driver of future revenue growth. An opportunity to drive this growth will derive from the lease-up of recently completed repositioning projects and the completion and lease-up of repositioning projects that are currently under construction and planned for near-term construction.

As summarized in the table under “Acquisitions and Redevelopment of Properties” above, as of March 31, 2018, six of our properties with a combined 0.5 million vacant rentable square feet, were in various stages of redevelopment, repositioning or lease-up. Vacant repositioning space and lease-up space at these six properties are concentrated in our Los Angeles, Orange County and Ventura markets, and represent 2.6% of our total consolidated portfolio square footage as of March 31, 2018. Including vacant repositioning space and lease-up space at these six properties, our weighted average occupancy rate as of March 31, 2018, in Los Angeles, Orange County and Ventura was 95.8%, 94.1% and 87.1%, respectively. Excluding vacant repositioning space and lease-up space at these six properties, our weighted average occupancy rate as of March 31, 2018, in these markets was 99.2%, 97.1% and 93.1%, respectively. We believe that a significant portion of our long-term future growth will come from the completion of these projects currently under or scheduled for repositioning, as well as through the identification or acquisition of new opportunities for redevelopment and repositioning, whether in our existing portfolio or through new investments, which may vary from period to period subject to market conditions.

The occupancy rate of properties not undergoing repositioning is affected by regional and local economic conditions in our Southern California infill markets. In recent years, the Los Angeles, Orange and San Diego county markets have continued to show historically low vacancy and positive absorption, resulting from high tenant demand combined with low product availability. Accordingly, our properties in these markets have exhibited a similar trend. We expect general market conditions to remain positive throughout 2018, and we believe the opportunity to increase occupancy and rental rates at our properties will be an important driver of future revenue growth.

Leasing Activity and Rental Rates

The following tables set forth our leasing activity for new and renewal leases for the three months ended March 31, 2018:

New Leases									
Quarter	Number of Leases	Rentable Square Feet	Weighted Average Lease Term (in years)	Effective Rent Per Square Foot ⁽¹⁾	GAAP Leasing Spreads ⁽²⁾⁽⁴⁾	Cash Leasing Spreads ⁽³⁾⁽⁴⁾			
Q1-2018	47	281,844	4.8	\$ 11.29	32.0 %	18.1 %			

Renewals									
Quarter	Number of Leases	Rentable Square Feet	Weighted Average Lease Term (in years)	Effective Rent Per Square Foot ⁽¹⁾	GAAP Leasing Spreads ⁽²⁾⁽⁵⁾	Cash Leasing Spreads ⁽³⁾⁽⁵⁾	Number of Leases	Rentable Square Feet ⁽⁶⁾	Retention % ⁽⁷⁾
Q1-2018	70	566,551	2.8	\$ 10.66	23.1 %	13.8 %	119	913,468	68.4 %

Effective rent per square foot is the average base rent calculated in accordance with GAAP, over the term of the (1) lease, expressed in dollars per square foot per year. Includes all new and renewal leases that were executed during the quarter.

(2) Calculated as the change between GAAP rents for new or renewal leases and the expiring GAAP rents on the expiring leases for the same space.

(3) Calculated as the change between starting cash rents for new or renewal leases and the expiring cash rents on the expiring leases for the same space.

The GAAP and cash re-leasing spreads for new leases executed during the three months ended March 31, 2018, exclude 10 leases aggregating 113,185 rentable square feet for which there was no comparable lease data.

(4) Comparable leases generally exclude: (i) space that has never been occupied under our ownership, (ii) recently repositioned/redeveloped space, (iii) space that has been vacant for over one year or (iv) space with lease terms shorter than six months.

(5) The GAAP and cash re-leasing rent spreads for renewal leases executed during the three months ended March 31, 2018, exclude one lease for 1,205 rentable square feet for which there was no comparable lease data. Comparable leases generally exclude: (i) space with different lease structures or (ii) space with lease terms shorter than six months.

(6) Includes two leases totaling 65,762 rentable square feet that expired during the three months ended March 31, 2018, for which the space was placed into repositioning after each tenant vacated.

(7) Retention is calculated as renewal lease square footage plus relocation/expansion square footage, divided by the square footage of leases expiring during the period. Retention excludes expiring leases associated with space that is placed into repositioning after the tenant vacates.

Our leasing activity is impacted both by our redevelopment and repositioning efforts, as well as by market conditions. While we reposition a property, its space may become unavailable for leasing until completion of our repositioning efforts. During the three months ended March 31, 2018, we completed the repositioning and lease-up of 43,927 square feet at 3233 Mission Oaks Boulevard. As of the date of this filing, we have five repositioning projects with estimated construction completion periods ranging from the second quarter of 2018 to the first quarter of 2019 and one property in the lease-up stage. We expect these properties to have positive impacts on our leasing activity and revenue generation as we complete our value-add repositioning plan and place these properties in service.

Scheduled Lease Expirations

Our ability to re-lease space subject to expiring leases is affected by economic and competitive conditions in our markets and by the relative desirability of our individual properties, which may impact our results of operations. The following table sets forth a summary schedule of lease expirations for leases in place as of March 31, 2018, for each of the ten full and partial calendar years beginning with 2018 and thereafter, plus space that is available and under current repositioning.

