Section 1: 10-Q (FORM 10-Q)

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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, 2019

OR

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

For the transition period from _________ to _________

Commission File Number: 001-36409

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

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

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

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

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

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

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

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

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

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

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

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

The number of shares of Common Stock, $0.01 par value, of the registrant outstanding at April 30, 2019 was 39,635,793.

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City Office REIT, Inc.
Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2019

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except par value and share data)

	March 31, 2019	December 31, 2018
Assets		
Real estate properties		
Land	$ 224,837	$ 223,789
Building and improvement	735,403	704,113
Tenant improvement	81,960	77,426
Furniture, fixtures and equipment	270	319
	1,042,470	1,005,647
Accumulated depreciation	(78,263)	(70,484)
	964,207	935,163
Cash and cash equivalents	15,314	16,138
Restricted cash	21,713	17,007
Rents receivable, net	27,524	26,095
Deferred leasing costs, net	10,865	10,402
Acquired lease intangible assets, net	74,651	75,501
Other assets	14,419	2,755
Assets held for sale	15,932	17,370
Total Assets	$1,144,625	$ 1,100,431
Liabilities and Equity		
Liabilities:		
Debt	$ 694,989	$ 645,354
Accounts payable and accrued liabilities	23,408	25,892
Deferred rent	5,079	5,331
Tenant rent deposits	5,531	4,564
Acquired lease intangible liabilities, net	9,610	8,887
Other liabilities	19,352	11,148
Liabilities related to assets held for sale	270	878
Total Liabilities	758,239	702,054
Commitments and Contingencies (Note 9)		
Equity:		
6.625% Series A Preferred stock, $0.01 par value per share, 5,600,000 shares authorized, 4,480,000 issued and outstanding	112,000	112,000
Common stock, $0.01 par value, 100,000,000 shares authorized, 39,635,793 and 39,544,073 shares issued and outstanding	396	395
Additional paid-in capital	377,428	377,126
Accumulated deficit	(104,449)	(92,108)
Total Stockholders' Equity	385,375	397,413
Non-controlling interests in properties	1,011	964
Total Equity	386,386	398,377
Total Liabilities and Equity	$1,144,625	$ 1,100,431

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

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

(In thousands, except per share data)

	Three Months Ended March 31,	
	2019	**2018**
Rental and other revenues	$ 37,120	$ 31,534
Operating expenses:		
Property operating expenses	13,844	11,625
General and administrative	2,299	1,978
Depreciation and amortization	14,417	11,893
Total operating expenses	30,560	25,496
Operating income	6,560	6,038
Interest expense:		
Contractual interest expense	(7,143)	(5,188)
Amortization of deferred financing costs	(337)	(632)
	(7,480)	(5,820)
Net gain on sale of real estate property	—	46,980
Net (loss)/income	(920)	47,198
Less:		
Net income attributable to non-controlling interests in properties	(169)	(135)
Net (loss)/income attributable to the Company	(1,089)	47,063
Preferred stock distributions	(1,855)	(1,855)
Net (loss)/income attributable to common stockholders	$ (2,944)	$ 45,208
Net (loss)/income per common share:		
Basic	$ (0.07)	$ 1.25
Diluted	$ (0.07)	$ 1.24
Weighted average common shares outstanding:		
Basic	39,565	36,073
Diluted	39,565	36,432
Dividend distributions declared per common share	$ 0.235	$ 0.235

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

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

(In thousands)

	Number of shares of preferred stock	Preferred stock	Number of shares of common stock	Common stock	Additional paid-in capital	Accumulated deficit	Total stockholders' equity	Non-controlling interests in properties	Total equity
Balance - December 31, 2018	4,480	$ 112,000	39,544	$ 395	$ 377,126	$ (92,108)	$ 397,413	$ 964	$ 398,377
Restricted stock award grants and vesting	—	—	92	1	302	(83)	220	—	220
Common stock dividend distributions declared	—	—	—	—	—	(9,314)	(9,314)	—	(9,314)
Preferred stock dividend distributions declared	—	—	—	—	—	(1,855)	(1,855)	—	(1,855)
Contributions	—	—	—	—	—	—	—	12	12
Distributions	—	—	—	—	—	—	—	(134)	(134)
Net income	—	—	—	—	—	(1,089)	(1,089)	169	(920)
Balance - March 31, 2019	4,480	$ 112,000	39,636	$ 396	$ 377,428	$ (104,449)	$ 385,375	$ 1,011	$ 386,386

	Number of shares of preferred stock	Preferred stock	Number of shares of common stock	Common stock	Additional paid-in capital	Accumulated deficit	Total stockholders' equity	Non-controlling interests in properties	Total equity
Balance – December 31, 2017	4,480	$ 112,000	36,012	$ 360	$ 334,241	$ (86,977)	$ 359,624	$ 208	$ 359,832
Restricted stock award grants and vesting	—	—	120	1	356	(72)	285	—	285
Common stock dividend distributions declared	—	—	—	—	—	(8,491)	(8,491)	—	(8,491)
Preferred stock dividend distributions declared	—	—	—	—	—	(1,855)	(1,855)	—	(1,855)
Distributions	—	—	—	—	—	—	—	(29)	(29)
Net income	—	—	—	—	—	47,063	47,063	135	47,198
Balance - March 31, 2018	4,480	$ 112,000	36,132	$ 361	$ 334,597	$ (50,332)	$ 396,626	$ 314	$ 396,940

