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Equity Commonwealth
Form 10-Q
October 25, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2018
OR

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

Commission File Number 1-9317

EQUITY COMMONWEALTH

(Exact Name of Registrant as Specified in Its Charter)

Maryland

04-6558834

(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.)

Two North Riverside Plaza, Suite 2100, Chicago, IL 60606

(Address of Principal Executive Offices) (Zip Code)

(312) 646-2800

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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

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

Number of registrant's common shares of beneficial interest, \$0.01 par value per share, outstanding as of October 19, 2018: 121,482,673.

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EXPLANATORY NOTE

References in this Quarterly Report on Form 10-Q to the Company, EQC, we, us or our, refer to Equity Commonwealth and its consolidated subsidiaries as of September 30, 2018, unless the context indicates otherwise.

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PART I. Financial Information

Item 1. Financial Statements.

EQUITY COMMONWEALTH

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

(unaudited)

	September 30, 2018	December 31, 2017 (audited)
ASSETS		
Real estate properties:		
Land	\$ 137,329	\$ 191,775
Buildings and improvements	1,000,822	1,555,836
	1,138,151	1,747,611
Accumulated depreciation	(370,854)	(450,718)
	767,297	1,296,893
Assets held for sale	—	97,688
Acquired real estate leases, net	596	23,847
Cash and cash equivalents	2,673,328	2,351,693
Marketable securities	248,838	276,928
Restricted cash	9,708	8,897
Rents receivable, net of allowance for doubtful accounts of \$5,816 and \$4,771, respectively	50,103	93,436
Other assets, net	63,858	87,563
Total assets	\$ 3,813,728	\$ 4,236,945
LIABILITIES AND EQUITY		
Senior unsecured debt, net	\$ 248,258	\$ 815,984
Mortgage notes payable, net	31,643	32,594
Liabilities related to properties held for sale	—	1,840
Accounts payable, accrued expenses and other	46,896	74,956
Rent collected in advance	8,182	11,076
Distributions payable	309,238	—
Total liabilities	644,217	936,450
Shareholders' equity:		
Preferred shares of beneficial interest, \$0.01 par value: 50,000,000 shares authorized; Series D preferred shares; 6 1/2% cumulative convertible; 4,915,196 shares issued and outstanding, aggregate liquidation preference of \$122,880	119,263	119,263
Common shares of beneficial interest, \$0.01 par value: 350,000,000 shares authorized; 121,482,673 and 124,217,616 shares issued and outstanding, respectively	1,215	1,242
Additional paid in capital	4,306,020	4,380,313
Cumulative net income	2,855,557	2,596,259
Cumulative other comprehensive loss	(1,006)	(95)
Cumulative common distributions	(3,418,995)	(3,111,868)
Cumulative preferred distributions	(693,736)	(685,748)

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Total shareholders' equity	3,168,318	3,299,366
Noncontrolling interest	1,193	1,129
Total equity	3,169,511	3,300,495
Total liabilities and equity	\$ 3,813,728	\$ 4,236,945
See accompanying notes.		

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EQUITY COMMONWEALTH

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental income	\$34,138	\$61,091	\$112,898	\$215,648
Tenant reimbursements and other income	12,735	16,707	41,199	53,300
Total revenues	46,873	77,798	154,097	268,948
Expenses:				
Operating expenses	20,257	32,380	64,377	110,751
Depreciation and amortization	11,287	21,133	38,211	71,970
General and administrative	10,905	11,689	35,466	35,727
Loss on asset impairment	—	—	12,087	19,714
Total expenses	42,449	65,202	150,141	238,162
Operating income	4,424	12,596	3,956	30,786
Interest and other income, net	12,626	7,596	31,074	17,987
Interest expense (including net amortization of debt discounts, premiums and deferred financing fees of \$559, \$784, \$2,005 and \$2,346, respectively)	(5,085)	(11,510)	(21,550)	(41,387)
Loss on early extinguishment of debt	—	(203)	(6,403)	(266)
Gain on sale of properties, net	20,877	25,080	253,025	44,670
Income before income taxes	32,842	33,559	260,102	51,790
Income tax expense	(65)	(335)	(2,616)	(555)
Net income	32,777	33,224	257,486	51,235
Net income attributable to noncontrolling interest	(13)	(12)	(90)	(18)
Net income attributable to Equity Commonwealth	\$32,764	\$33,212	\$257,396	\$51,217
Preferred distributions	(1,997)	(1,997)	(5,991)	(5,991)
Net income attributable to Equity Commonwealth common shareholders	\$30,767	\$31,215	\$251,405	\$45,226
Weighted average common shares outstanding — basic	121,845	124,089	122,504	124,068
Weighted average common shares outstanding — diluted	122,851	125,175	123,389	125,194
Earnings per common share attributable to Equity Commonwealth common shareholders:				
Basic	\$0.25	\$0.25	\$2.05	\$0.36
Diluted	\$0.25	\$0.25	\$2.04	\$0.36
Distributions declared per common share	\$2.50	\$—	\$2.50	\$—

See accompanying notes.

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EQUITY COMMONWEALTH

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$32,777	\$33,224	\$257,486	\$51,235
Other comprehensive income (loss), net of tax:				
Unrealized (loss) gain on derivative instruments	—	(19)	456	(280)
Unrealized gain on marketable securities	463	1,455	535	3,159
Total comprehensive income	33,240	34,660	258,477	54,114
Comprehensive income attributable to the noncontrolling interest	(13)	(12)	(90)	(18)
Total comprehensive income attributable to Equity Commonwealth	\$33,227	\$34,648	\$258,387	\$54,096

See accompanying notes.

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EQUITY COMMONWEALTH

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(amounts in thousands, except share data)

(unaudited)

	Equity Commonwealth Shareholders									
	Preferred Shares Series D			Common Shares						
	Number of Shares	Preferred Shares	Cumulative Preferred Distributions	Number of Shares	Common Shares	Cumulative Common Distributions	Additional Paid in Capital	Cumulative Net Income	Cumulative Other Comprehensive Loss	Noncontrolling Interests
Balance at										
December 31, 2017	4,915,196	\$119,263	\$(685,748)	124,217,616	\$1,242	\$(3,111,868)	\$4,380,313	\$2,596,259	\$(95)	\$1,129
Reclassification pursuant to change in accounting principle	—	—	—	—	—	—	—	1,902	(1,902)	—
Net income	—	—	—	—	—	—	—	—	—	—