Year of Lease Expiration	Number of Leases Expiring	Total Rentable Square Feet ⁽¹⁾	Percentage of Total Owned Square Feet	Annualized Base Rent ⁽²⁾	Percentage of Total Annualized Base Rent ⁽³⁾	Annualized Base Rent per Square Foot ⁽⁴⁾
Vacant ⁽⁵⁾	—	427,471	2.3 %	\$ —	— %	\$ —
Current Repositioning ⁽⁶⁾	—	471,857	2.5 %	\$ —	— %	\$ —
MTM Tenants ⁽⁷⁾	88	200,469	1.1 %	\$ 2,052	1.3 %	\$ 10.23
Remainder of 2018	251	1,758,546	9.4 %	\$ 16,516	10.4 %	\$ 9.39
2019	319	2,814,872	15.0 %	\$ 25,519	16.0 %	\$ 9.07
2020	306	3,977,895	21.2 %	\$ 33,817	21.2 %	\$ 8.50
2021	179	3,728,051	19.9 %	\$ 31,281	19.6 %	\$ 8.39
2022	105	1,844,282	9.8 %	\$ 15,776	9.9 %	\$ 8.55
2023	55	1,059,152	5.7 %	\$ 10,553	6.6 %	\$ 9.96
2024	14	757,895	4.0 %	\$ 7,260	4.6 %	\$ 9.58
2025	5	155,506	0.8 %	\$ 1,805	1.2 %	\$ 11.61
2026	6	273,904	1.5 %	\$ 3,235	2.0 %	\$ 11.81
2027	6	220,311	1.2 %	\$ 2,077	1.3 %	\$ 9.43
Thereafter	8	1,051,093	5.6 %	\$ 9,450	5.9 %	\$ 8.99
Total Consolidated Portfolio	1,342	18,741,304	100.0 %	\$ 159,341	100.0 %	\$ 8.98

(1) Represents the contracted square footage upon expiration.

(2) Calculated as monthly contracted base rent (before rent abatements) per the terms of such lease, as of March 31, 2018, multiplied by 12. Excludes billboard and antenna revenue. Amounts in thousands.

(3) Calculated as annualized base rent set forth in this table divided by annualized base rent for the total portfolio as of March 31, 2018.

(4) Calculated as annualized base rent for such leases divided by the occupied square feet for such leases as of March 31, 2018.

(5) Represents vacant space (not under repositioning) as of March 31, 2018. Includes new leases aggregating 69,639 rentable square feet that have been signed but had not yet commenced as of March 31, 2018.

(6) Represents space at five of our properties that were classified as current repositioning as of March 31, 2018. Refer to the table under “Acquisitions and Redevelopment of Properties” for a summary of these properties. Excludes completed repositioning properties and properties in lease-up.

(7) Represents tenants under MTM leases or having holdover tenancy. Includes 62 MTM leases aggregating 65,390 rentable square feet at our property located at 14723-14825 Oxnard Street, where due to number and the small size of spaces, we typically only enter into MTM leases.

As of March 31, 2018, in addition to 0.4 million rentable square feet of currently available space in our portfolio and 0.5 million rentable square feet of vacant space under current repositioning, leases representing 9.4% and 15.0% of the aggregate rentable square footage of our portfolio are scheduled to expire during the remainder of 2018 and 2019, respectively. During the three months ended March 31, 2018, we renewed 70 leases for 566,551 rentable square feet, resulting in a 68.4% retention rate. Our retention rate during the period was impacted by our strategy to roll certain tenants at below-market rents and to replace them with higher quality tenants paying higher rents. During the three months ended March 31, 2018, new and renewal leases had a weighted average term of 4.8 and 2.8 years, respectively, and we expect future new and renewal leases to have similar terms.

The leases scheduled to expire during the remainder of 2018 and 2019 represent approximately 10.4% and 16.0% respectively, of the total annualized base rent for our portfolio as of March 31, 2018. We estimate that, on a weighted average basis, in-place rents of leases scheduled to expire during the remainder of 2018 and 2019 are currently below current market asking rents, although individual units or properties within any particular submarket may currently be leased either above, below, or at the current market asking rates within that submarket. As described in the above Market Fundamentals section, we

expect market dynamics to remain strong and that these positive trends will provide a favorable environment for additional increases in lease renewal rates. Accordingly, we expect the remainder of 2018 will show positive renewal rates and leasing spreads. We also currently do not see any reason not to expect that 2019 lease expirations will show positive growth upon renewal; however, it is difficult to predict market conditions that far into the future.

Property Expenses

Our property expenses generally consist of utilities, real estate taxes, insurance, site repair and maintenance costs, and the allocation of overhead costs. For the majority of our properties, our property expenses are recovered, in part, by either the triple net provisions or modified gross expense reimbursements in tenant leases. The majority of our leases also comprise contractual three percent annual rental rate increases meant, in part, to help mitigate potential increases in property expenses over time. However, the terms of our leases vary, and, in some instances, we may absorb property expenses. Our overall financial results will be impacted by the extent to which we are able to pass-through property expenses to our tenants.

Taxable REIT Subsidiary

As of March 31, 2018, our Operating Partnership indirectly and wholly owns Rexford Industrial Realty and Management, Inc., which we refer to as the services company. We have elected, together with our services company, to treat our services company as a taxable REIT subsidiary for federal income tax purposes. A taxable REIT subsidiary generally may provide non-customary and other services to our tenants and engage in activities that we may not engage in directly without adversely affecting our qualification as a REIT, provided a taxable REIT subsidiary may not operate or manage a lodging facility or health care facility or provide rights to any brand name under which any lodging facility or health care facility is operated. We may form additional taxable REIT subsidiaries in the future, and our Operating Partnership may contribute some or all of its interests in certain wholly owned subsidiaries or their assets to our services company. Any income earned by our taxable REIT subsidiaries will not be included in our taxable income for purposes of the 75% or 95% gross income tests, except to the extent such income is distributed to us as a dividend, in which case such dividend income will qualify under the 95%, but not the 75%, gross income test. Because a taxable REIT subsidiary is subject to federal income tax, and state and local income tax (where applicable) as a regular corporation, the income earned by our taxable REIT subsidiaries generally will be subject to an additional level of tax as compared to the income earned by our other subsidiaries. Our taxable REIT subsidiary is a C-corporation subject to federal and state income tax, however it has a cumulative unrecognized net operation loss carryforward and therefore there is no income tax provision for the three months ended March 31, 2018 and 2017.