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

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

(In thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash Flows from Operating Activities:		
Net (loss)/income	$ (920)	$ 47,198
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	14,417	11,893
Amortization of deferred financing costs	337	632
Amortization of above/below market leases	(27)	(200)
Increase in straight-line rent/expense	(1,454)	(844)
Non-cash stock compensation	444	350
Net gain on sale of real estate property	—	(46,980)
Changes in non-cash working capital:		
Rents receivable, net	(225)	322
Other assets	(1,710)	(1,741)
Accounts payable and accrued liabilities	(7,506)	(6,890)
Deferred rent	(485)	(2,124)
Tenant rent deposits	(45)	189
Net Cash Provided By Operating Activities	2,826	1,805
Cash Flows (to)/from Investing Activities:		
Additions to real estate properties	(2,292)	(2,753)
Acquisition of real estate	(51,070)	—
Net proceeds from sale of real estate	17,426	84,839
Deferred leasing costs	(811)	(1,071)
Net Cash (Used In)/Provided By Investing Activities	(36,747)	81,015
Cash Flows from/(to) Financing Activities:		
Debt issuance and extinguishment costs	(516)	(1,896)
Proceeds from mortgage loans payable	40,950	—
Repayment of mortgage loans payable	(1,137)	(33,134)
Proceeds from credit facility	35,000	18,500
Repayment of credit facility	(25,000)	(52,000)
Shares withheld for payment of taxes on restricted stock unit vesting	(224)	(64)
Contributions from non-controlling interests in properties	12	—
Distributions to non-controlling interests in properties	(134)	(29)
Dividend distributions paid to stockholders and Operating Partnership unitholders	(11,148)	(10,318)
Net Cash Provided By/(Used In) Financing Activities	37,803	(78,941)
Net Increase in Cash, Cash Equivalents and Restricted Cash	3,882	3,879
Cash, Cash Equivalents and Restricted Cash, Beginning of Period	33,145	35,014
Cash, Cash Equivalents and Restricted Cash, End of Period	$ 37,027	$ 38,893
Reconciliation of Cash, Cash Equivalents and Restricted Cash:		
Cash and Cash Equivalents, End of Period	15,314	18,509
Restricted Cash, End of Period	21,713	20,384
Cash, Cash Equivalents and Restricted Cash, End of Period	$ 37,027	$ 38,893
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 6,679	$ 5,607
Purchases of additions in real estate properties included in accounts payable	$ 4,161	$ 3,503
Purchases of deferred leasing costs included in accounts payable	$ 192	$ 147

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

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

1. Organization and Description of Business

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

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

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

2. Summary of Significant Accounting Policies

Basis of Preparation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with Securities and Exchange Commission rules and regulations and generally accepted accounting principles in the United States of America ("US GAAP") and in the opinion of management contain all adjustments (including normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

New Accounting Pronouncements

Adopted in the Current Year

In February 2016, the Financial Accounting Standards Board, or FASB, established Topic 842, Leases, by issuing Accounting Standards Update ("ASU") No. 2016-02, which requires lessors to classify leases as a sales-type, direct financing, or operating lease and requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements.

The Company adopted the new standard effective January 1, 2019 and elected the effective date method for the transition. The Company elected the following practical expedients:

- Transition method practical expedient – permits the Company to use the effective date as the date of initial application. Upon adoption, the Company did not have a cumulative-effect adjustment to the opening balance of retained earnings. Financial information and disclosures for periods before January 1, 2019 were not updated.

- Package of practical expedients – permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs. This allowed the Company to continue classifying its leases at transition in substantially the same manner.
- Single component practical expedient – permits the Company to not separate lease and non-lease components of leases. Upon transition, rental income, expense reimbursement, and other were aggregated into a single line within rental and other revenues on the condensed consolidated statement of operations.
- Land easement practical expedient – permits the Company not to reassess under the new standard its prior conclusions about land easements.
- Short-term lease practical expedient – permits the Company not to recognize leases with a term equal to or less than 12 months.

Lessor Accounting

The accounting for lessors under the new standard remained relatively unchanged with a few targeted updates impacting the Company, which included: (i) narrower definition of initial direct costs that requires certain costs to be expensed rather than capitalized, and (ii) provisions for uncollectible rents to be recorded as a reduction in revenue rather than as bad debt expense.

Lessee Accounting

The new standard requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating at inception, with classification affecting the pattern and recording of expenses in the statement of operations. Upon transition the Company recognized right-of use assets and lease liabilities principally for its ground and office leases.