Critical Accounting Policies

In our 2017 Annual Report on Form 10-K, we identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not made any material changes to our critical accounting policies during the period covered by this report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions in certain circumstances that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting periods. Actual amounts may differ from these estimates and assumptions. Management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions that it believes are reasonable as of the date hereof. In addition, other companies in similar businesses may use different estimation policies and methodologies, which may affect the comparability of our results of operations and financial condition to those of other companies. See Note 2 to our consolidated financial statements for a discussion of our accounting policies.

Results of Operations

Our consolidated results of operations are often not comparable from period to period due to the effect of property acquisitions and dispositions completed during the comparative reporting periods. Our "Total Portfolio" represents all of the properties owned during the reported periods. To eliminate the effect of changes in our Total Portfolio due to acquisitions and dispositions and to highlight the operating results of our on-going business, we have separately presented the results of our "Same Properties Portfolio."

For the three months ended March 31, 2018 and 2017, our Same Properties Portfolio includes all properties in our industrial portfolio that were wholly-owned by us as of January 1, 2017, and still owned by us as of March 31, 2018, which consisted of 127 properties aggregating approximately 14.1 million rentable square feet. Results for our Same Properties Portfolio exclude any properties that were acquired or sold during the period from January 1, 2017 through March 31, 2018,

interest income from our note receivable, interest expense and corporate general and administrative expenses. In addition to the properties included in our Same Properties Portfolio, our Total Portfolio includes the 26 properties aggregating approximately 4.7 million rentable square feet that were purchased between January 1, 2017 and March 31, 2018, and the nine properties aggregating approximately 0.9 million rentable square feet that were sold between January 1, 2017 and March 31, 2018.

As of March 31, 2018 and 2017, our Same Properties Portfolio occupancy was approximately 94.9% and 92.7%, respectively. For the three months ended March 31, 2018 and 2017, our Same Properties Portfolio weighted average occupancy was approximately 95.0% and 93.9%, respectively.

Comparison of the Three Months Ended March 31, 2018 to the Three Months Ended March 31, 2017

The following table summarizes the historical results of operations for our Same Properties Portfolio and Total Portfolio for the three months ended March 31, 2018 and 2017 (dollars in thousands):

	Same Properties Portfolio				Total Portfolio				
	Three Months Ended March 31,		Increase/(Decrease)	% Change	Three Months Ended March 31,		Increase/(Decrease)	% Change	
2018	2017	2018			2017				
RENTAL REVENUES									
Rental income	\$31,145	\$28,575	\$ 2,570	9.0 %	\$40,911	\$29,614	\$ 11,297	38.1 %	
Tenant reimbursements	5,056	5,004	52	1.0 %	7,293	5,155	2,138	41.5 %	
Other income	221	201	20	10.0 %	229	232	(3	) (1.3)%
TOTAL RENTAL REVENUES	36,422	33,780	2,642	7.8 %	48,433	35,001	13,432	38.4 %	
Management, leasing and development services	—	—	—	— %	103	126	(23	) (18.3)%
Interest income	—	—	—	— %	—	227	(227	) (100.0)	%
TOTAL REVENUES	36,422	33,780	2,642	7.8 %	48,536	35,354	13,182	37.3 %	
EXPENSES									
Property expenses	8,997	8,680	317	3.7 %	11,960	9,222	2,738	29.7 %	
General and administrative	—	—	—	— %	6,162	5,086	1,076	21.2 %	
Depreciation and amortization	12,629	12,828	(199	) (1.6	)% 19,452	13,599	5,853	43.0 %	
TOTAL OPERATING EXPENSES	21,626	21,508	118	0.5 %	37,574	27,907	9,667	34.6 %	
OTHER EXPENSES									
Acquisition expenses	—	—	—	— %	9	385	(376	) (97.7)%
Interest expense	—	—	—	— %	5,852	3,998	1,854	46.4 %	
TOTAL OTHER EXPENSES	—	—	—	— %	5,861	4,383	1,478	33.7 %	
TOTAL EXPENSES	21,626	21,508	118	0.5 %	43,435	32,290	11,145	34.5 %	
Equity in income from unconsolidated real estate entities	—	—	—		—	11	(11)	
Loss on extinguishment of debt	—	—	—		—	(22	) 22		
Gains on sale of real estate	—	—	—		9,983	2,668	7,315		
NET INCOME	\$14,796	\$12,272	\$ 2,524		\$15,084	\$5,721	\$ 9,363		

Rental Income

Our Same Properties Portfolio and Total Portfolio rental income increased by \$2.6 million, or 9.0%, and \$11.3 million, or 38.1%, respectively, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase in our Same Properties Portfolio rental income is primarily due to the increase in the weighted average occupancy of the portfolio for comparable periods, which was partially driven by the completion of repositioning work and subsequent lease-up of space at five of our properties during 2017, and the increase in average rental rates on new and renewal leases. Our Total Portfolio rental income was also positively impacted by the incremental revenues from the 26 properties we acquired between January 1, 2017, and March 31, 2018.

Tenant Reimbursements

Our Same Properties Portfolio and Total Portfolio tenant reimbursements revenue increased by \$0.1 million, or 1.0%, and \$2.1 million, or 41.5%, respectively, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase in our Same Properties Portfolio tenant reimbursements is primarily due to an increase in the weighted average occupancy for comparable periods, which was partially driven by the completion of repositioning work and subsequent lease-up of space at five of our properties during 2017, partially offset by a decrease in tenant reimbursements due to timing differences in completing prior year recoverable expense reconciliations for comparable periods. Our Total Portfolio tenant reimbursements revenue was also impacted by the incremental reimbursements from the 26 properties we acquired between January 1, 2017 and March 31, 2018.