3. Real Estate Investments

Acquisitions

The following table summarizes the Company's allocation of the purchase price of assets acquired and liabilities assumed during the three months ended March 31, 2019 (in thousands):

	Canyon Park
Land	$ 7,098
Buildings and improvements	36,619
Tenant improvements	1,797
Acquired intangible assets	8,109
Prepaid expenses and other assets	10
Accounts payable and other liabilities	(1,266)
Lease intangible liabilities	(1,297)
Total consideration	**$ 51,070**

Sale of Real Estate Property

On February 7, 2019, the Company sold the Plaza 25 property in Denver, Colorado for $17.9 million. No gain or loss was recognized on the sale as the property was carried at fair value less cost to sell on the date of disposition.

On March 8, 2018, the Company sold the Washington Group Plaza property in Boise, Idaho for $86.5 million, resulting in an aggregate net gain of $47.0 million, net of $1.7 million in costs, which has been classified as net gain on sale of real estate property in the condensed consolidated statements of operations. In connection with the sale of the property, certain debt repayments were made.

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Assets Held for Sale

On February 27, 2019, the Company entered into a Purchase and Sale agreement to sell the 10455 Pacific Center Court building of the Sorrento Mesa property for $16.5 million. The Company determined that the property met the criteria for classification as held for sale as of March 31, 2019. The transaction is anticipated to close in the second quarter of 2019, subject to customary closing conditions. As of March 31, 2019, a $1.0 million non-refundable deposit has been received.

The property has been classified as held for sale as of March 31, 2019 (in thousands):

March 31, 2019	10455 Pacific Center Court
Real estate properties, net	$ 14,231
Acquired lease intangible assets, net	1,350
Rents receivable, prepaid expenses and other assets	351
Assets held for sale	$ 15,932
Accounts payable, accrued expenses, deferred rent and tenant rent deposits	(270)
Liabilities related to assets held for sale	$ (270)

4. Lease Intangibles

Lease intangibles and the value of assumed lease obligations as of March 31, 2019 and December 31, 2018 were comprised as follows (in thousands):

	Lease Intangible Assets					Lease Intangible Liabilities		
March 31, 2019	Above Market Leases	Below Market Ground Lease(1)	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease(1)	Total
Cost	$11,319	$ —	$ 85,219	$ 34,526	$131,064	$ (14,222)	$ (138)	$ (14,360)
Accumulated amortization	(5,292)	—	(37,903)	(13,218)	(56,413)	4,713	37	4,750
	$ 6,027	$ —	$ 47,316	$ 21,308	$ 74,651	$ (9,509)	$ (101)	$ (9,610)

	Lease Intangible Assets					Lease Intangible Liabilities		
December 31, 2018	Above Market Leases	Below Market Ground Lease(1)	In Place Leases	Leasing Commissions	Total	Below Market Leases	Below Market Ground Lease(1)	Total
Cost	$10,595	$ 1,855	$ 82,474	$ 31,706	$126,630	$ (12,925)	$ (138)	$ (13,063)
Accumulated amortization	(4,800)	(19)	(34,273)	(12,037)	(51,129)	4,140	36	4,176
	$ 5,795	$ 1,836	$ 48,201	$ 19,669	$ 75,501	$ (8,785)	$ (102)	$ (8,887)

(1) For the below market ground lease asset the Company is the lessee, whereas, for the below market ground lease liability the Company is the lessor. Upon the adoption of Topic 842 on January 1, 2019, the Company derecognized the below market ground lease intangible asset related to one of its lessee ground leases and included the net carrying value of the intangible asset within the right-of-use asset recognized upon transition to the new standard.

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

2019	$14,962
2020	17,692
2021	14,416
2022	6,652
2023	3,789
Thereafter	7,530
	$65,041

5. Debt

The following table summarizes the indebtedness as of March 31, 2019 and December 31, 2018 (dollars in thousands):

Property	March 31, 2019	December 31, 2018	Interest Rate as of March 31, 2019(1)	Maturity
Unsecured Credit Facility (2)	$ 157,500	$ 147,500	LIBOR +1.60%(3)	March 2022
Midland Life Insurance (4)	86,560	86,973	4.34	May 2021
Mission City	47,000	47,000	3.78	November 2027
190 Office Center	41,250	41,250	4.79	October 2025
Canyon Park (5)	40,950	—	4.30	March 2027
Circle Point	39,650	39,650	4.49	September 2028
SanTan	34,492	34,682	4.56	March 2027
Intellicenter	33,350	33,481	4.65	October 2025
The Quad	30,600	30,600	4.20	September 2028
FRP Collection	29,439	29,589	3.85	September 2023
2525 McKinnon	27,000	27,000	4.24	April 2027
Greenwood Blvd	22,425	22,425	4.60	December 2025
5090 N 40th St	22,000	22,000	3.92	January 2027
AmberGlen	20,000	20,000	3.69	May 2027
Lake Vista Pointe	17,963	18,044	4.28	August 2024
Central Fairwinds	17,798	17,882	4.00	June 2024
FRP Ingenuity Drive	17,000	17,000	4.44	December 2024
Carillon Point	16,242	16,330	3.50	October 2023
Total Principal	701,219	651,406		
Deferred financing costs, net	(6,230)	(6,052)		
Total	$ 694,989	$ 645,354		

(1) All interest rates are fixed interest rates with the exception of the unsecured credit facility (“Unsecured Credit Facility”) as explained in footnote 2 below.