Other Income

Our Same Properties Portfolio and Total Portfolio other income increased by \$20 thousand, or 10.0%, and decreased \$3 thousand, or 1.3%, respectively, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase in our Same Properties Portfolio other income was primarily due an increase in miscellaneous income.

Management, Leasing and Development Services

Our Total Portfolio management, leasing and development services revenue decreased by \$23 thousand, or 18.3%, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017, primarily due to a decrease in leasing commissions earned from properties we manage that are not owned by us (see Note 9 to the consolidated financial statements for additional details).

Interest Income

Interest income for the three months ended March 31, 2017, relates to a \$6.0 million mortgage loan that we made on July 1, 2016, which was subsequently repaid on June 23, 2017. The loan was secured by an industrial property located in Rancho Cucamonga, California and bore interest at 10.0% per annum.

Property Expenses

Our Same Properties Portfolio and Total Portfolio property expenses increased by \$0.3 million, or 3.7%, and \$2.7 million, or 29.7%, respectively, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase in our Same Properties Portfolio property expenses is primarily due to an increase in real estate tax expense and an increase in insurance expense due to a new earthquake policy we obtained in June 2017, partially offset by a decrease in repairs and maintenance expense and a decrease in overhead costs. Our Total Portfolio property expenses was also impacted by incremental expenses from the 26 properties we acquired between January 1, 2017, and March 31, 2018.

General and Administrative

Our Total Portfolio general and administrative expenses increased \$1.1 million, or 21.2%, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017, primarily due to an increase in accrued bonus expense, an increase in non-cash equity compensation expense primarily related to equity grants made in December 2017, and an increase in professional consulting fees.

Depreciation and Amortization

Our Same Properties Portfolio depreciation and amortization expense decreased by \$0.2 million, or 1.6%, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017, primarily due to acquisition-related tenant improvements and in-place lease intangibles becoming fully depreciated at certain of our properties subsequent to January 1, 2017, partially offset by an increase in depreciation expense related to capital improvements placed into service subsequent to January 1, 2017. Our Total Portfolio depreciation and amortization expense increased \$5.9 million, or 43.0%, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017, primarily due to the incremental expense from the 26 properties we acquired between January 1, 2017, and March 31, 2018, partially offset by the decrease in our Same Properties Portfolio depreciation and amortization expense noted above.

Acquisition Expenses

Our Total Portfolio acquisition expenses decreased by \$0.4 million, or 97.7%, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017, primarily due to the write-off of \$0.3 million of transaction costs in connection with the termination of a ground lease in March 2017.

Interest Expense

Our Total Portfolio interest expense increased by \$1.9 million, or 46.4%, during the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase in interest expense is primarily comprised of the following: (i) a \$1.2 million increase related to the issuance of \$125.0 million of 3.93% fixed rate senior notes in July 2017, (ii) a \$0.5 million increase related to the increase in borrowings on our unsecured revolving credit facility and (iii) a \$0.1 million decrease in capitalized interest expense resulting from a decrease in construction activity related to our repositioning properties.

Equity in Income from Unconsolidated Real Estate Entities

Equity in income from unconsolidated real estate entities of \$11 thousand for the three months ended March 31, 2017, represents the final liquidating distribution we received in connection with the winding down of our joint venture.

Loss on Extinguishment of Debt

On March 20, 2017, we repaid the mortgage loan secured by the property located at 1065 E. Walnut Avenue in advance of the maturity date of February 1, 2019. The loss on extinguishment of debt of \$22 thousand for the three months ended March 31, 2017, represents \$0.2 million of prepayment penalties, partially offset by the \$0.2 million write-off of the unamortized loan premium.

Gain on Sale of Real Estate

For the three months ended March 31, 2018, we recognized a total gain on sale of real estate of \$10.0 million from the disposition of three properties that were sold for an aggregate gross sales price of \$26.9 million. For the three months ended March 31, 2017, we recognized a gain on sale of real estate of \$2.7 million from the disposition of one property that was sold for a gross sales price of \$6.9 million.

Non-GAAP Supplemental Measure: Funds From Operations

We calculate funds from operations (“FFO”) attributable to common stockholder in accordance with the standards established by the National Association of Real Estate Investment Trusts (“NAREIT”). FFO represents net income (loss) (computed in accordance with accounting principles generally accepted in the United States (“GAAP”)), excluding gains (or losses) from sales of depreciable operating property, impairment losses, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated joint ventures.

Management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization, gains and losses from property dispositions, and asset impairments, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of performance used by other REITs, FFO may be used by investors as a basis to compare our operating performance with that of other REITs.

However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. Other equity REITs may not calculate or interpret FFO in accordance with the NAREIT definition as we do, and, accordingly, our FFO may not be comparable to such other REITs’ FFO. FFO should not be used as a measure of our liquidity, and is not indicative of funds available for our cash needs, including our ability to pay dividends.

The following table sets forth a reconciliation of net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, to FFO (in thousands):

	Three Months Ended March 31,	
	2018	2017
Net income	\$15,084	\$5,721
Add:		
Depreciation and amortization	19,452	13,599
Deduct:		
Gains on sale of real estate	9,983	2,668
Gain on acquisition of unconsolidated joint venture property	—	11
Funds From Operations (FFO)	\$24,553	\$16,641
Less: preferred stock dividends	(2,423)	(1,322)
Less: FFO attributable to noncontrolling interest ⁽¹⁾	(557)	(449)
Less: FFO attributable to participating securities ⁽²⁾	(158)	(137)
FFO attributable to common stockholders	\$21,415	\$14,733

(1) Noncontrolling interests represent holders of outstanding common units of the Company's operating partnership that are owned by unit holders other than the Company.