(2) As of March 31, 2019, the Unsecured Credit Facility had $250 million authorized with $157.5 million drawn and a $5.3 million letter of credit to satisfy escrow requirements for a mortgage lender. On March 15, 2018, the Company entered into a $250 million Unsecured Credit Facility which includes an accordion feature that will permit the Company to borrow up to $500 million, subject to customary terms and conditions. The Unsecured Credit Facility matures in March 2022, which may be extended to March 2023 at the Company’s option upon meeting certain conditions. Borrowings under the Unsecured Credit Facility will bear an interest at a rate equal to the LIBOR rate plus a margin of between 140 to 225 basis points depending upon the Company’s consolidated leverage ratio. The Unsecured Credit Facility requires the Company to maintain a fixed charge coverage ratio of no less than 1.50x.

(3) As of March 31, 2019, the one month LIBOR rate was 2.49%.

(4) The mortgage loan is cross-collateralized by DTC Crossroads, Cherry Creek and City Center.

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

The scheduled principal repayments of debt as of March 31, 2019 are as follows (in thousands):

2019	$ 3,712
2020	5,834
2021	88,754
2022	163,277
2023	47,415
Thereafter	392,227
	$701,219

6. Fair Value of Financial Instruments

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

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

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

Level 3 Inputs – unobservable inputs

As of March 31, 2019 and December 31, 2018, the Company did not have any hedges or derivatives.

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

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

Fair Value of Financial Instruments Not Carried at Fair Value

With the exception of fixed rate mortgage loans payable, the carrying amounts of the Company's financial instruments approximate their fair value. The Company determines the fair value of its fixed rate mortgage loan payable based on a discounted cash flow analysis using a discount rate that approximates the current borrowing rates for instruments of similar maturities. Based on this, the Company has determined that the fair value of these instruments was $548.0 million and $503.3 million as of March 31, 2019 and December 31, 2018, respectively. Accordingly, the fair value of mortgage loans payable have been classified as Level 3 fair value measurements.

7. Related Party Transactions

Administrative Services Agreement

For the three months ended March 31, 2019 and 2018, the Company earned $0.1 million and $0.2 million, respectively, in administrative services performed for Second City Real Estate II Corporation and its affiliates ("Second City").

8. Leases

Lessor Accounting

The Company is focused on acquiring, owning and operating high-quality office properties for lease to a stable and diverse tenant base. Our properties have both full-service gross and net leases which are generally classified as operating leases. Rental income related to such leases is recognized on a straight-line basis over the remaining lease term. The Company's total revenue includes fixed base rental payments provided under the lease and variable payments which principally consist of tenant expense reimbursements for certain property operating expenses. The Company elected the practical expedient to account for its lease and non-lease components as a single combined operating lease component under the new leasing standard. As a result, rental income, expense reimbursement, and other were aggregated into a single line within rental and other revenues on the condensed consolidated statement of operations.

For the three months ended March 31, 2019, the Company recognized $37.1 million of rental and other revenue related to its operating leases (in thousands):

Fixed payments	$ 32,199
Variable payments	4,880
	$ 37,079

Future minimum lease payments to be received by the Company as of March 31, 2019 under non-cancellable operating leases for the next five years and thereafter are as follows (in thousands):

2019	$ 86,919
2020	108,063
2021	97,491
2022	79,821
2023	61,816
Thereafter	136,400
	$570,510

The Company's leases may include various provisions such as scheduled rent increases, renewal options and termination options. The majority of the Company's leases include defined rent increase rather than variable payments based on an index or unknown rate. Nine state government tenants currently have the exercisable right to terminate their leases if the applicable state legislature does not appropriate rent in its annual budget. The Company has determined that the occurrence of any government tenant not being appropriated the rent in the applicable annual budget is a remote contingency and accordingly recognizes lease revenue on a straight-line basis over the respective lease term. These tenants represent approximately 8.1% of the Company's total future minimum lease payments as of March 31, 2019.

Lessee Accounting

As a lessee, the Company has ground and office leases which were classified as operating leases. Upon adoption of Topic 842, on January 1, 2019 the Company recognized right-of-use assets of $9.2 million and lease liabilities of $7.2 million. The difference between the recorded right-of-use assets and lease liabilities is mainly due to the reclassification of the below market ground lease intangible asset which was included within the right-of-use assets recognized upon transition. As of March 31, 2019, these leases had remaining terms of 2 to 70 years and a weighted average remaining lease term of 57 years. Operating right-of-use assets and lease liabilities have been included within other assets and other liabilities on the Company's condensed consolidated balance sheet as follows (in thousands):

	March 31, 2019
Right-of-use asset – operating leases	$ 10,256
Lease liability – operating leases	$ 8,183

Operating lease liabilities are measured at the commencement date based on the present value of future lease payments. One of the Company's operating ground lease includes rental payment increases over the lease term based on increases in the Consumer Price Index ("CPI"). Changes in the CPI were not estimated as part of the measurement of the operating lease liability. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. The Company used a weighted average discount rate of 6.31% in determining its lease liabilities. The discount rates were derived from the Company's assessment of the credit quality of the Company and adjusted to reflect secured borrowing, estimated yield curves and long-term spread adjustments.

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

Operating lease expense for the three months ended March 31, 2019 was $0.2 million.

Future minimum lease payments to be paid by the Company as a lessee for operating leases as of March 31, 2019 for the next five years and thereafter are as follows (in thousands):

2019	$ 360
2020	782
2021	781
2022	741
2023	659
Thereafter	27,277
Total future minimum lease payments	30,600
Discount	(22,417)
Total	$ 8,183

9. Commitments and Contingencies

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

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

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

The Company is involved from time to time in lawsuits and other disputes which arise in the ordinary course of business. As of March 31, 2019 management believes that these matters will not have a material adverse effect, individually or in the aggregate, on the Company's financial position or results of operations.

10. Stockholders' Equity

Common Stock and Common Unit Distributions

On March 15, 2019, the Company's Board of Directors approved and the Company declared a cash dividend distribution of $0.235 per share for the quarterly period ended March 31, 2019. The dividend was paid subsequent to quarter end on April 25, 2019 to common stockholders and common unitholders of record as of the close of business on April 11, 2019, resulting in an aggregate payment of $9.3 million.

Preferred Stock Distributions

On March 15, 2019 the Company's Board of Directors approved and the Company declared a cash dividend of $0.4140625 per share for an aggregate amount of $1.9 million for the quarterly period ended March 31, 2019. The dividend was paid subsequent to quarter end on April 25, 2019 to preferred stockholders of record as of the close of business on April 11, 2019.

Restricted Stock Units

The Company has an equity incentive plan ("Equity Incentive Plan") for executive officers, directors and certain non-executive employees, and with approval of the Board of Directors, for subsidiaries and their respective affiliates. The Equity Incentive Plan provides for grants of restricted common stock, restricted stock units, phantom shares, stock options, dividend equivalent rights and other equity-based awards (including LTIP Units), subject to the total number of shares available for issuance under the plan. The Equity Incentive Plan is administered by the compensation committee of the Board of Directors (the "Plan Administrator").

On May 2, 2019, the Company's stockholders approved an amendment to the Equity Incentive Plan increasing the maximum number of shares of common stock that may be issued under the Equity Incentive Plan from 1,263,580 shares to 2,263,580 shares. To the extent an award granted under the Equity Incentive Plan expires or terminates, the shares subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards.

During the three months ended March 31, 2019, 162,500 restricted stock units ("RSUs") were granted to executive officers, directors and certain non-executive employees with a fair value of $1.8 million. The awards will vest in three equal, annual installments on each of the first three anniversaries of the date of grant. For the three months ended March 31, 2019 the Company recognized net compensation expense of $0.4 million related to the RSUs.

A RSU award represents the right to receive shares of the Company's common stock in the future, after the applicable vesting criteria, determined by the Plan Administrator, has been satisfied. The holder of an award of RSU has no rights as a stockholder until shares of common stock are issued in settlement of vested RSUs. The Plan Administrator may provide for a grant of dividend equivalent rights in connection with the grant of RSU; provided, however, that if the RSUs do not vest solely upon satisfaction of continued employment or service, any payment in respect to the related dividend equivalent rights will be held by the Company and paid when, and only to the extent that, the related RSU vests.

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

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

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

Cautionary Statement Regarding Forward-Looking Statements

This quarterly report on Form 10-Q, including "Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition," contains both historical and forward-looking statements. All statements, other than statements of historical fact are, or may be deemed to be, forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward looking statements are not based on historical facts, but rather reflect our current expectations and projections about our future results, performance, prospects and opportunities. These forward looking statements may be identified by the use of words including "anticipate," "believe," "expect," "intend," "may," "might," "plan," "estimate," "project," "should," "will," "result" and similar terms and phrases. These forward looking statements are subject to a number of known and unknown risks, uncertainties and other factors that are difficult to predict and which could cause our actual future results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. These risks, uncertainties and other factors include, among others:

- adverse economic or real estate developments in the office sector or the markets in which we operate;
- changes in local, regional, national and international economic conditions;
- our inability to compete effectively;
- our inability to collect rent from tenants or renew tenants' leases on attractive terms if at all;
- demand for and market acceptance of our properties for rental purposes;
- defaults on or non-renewal of leases by tenants;
- increased interest rates and any resulting increase in financing or operating costs;
- decreased rental rates or increased vacancy rates;
- our failure to obtain necessary financing or access the capital markets on favorable terms or at all;
- changes in the availability of acquisition opportunities;
- availability of qualified personnel;
- our inability to successfully complete real estate acquisitions or dispositions on the terms and timing we expect, or at all;
- our failure to successfully operate acquired properties and operations;
- changes in our business, financing or investment strategy or the markets in which we operate;

- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- our failure to qualify and maintain our status as a real estate investment trust ("REIT");
- government approvals, actions and initiatives, including the need for compliance with environmental requirements;
- outcome of claims and litigation involving or affecting us;
- financial market fluctuations;
- changes in real estate, taxation and zoning laws and other legislation and government activity and changes to real property tax rates and the taxation of REITs in general; and
- other factors described in our news releases and filings with the Securities and Exchange Commission (the "SEC"), including but not limited to those described in our Annual Report on Form 10-K for the year ended December 31, 2018 under the heading "Risk Factors" and in our subsequent reports filed with the SEC.