(2) Participating securities include unvested shares of restricted stock, unvested LTIP units and unvested performance units.

Non-GAAP Supplemental Measure: NOI and Cash NOI

Net operating income (“NOI”) is a non-GAAP measure which includes the revenue and expense directly attributable to our real estate properties. NOI is calculated as total revenue from real estate operations including i) rental income ii) tenant reimbursements, and iii) other income less property expenses (before interest expense, depreciation and amortization).

We use NOI as a supplemental performance measure because, in excluding real estate depreciation and amortization expense, general and administrative expenses, interest expense, gains (or losses) on sale of real estate and other non-operating items, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that NOI will be useful to investors as a basis to compare our operating performance with that of other REITs. However, because NOI excludes depreciation and amortization expense and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties (all of which have real economic effect and could materially impact our results from operations), the utility of NOI as a measure of our performance is limited. Other equity REITs may not calculate NOI in a similar manner and, accordingly, our NOI may not be comparable to such other REITs' NOI. Accordingly, NOI should be considered only as a supplement to net income as a measure of our performance. NOI should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs. NOI should not be used as a substitute for cash flow from operating activities in accordance with GAAP.

NOI on a cash-basis ("Cash NOI") is a non-GAAP measure, which we calculate by adding or subtracting the following items from from NOI: i) fair value lease revenue and ii) straight-line rental revenue adjustments. We use Cash NOI, together with NOI, as a supplemental performance measure. Cash NOI should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs. Cash NOI should not be used as a substitute for cash flow from operating activities computed in accordance with GAAP.

The following table sets forth the revenue and expense items comprising NOI and the adjustments to calculate Cash NOI (in thousands):

	Three Months Ended March 31,	
	2018	2017
Rental income	\$40,911	\$29,614
Tenant reimbursements	7,293	5,155
Other income	229	232
Total operating revenues	48,433	35,001
Property expenses	11,960	9,222
Net Operating Income	\$36,473	\$25,779
Amortization of (below) above market lease intangibles, net	(1,116)	(117)
Straight line rental revenue adjustment	(1,969)	(956)
Cash Net Operating Income	\$33,388	\$24,706

The following table sets forth a reconciliation of net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, to NOI and Cash NOI (in thousands):

	Three Months Ended March 31,	
	2018	2017
Net income	\$15,084	\$5,721
Add:		
General and administrative	6,162	5,086
Depreciation and amortization	19,452	13,599
Acquisition expenses	9	385
Interest expense	5,852	3,998
Loss on extinguishment of debt	—	22
Deduct:		
Management, leasing and development services	103	126
Interest income	—	227
Equity in income from unconsolidated real estate entities	—	11
Gains on sale of real estate	9,983	2,668
Net Operating Income	\$36,473	\$25,779
Amortization of (below) above market lease intangibles, net	(1,116)	(117)
Straight line rental revenue adjustment	(1,969)	(956)
Cash Net Operating Income	\$33,388	\$24,706

Non-GAAP Supplemental Measure: EBITDAre

We calculate earnings before interest expense, income taxes, depreciation and amortization for real estate (“EBITDAre”) in accordance with the standards established by NAREIT. EBITDAre is calculated as net income (loss) (computed in accordance with GAAP), before interest expense, income tax expense, depreciation and amortization, gains (or losses) from sales of depreciable operating property, impairment losses and adjustments to reflect our proportionate share of EBITDAre from our unconsolidated joint venture.

We believe that EBITDAre is helpful to investors as a supplemental measure of our operating performance as a real estate company because it is a direct measure of the actual operating results of our properties. We also use this measure in ratios to compare our performance to that of our industry peers. In addition, we believe EBITDAre is frequently used by securities analysts, investors and other interested parties in the evaluation of equity REITs. However, our industry peers may not calculate EBITDAre in accordance with the NAREIT definition as we do and, accordingly, our EBITDAre may not be comparable to our peers’ EBITDAre. Accordingly, EBITDAre should be considered only as a supplement to net income (loss) as a measure of our performance.

The following table sets forth a reconciliation of net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, to EBITDAre (in thousands):

	Three Months Ended March 31,	
	2018	2017
Net income	\$15,084	\$5,721
Interest expense	5,852	3,998
Depreciation and amortization	19,452	13,599
Gains on sale of real estate	(9,983)	(2,668)
Gain on sale of real estate from unconsolidated joint ventures	—	(11)
EBITDAre	\$30,405	\$20,639

Liquidity and Capital Resources

Overview

Our short-term liquidity requirements consist primarily of funds to pay for operating expenses, interest expense, general and administrative expenses, capital expenditures, tenant improvements and leasing commissions, and distributions to our common and preferred stockholders and holders of common units of partnership interests in our Operating Partnership (“OP Units”). We expect to meet our short-term liquidity requirements through available cash on hand, cash flow from operations, by drawing on our unsecured revolving credit facility and by issuing shares of common stock pursuant to our at-the-market equity offering program described below.

Our long-term liquidity needs consist primarily of funds necessary to pay for acquisitions, recurring and non-recurring capital expenditures and scheduled debt maturities. We intend to satisfy our long-term liquidity needs through net cash flow from operations, proceeds from long-term secured and unsecured financings, borrowings available under our unsecured revolving credit facility, the issuance of equity securities, including preferred stock, and proceeds from selective real estate dispositions as we identify capital recycling opportunities.

As of March 31, 2018, our cash and cash equivalents were \$15.6 million, and we had \$51.0 million outstanding under our unsecured revolving credit facility, leaving \$299.0 million available for future borrowings.

Sources of Liquidity

Cash Flow from Operations

Cash flow from operations is one of our key sources of liquidity and is primarily dependent upon: (i) the occupancy levels and lease rates at our properties, (ii) our ability to collect rent, (iii) the level of operating costs we incur and (iv) our ability to pass through operating expenses to our tenants. We are subject to a number of risks related to general economic and other unpredictable conditions, which have the potential to affect our overall performance and resulting cash flows from operations. However, based on our current portfolio mix and business strategy, we anticipate that we will be able to generate positive cash flows from operations.

ATM Program

On September 21, 2017, we established a new at-the-market equity offering program (the “ATM Program”) pursuant to which we may sell from time to time up to an aggregate of \$300.0 million of our common stock through sales agents. During the three months ended March 31, 2018, we sold 2,085,663 shares of our common stock under the ATM Program, at a weighted average price of \$28.02 per share, for gross proceeds of \$58.5 million, and net proceeds of \$57.6 million, after deducting the sales agents’ fee. As of March 31, 2018, we had the capacity to issue up to an additional \$170.6 million of common stock under the ATM Program.

Future sales, if any, will depend on a variety of factors to be determined by us from time to time, including among others, market conditions, the trading price of our common stock and capital needs. We intend to use the net proceeds from the offering of shares under the ATM Program, if any, to fund potential acquisition opportunities, repay amounts outstanding from time to time under our unsecured revolving credit facility or other debt financing obligations, to fund our development or redevelopment activities and/or for general corporate purposes.

Equity Offerings

We evaluate the capital markets on an ongoing basis for opportunities to raise capital, and as circumstances warrant, we may issue additional securities, from time to time, to fund acquisitions, for the repayment of long-term debt upon maturity and for other general corporate purposes. Any future issuance, however, is dependent upon market conditions, available pricing and capital needs and there can be no assurance that we will be able to complete any such offerings of securities.

Capital Recycling

We continuously evaluate opportunities for the potential disposition of properties in our portfolio when we believe such disposition is appropriate in view of our business objectives. In evaluating these opportunities, we consider a variety of criteria including, but not limited to, local market conditions and lease rates, asset type and location, as well as potential uses of proceeds and tax considerations. Tax considerations include entering into tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code (“1031 Exchange”), when possible, to defer some or all of the taxable gains, if any, on dispositions.

During the three months ended March 31, 2018, we completed the sale of three of our properties located at 8900-8980 Benson Avenue and 5637 Arrow Highway, 700 Allen Avenue and 1851 Flower Street and 200-220 South Grand Avenue for an

aggregate gross sales price of \$26.9 million and total net cash proceeds of \$25.2 million. The net cash proceeds were used to partially fund the acquisition of two properties during the three months ended March 31, 2018, and one property in April 2018, as part of three 1031 Exchange transactions.

We anticipate continuing to selectively and opportunistically dispose of properties, however, the timing of any potential future dispositions will depend on market conditions and our capital needs. Our ability to dispose of selective properties on advantageous terms, or at all, is dependent upon a number of factors including the availability of credit to potential buyers to purchase properties at prices that we consider acceptable.

Credit Facility

We have a \$450.0 million senior unsecured credit facility (the "Credit Facility"), comprised of a \$350.0 million unsecured revolving credit facility (the "Revolver") and a \$100.0 million unsecured term loan facility (the "\$100 Million Term Loan Facility"). The Revolver is scheduled to mature on February 12, 2021 and has two six-month extension options available for a maximum maturity date of February 14, 2022, subject to certain conditions and the payment of an additional fee. The \$100 Million Term Loan Facility is scheduled to mature on February 14, 2022. Under the terms of the Credit Facility, we may request additional lender commitments up to an additional aggregate \$550.0 million, which may be comprised of additional revolving commitments under the Revolver, an increase to the \$100 Million Term Loan Facility, additional term loan tranches or any combination of the foregoing.

Interest on the Credit Facility is generally to be paid based upon, at our option, either (i) LIBOR plus an applicable margin that is based upon our leverage ratio or (ii) the Base Rate (which is defined as the highest of (a) the federal funds rate plus 0.50%, (b) the administrative agent's prime rate or (c) the Eurodollar Rate plus 1.00%) plus an applicable margin that is based on our leverage ratio. The margins for the Revolver range in amount from 1.10% to 1.50% for LIBOR-based loans and 0.10% to 0.50% for Base Rate-based loans, depending on our leverage ratio. The margins for the \$100 Million Term Loan Facility range in amount from 1.20% to 1.70% for LIBOR-based loans and 0.20% to 0.70% for Base Rate-based loans, depending on our leverage ratio.

If we attain one additional investment grade rating by one or more of Standard & Poor's ("S&P") or Moody's Investor Services ("Moody's") to complement our current investment grade Fitch rating, we may elect to convert the pricing structure under the Credit Facility to be based on such rating. In that event, the margins for the Revolver will range in amount from 0.825% to 1.550% for LIBOR-based loans and 0.00% to 0.55% for Base Rate-based loans, depending on such rating, and the margins for the \$100 Million Term Loan Facility will range in amount from 0.90% to 1.75% for LIBOR-based loans and 0.00% to 0.75% for Base Rate-based loans, depending on such ratings.

In addition to the interest payable on amounts outstanding under the Revolver, we are required to pay an applicable facility fee, based upon our leverage ratio, on the aggregate amount of each lender's Revolving Credit Commitment (whether or not such Revolving Credit Commitment is drawn), as defined in the Credit Facility. The applicable facility fee will range in amount from 0.15% to 0.30%, depending on our leverage ratio. In the event that we convert the pricing structure to be based on an investment-grade rating, the applicable facility fee will range in amount from 0.125% to 0.30%, depending on such rating.

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

The Revolver and the \$100 Million Term Loan Facility may be voluntarily prepaid in whole or in part at any time without premium or penalty. Amounts borrowed under the \$100 Million Term Loan Facility and repaid or prepaid may not be reborrowed.