The forward looking statements included in this report are made only as of the date of this report, and except as otherwise required by federal securities law, we do not have any obligation to publicly update or revise any forward looking statements to reflect subsequent events or circumstances.

Overview

Company

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

Revenue Base

As of March 31, 2019, we owned 26 properties comprised of 64 office buildings with a total of approximately 5.7 million square feet of net rentable area ("NRA"). As of March 31, 2019, our properties were approximately 92.6% leased.

Office Leases

Historically, most leases for our properties were on a full-service gross or net lease basis, and we expect to continue to use such leases in the future. A full-service gross lease generally has a base year expense "stop", whereby we pay a stated amount of expenses as part of the rent payment while future increases (above the base year stop) in property operating expenses are billed to the tenant based on such tenant's proportionate square footage in the property. The property operating expenses are reflected in operating expenses; however, only the increased property operating expenses above the base year stop recovered from tenants are reflected as tenant recoveries in our statements of operations. In a triple net lease, the tenant is typically responsible for all property taxes and operating expenses. As such, the base rent payment does not include any operating expenses, but rather all such expenses are billed to or paid by the tenant. The full amount of the expenses for this lease type is reflected in operating expenses, and the reimbursement is reflected in tenant recoveries. All tenants in our Lake Vista Pointe, FRP Ingenuity Drive, Sorrento Mesa, Superior Pointe, and Canyon Park properties have triple net leases. Certain tenants at AmberGlen, FRP Collection, 2525 McKinnon, Circle Point and The Quad have leases on a triple net basis. We are also a lessor for a fee simple ground lease at the AmberGlen property. All of our remaining leases are full-service gross leases.

Factors That May Influence Our Operating Results and Financial Condition

Business and Strategy

We focus on owning and acquiring office properties in our target markets. Our target markets generally possess what we believe are favorable economic growth trends, growing populations with above-average employment growth forecasts, a large number of government offices, large international, national and regional employers across diversified industries, are generally low-cost centers for business operations, and exhibit favorable occupancy trends. We utilize our management's market-specific knowledge and relationships as well as the expertise of local real estate operators and our investment partners to identify acquisition opportunities that we believe will offer cash flow stability and long-term value appreciation. Our target markets are attractive, among other reasons, because we believe that ownership is often concentrated among local real estate operators that typically do not benefit from the same access to capital as public REITs and there is a relatively low level of participation of large institutional investors. We believe that these factors result in attractive pricing levels and risk-adjusted returns.

Rental Revenue and Tenant Recoveries

The amount of net rental revenue generated by our properties will depend principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space that becomes available from lease terminations. The amount of rental revenue generated also depends on our ability to maintain or increase rental rates at our properties. We believe that the average rental rates for our portfolio of properties are generally in-line or slightly below the current average quoted market rates. Negative trends in one or more of these factors could adversely affect our rental revenue in future periods. Future economic downturns or regional downturns affecting our markets or submarkets or downturns in our tenants' industries that impair our ability to renew or re-let space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties. In addition, growth in rental revenue will also partially depend on our ability to acquire additional properties that meet our investment criteria.

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Our Properties

As of March 31, 2019, we owned 26 office complexes comprised of 64 office buildings with a total of approximately 5.7 million square feet of NRA in the metropolitan areas of Dallas, Denver, Orlando, Phoenix, Portland, San Diego, Seattle and Tampa. The following table presents an overview of our portfolio as of March 31, 2019 (properties listed by descending NRA by market).