The Credit Facility contains usual and customary events of default including defaults in the payment of principal, interest or fees, defaults in compliance with the covenants set forth in the Credit Facility and other loan documentation, cross-defaults to certain other indebtedness, and bankruptcy and other insolvency defaults. If an event of default occurs and is continuing under the Credit Facility, the unpaid principal amount of all outstanding loans, together with all accrued unpaid interest and other amounts owing in respect thereof, may be declared immediately due and payable.

As of the filing date of this Quarterly Report on Form 10-Q, we had borrowings of \$225.0 million outstanding under the Revolver, leaving \$125.0 million available for future borrowings.

Investment Grade Rating

In September 2017, Fitch Ratings affirmed our investment grade credit rating of BBB- with a stable outlook on the Revolver, the \$100 Million Term Loan Facility, our \$100 million unsecured guaranteed senior notes and our \$125 million unsecured guaranteed senior notes. They also affirmed our investment grade credit rating of BB on our 5.875% Series A

50

Cumulative Redeemable Preferred Stock. Our credit ratings are based on our operating performance, liquidity and leverage ratios, overall financial position and other factors employed by the credit rating agencies in their rating analysis of us, and, although it is our intent to maintain our investment grade credit rating, there can be no assurance that we will be able to maintain our current credit ratings. In the event our current credit ratings are downgraded, it may become difficult or more expensive to obtain additional financing or refinance existing indebtedness as maturities become due.

Uses of Liquidity

Acquisitions

One of our most significant liquidity needs has historically been for the acquisition of real estate properties. Year to date, we have acquired ten properties with a combined 0.8 million rentable square feet for a total gross purchase price of \$108.0 million, and we are actively monitoring a volume of properties in our markets that we believe represent attractive potential investment opportunities to continue to grow our business. As of the filing date of this Quarterly Report on Form 10-Q, we have approximately \$250 million of acquisitions under contract. While the actual number of acquisitions that we complete will be dependent upon a number of factors, in the short term, we expect to fund our acquisitions through available cash on hand, cash flows from operations, borrowings available under the Revolver, recycling capital through property dispositions and, in the long term, through the issuance of equity securities or proceeds from long-term secured and unsecured financings.

Recurring and Nonrecurring Capital Expenditures

Capital expenditures are considered part of both our short-term and long-term liquidity requirements. As discussed above under — Factors that May Influence Future Results — Acquisitions and Redevelopment of Properties, as of March 31, 2018, six of our properties were in various stages of redevelopment and repositioning or lease-up, and we anticipate beginning repositioning work on two additional properties during the remainder of 2018. We currently estimate that approximately \$38.6 million of capital will be required over the next six quarters (2Q-2018 through 3Q-2019) to complete the redevelopment and repositioning of these properties. This estimate, however, is based on our current construction plans and budgets, both of which are subject to change as a result of a number of factors. If we are unable to complete construction on schedule or within budget, we could incur increased construction costs and experience potential delays in leasing the properties. We expect to fund these projects through a combination of cash flow from operations, the issuance of common stock under the ATM Program and borrowings available under the Revolver.

The following table sets forth certain information regarding non-recurring and recurring capital expenditures at the properties in our portfolio as follows (dollars in thousands):

	Three Months Ended March 31, 2018		
	Total	Square Feet ⁽¹⁾	Per Square Foot ⁽²⁾
Non-Recurring Capital Expenditures ⁽³⁾	\$11,392	9,944,261	\$ 1.15
Recurring Capital Expenditures ⁽⁴⁾	854	18,765,796	\$ 0.05
Total Capital Expenditures	\$12,246		

For non-recurring capital expenditures, reflects the aggregate square footage of the properties in which we incurred (1) such capital expenditures. For recurring capital expenditures, reflects the weighted average square footage of our consolidated portfolio during the period.

(2) Per square foot amounts are calculated by dividing the aggregate capital expenditure costs by the square footage as defined in (1) above.

(3) Non-recurring capital expenditures are expenditures made in respect of a property for improvement to the appearance of such property or any other major upgrade or renovation of such property, and further includes capital expenditures for seismic upgrades, or capital expenditures for deferred maintenance existing at the time such property was acquired.

(4)

Recurring capital expenditures are expenditures made in respect of a property for maintenance of such property and replacement of items due to ordinary wear and tear including, but not limited to, expenditures made for maintenance of parking lots, roofing materials, mechanical systems, HVAC systems and other structural systems.

Commitments and Contractual Obligations

The following table sets forth our principal obligations and commitments as of March 31, 2018, including (i) scheduled principal payments and debt maturities, (ii) periodic interest payments related to our outstanding indebtedness and interest rate swaps, (iii) office and ground lease payments and (iv) other contractual obligations (in thousands):

	Payments by Period						
	Total	Remainder of 2018	2019	2020	2021	2022	Thereafter
Principal payments and debt maturities	\$662,425	\$ 700	\$58,266	\$166	\$51,175	\$100,184	\$451,934
Interest payments - fixed-rate debt ⁽¹⁾	79,858	5,931	9,333	9,325	9,316	9,307	36,646
Interest payments - variable-rate debt ⁽²⁾	48,052	9,686	11,557	10,277	8,984	7,278	270
Office lease payments	1,444	591	569	164	120	—	—
Ground lease payments	6,360	108	144	144	144	144	5,676
Contractual obligations ⁽³⁾	30,806	30,806	—	—	—	—	—
Total	\$828,945	\$ 47,822	\$79,869	\$20,076	\$69,739	\$116,913	\$494,526

(1) Reflects scheduled interest payments on our fixed rate debt, including the \$100 million unsecured guaranteed senior notes, the \$125 million unsecured guaranteed senior notes and the Gilbert/La Palma mortgage loan.