Metropolitan Area	Property	Economic Interest	NRA (000s Square Feet)	In Place Occupancy	Annualized Base Rent per Square Foot	Annualized Gross Rent per Square Foot(1)	Annualized Base Rent(2) ($000s)
Phoenix, AZ	Pima Center	100.0%	272	96.5%	$ 27.14	$ 27.14	$ 7,119
(21.4% of NRA)	SanTan	100.0%	267	98.6%	$ 27.35	$ 27.35	$ 7,187
	5090 N 40th St	100.0%	175	95.8%	$ 28.89	$ 28.89	$ 4,837
	Camelback Square	100.0%	173	81.1%	$ 29.17	$ 29.17	$ 4,097
	The Quad	100.0%	163	100.0%	$ 27.98	$ 28.23	$ 4,561
	Papago Tech	100.0%	163	100.0%	$ 21.33	$ 21.33	$ 3,471
Denver, CO	Cherry Creek	100.0%	356	100.0%	$ 18.53	$ 18.53	$ 6,591
(18.4%)	Circle Point	100.0%	272	98.8%	$ 17.43	$ 30.33	$ 4,684
	DTC Crossroads	100.0%	189	53.7%	$ 26.24	$ 26.24	$ 2,665
	Superior Pointe	100.0%	151	92.8%	$ 17.27	$ 29.27	$ 2,420
	Logan Tower	100.0%	71	80.1%	$ 20.88	$ 20.88	$ 1,192
Tampa, FL	Park Tower	94.8%	471	91.9%	$ 24.34	$ 24.34	$ 10,521
(18.4%)	City Center	95.0%	241	94.9%	$ 25.47	$ 25.47	$ 5,833
	Intellicenter	100.0%	204	100.0%	$ 23.44	$ 23.44	$ 4,771
	Carillon Point	100.0%	124	100.0%	$ 27.65	$ 27.65	$ 3,434
Orlando, FL	FRP Collection	95.0%	272	87.9%	$ 24.30	$ 26.53	$ 5,802
(12.7%)	Central Fairwinds	97.0%	168	91.1%	$ 24.77	$ 24.77	$ 3,795
	Greenwood Blvd	100.0%	155	100.0%	$ 22.75	$ 22.75	$ 3,527
	FRP Ingenuity Drive	100.0%	125	100.0%	$ 21.50	$ 29.50	$ 2,677
San Diego, CA	Sorrento Mesa	100.0%	296	85.3%	$ 25.02	$ 31.02	$ 6,318
(10.3%)	Mission City	100.0%	286	94.4%	$ 34.90	$ 34.90	$ 9,416
Dallas, TX	190 Office Center	100.0%	303	89.5%	$ 25.05	$ 25.05	$ 6,801
(10.2%)	Lake Vista Pointe	100.0%	163	100.0%	$ 15.50	$ 23.50	$ 2,532
	2525 McKinnon	100.0%	111	96.5%	$ 27.47	$ 43.76	$ 2,952
Seattle, WA (3.6%)	Canyon Park	100.0%	207	100.0%	$ 21.20	$ 29.20	$ 4,384
Portland, OR (3.5%)	AmberGlen	76.0%	201	96.9%	$ 21.09	$ 23.68	$ 4,110
Total / Weighted Average – Excluding Assets Held for Sale (3)			**5,579**	**93.4%**	**$ 24.13**	**$ 26.71**	**$ 125,697**
San Diego, CA (1.5%)	Sorrento Mesa – 10455	100.0%	89	45.8%	$ 22.11	$ 28.11	$ 897
Total / Weighted Average – March 31, 2019 (3)			**5,668**	**92.6%**	**$ 24.12**	**$ 26.72**	**$ 126,594**

(1) For Superior Pointe, FRP Ingenuity Drive, Lake Vista Pointe, Sorrento Mesa, and Canyon Park the annualized base rent per square foot on a triple net basis was increased by $12, $8, $8, $6, and $8 respectively, to estimate a gross equivalent base rent. AmberGlen has a net lease for one tenant which has been grossed up by $7 on a pro rata basis. FRP Collection has net leases for five tenants which have been grossed up by $9 on a pro-rata basis. 2525 McKinnon has net leases for nine tenants which have been grossed up by $17 on a pro-rata basis. Circle Point has net leases for fourteen tenants which have been grossed up by $13 on a pro-rata basis. The Quad has one tenant with a net lease, which has been grossed up by $8 on a pro-rata basis.

(2) Annualized base rent is calculated by multiplying (i) rental payments (defined as cash rents before abatements) for the month ended March 31, 2019 by (ii) 12.

(3) Averages weighted based on the property's NRA, adjusted for occupancy

Operating Expenses

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

Conditions in Our Markets

Positive or negative changes in economic or other conditions in the markets we operate in, including state budgetary shortfalls, employment rates, natural hazards and other factors, may impact our overall performance.

Summary of Significant Accounting Policies

The interim condensed consolidated financial statements follow the same policies and procedures as outlined in the audited consolidated financial statements for the year ended December 31, 2018 included in our Annual Report on Form 10-K for the year ended December 31, 2018 except for the adoption of Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) as outlined in Note 2 of the condensed consolidated financial statements.

Results of Operations

Comparison of Three Months Ended March 31, 2019 to Three Months Ended March 31, 2018