(2) Reflects an estimate of interest payments due on variable rate debt, including the impact of interest rate swaps. For variable rate debt where interest is paid based on LIBOR plus an applicable LIBOR margin, we used the applicable LIBOR margin in effect as of March 31, 2018, and the one-month LIBOR rate of 1.88313%, as of March 31, 2018.

Furthermore, it is assumed that any maturity extension options available are not exercised.

(3) Includes total commitments for tenant improvement and construction work related to obligations under certain tenant leases and vendor contracts. We anticipate these obligations to be paid as incurred through the remainder of 2018 and 2019, however, as the timing of these obligations is subject to a number of factors, for purposes of this table, we have included the full amount under "Remainder of 2018".

Dividends and Distributions

In order to maintain our qualification as a REIT, we are required to distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains. To satisfy the requirements to qualify as a REIT and generally not be subject to U.S. federal income tax, we intend to distribute a percentage of our cash flow on a quarterly basis to holders of our common stock. In addition, we intend to make distribution payments to holders of OP Units and dividend payments to holders of our preferred stock. On April 30, 2018, our board of directors declared a quarterly cash dividend of \$0.16 per share of common stock and a quarterly cash distribution of \$0.16 per OP Unit, to be paid on July 16, 2018, to holders of record as of June 29, 2018. Also, on April 30, 2018, our board of directors declared a quarterly cash dividend of \$0.367188 per share of our 5.875% Series A Cumulative Redeemable Preferred Stock and 5.875% Series B Cumulative Redeemable Preferred Stock, to be paid on June 29, 2018, to preferred stockholders of record as of June 15, 2018.

Consolidated Debt

The following table sets forth certain information with respect to our consolidated debt outstanding as of March 31, 2018:

	Maturity Date	Stated Interest Rate	Effective Interest Rate ⁽¹⁾	Principal Balance (in thousands) ⁽²⁾	Maturity Date of Effective Swaps
Secured Debt:					
\$60M Term Loan	8/1/2019 ⁽³⁾	LIBOR + 1.90%	3.816 % ⁽⁴⁾	\$ 58,695	2/15/2019
Gilbert/La Palma	3/1/2031	5.125%	5.125 %	2,730	--
Unsecured Debt:					
\$100M Term Loan Facility	2/14/2022	LIBOR +1.20% ⁽⁵⁾	3.098 % ⁽⁶⁾	100,000	12/14/2018; 8/14/2021 ⁽⁶⁾
Revolver ⁽⁷⁾	2/12/2021 ⁽⁸⁾	LIBOR +1.10% ⁽⁵⁾	2.983 %	51,000	--
\$225M Term Loan Facility	1/14/2023	LIBOR +1.20% ⁽⁵⁾	2.549 % ⁽⁹⁾	125,000	1/14/2022 ⁽⁹⁾
\$225M Term Loan Facility	1/14/2023	LIBOR +1.20% ⁽⁵⁾	3.083 %	100,000	-- ⁽¹⁰⁾
\$100M Senior Notes	8/6/2025	4.290%	4.290 %	100,000	--
\$125M Senior Notes	7/13/2027	3.930%	3.930 %	\$ 125,000	--
Total Consolidated			3.392 %	\$ 662,425	

Includes the effect of interest rate swaps that were effective as of March 31, 2018. Assumes a 1-month LIBOR rate (1) of 1.88313% as of March 31, 2018, as applicable. Excludes the effect of amortization of debt issuance costs, discounts and the facility fee on the Revolver.

(2) Excludes unamortized debt issuance costs and discounts aggregating \$3.0 million as of March 31, 2018.

(3) One additional one-year extension is available, if certain conditions are satisfied.

As of March 31, 2018, this term loan has been effectively fixed at 3.816% through the use of two interest rate (4) swaps as follows: (i) \$30 million at 3.726% with an effective date of January 15, 2015 and (ii) \$28.7 million at 3.91% with an effective date of July 15, 2015.

The LIBOR margin will range from 1.20% to 1.70% for the \$100 Million Term Loan Facility, 1.10% to 1.50% for the Revolver and 1.20% to 1.70% for the \$225 million term loan facility depending on our leverage ratio, which is (5) the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value. This leverage ratio is measured on a quarterly basis, and as a result, the effective interest rate will fluctuate from period to period.

As of March 31, 2018, the \$100 Million Term Loan Facility has been effectively fixed at 1.8975% plus the applicable LIBOR margin through the use of two interest rate swaps as follows: (i) \$50 million with a strike rate of (6) 1.79% with an effective date of August 14, 2015, and (ii) \$50 million with a strike rate of 2.005% with an effective date of February 16, 2016. We have an interest rate swap that will effectively fix the \$100 Million Term Loan Facility at 1.764% plus an applicable LIBOR margin from December 14, 2018 (the expiration date of the current swap) through August 14, 2021.

The Revolver is subject to an applicable facility fee which is calculated as a percentage of the total lenders' (7) commitment amount, regardless of usage. The applicable facility fee will range from 0.15% to 0.30% depending upon our leverage ratio.

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

As of March 31, 2018, through the use of an interest rate swap, \$125 million of the \$225 million term loan facility (9) has been effectively fixed at 1.349% plus the applicable LIBOR margin from February 14, 2018 to January 14, 2022.

(10)

We have an interest rate swap that will effectively fix \$100 million of the \$225 million term loan facility at 1.406% plus an applicable LIBOR margin from August 14, 2018 through January 14, 2022.

The following table summarizes the composition of our consolidated debt between fixed-rate and variable-rate and secured and unsecured debt as of March 31, 2018:

	Average Term Remaining (in years)	Stated Interest Rate	Effective Interest Rate ⁽¹⁾	Principal Balance (in thousands) ⁽²⁾	% of Total
Fixed vs. Variable:					
Fixed					