Rental and Other Revenues. Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Rental and other revenues increased $5.6 million, or 18%, to $37.1 million for the three months ended March 31, 2019 compared to $31.5 million for the three months ended March 31, 2018. Of this increase, $1.8 million was attributable to the acquisition of Pima Center in April 2018, $2.0 million from the acquisition of Circle Point in July 2018, $1.4 million from the acquisition of The Quad in July 2018, $1.2 million from the acquisition of Greenwood Blvd in December 2018, $1.2 million from the acquisition of Camelback Square in December 2018 and $0.6 million from the acquisition of Canyon Park in February 2019. Revenue from Central Fairwinds, Park Tower and FRP Collection also increased by $0.3 million, $0.3 million and $0.1 million, respectively, as a result of increased average occupancy over the prior year. Offsetting these increases, Washington Group Plaza decreased by $1.7 million due to the sale of the property in March 2018 and Plaza 25 decreased by $0.4 million due to the sale of the property in February 2019. Revenue from DTC Crossroads decreased $0.3 million as a result of decreased occupancy over the prior year and Sorrento Mesa also decreased by $1.1 million as a result of the termination fee payment received in the prior year. The remaining properties' revenues were modestly higher in comparison to the prior year primarily as a result of modest mark-to-market increases in rents upon renewal. Upon adoption of Topic 842, prior year amounts disclosed in rental income, expense reimbursement, and other have been combined into a single line to conform to current period presentation.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, general and administrative expenses and depreciation and amortization. Total operating expenses increased by $5.1 million, or 20%, to $30.6 million for the three months ended March 31, 2019, from $25.5 million for the same period in 2018, primarily due to acquisitions described above. Total operating expenses increased by $1.8 million, $2.0 million, $0.9 million, $0.7 million, $1.0 million and $0.3 million, respectively, from the acquisitions of Pima Center, Circle Point, The Quad, Greenwood Blvd, Camelback Square and Canyon Park properties. Washington Group Plaza operating expenses decreased by $0.8 million due to its sale in March 2018 and Plaza 25 operating expenses decreased by $0.6 million due to its sale in February 2019. The remaining operating expenses were relatively unchanged in comparison to the prior year.

Property Operating Expenses. Property operating expenses are comprised mainly of building common area and maintenance expenses, insurance, property taxes, property management fees, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and re-leasing costs. Property operating expenses increased $2.2 million, or 19%, to $13.8 million for the three months ended March 31, 2019 from $11.6 million for the same period in 2018. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisition of the Pima Center, Circle Point, The Quad, Greenwood Blvd, Camelback Square and Canyon Park contributed an additional $0.6 million, $1.0 million, $0.4 million, $0.4 million, $0.3 million and $0.1 million in additional property operating expenses, respectively. Washington Group Plaza decreased by $0.8 million due to the sale of that property in March 2018 and Plaza 25 decreased by $0.2 million due to the sale of that property in February 2019. The remaining property operating expenses aggregate to an overall $0.4 million increase in comparison to the prior year.

General and Administrative. General and administrative expenses are comprised of public company reporting costs and the compensation of our management team and board of directors as well as non-cash stock-based compensation expenses. General and administrative expenses increased $0.3 million, or 16%, to $2.3 million for the three months ended March 31, 2019 compared to $2.0 million for the same period in 2018. The increase was primarily attributable to higher payroll costs.

Depreciation and Amortization. Depreciation and amortization increased $2.5 million, or 21%, to $14.4 million for the year ended March 31, 2019 compared to $11.9 million for the same period in 2018, primarily due to the addition of the Papago Tech, Pima Center, Circle Point, The Quad, Greenwood Blvd, Camelback Square and Canyon Park properties offset by a decrease at Washington Group Plaza and Plaza 25 due to the sale of those properties.

Other Expense (Income)

Interest Expense. Interest expense increased $1.7 million, or 29%, to $7.5 million for the three months ended March 31, 2019, compared to $5.8 million for the corresponding period in 2018. The increase was primarily due to interest expense related to acquisitions. Interest expense for the Circle Point, The Quad, Greenwood Blvd and Canyon Park property level debt increased by $0.5 million, $0.3 million, $0.3 million and $0.1 million, respectively, and the interest on the line of credit increased by $0.9 million as a result of acquisitions funded by our $250 million Unsecured Credit Facility (“Unsecured Credit Facility”). These increases were offset by a $0.2 million and $0.2 million, respective decrease in the Washington Group Plaza and Plaza 25 debt as a result of the sale of those properties and the extinguishment of its property level debt.

Cash Flows

Comparison of Three Months Ended March 31, 2019 to Three Months Ended March 31, 2018

Cash, cash equivalents and restricted cash were $37.0 million and $38.9 million as of March 31, 2019 and March 31, 2018, respectively.

Cash flow from operating activities. Net cash provided by operating activities increased by $1.0 million to $2.8 million for the three months ended March 31, 2019 compared to $1.8 million for the same period in 2018. The increase was primarily attributable to increased operating cash flows from acquisitions.

Cash flow to investing activities. Net cash used in investing activities increased by $117.7 million to $36.7 million for the three months ended March 31, 2019 compared to $81.0 million provided by investing activities for the same period in 2018. The increase in cash used in investing activities was primarily due to the acquisition of Canyon Park in the first quarter 2019. Additionally, we realized lower proceeds from the sale of real estate in the first quarter 2019 compared to the first quarter 2018, which included proceeds from the sale of Washington Group Plaza in 2018.

Cash flow from financing activities. Net cash provided by financing activities increased by $116.7 million to $37.8 million for the three months ended March 31, 2019 compared to $78.9 million used in financing activities in the same period in 2018. Cash flow provided by financing activities increased primarily due to higher net proceeds from mortgage loans and credit facility borrowings in 2019 compared to 2018.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

We had approximately $15.3 million of cash and cash equivalents and $21.7 million of restricted cash as of March 31, 2019.

On March 15, 2018 the Company entered into a $250 million Unsecured Credit Facility, which includes an accordion feature that allows the Company to borrow up to $500 million, subject to customary terms and conditions. The Company's previous secured credit facility was replaced and repaid in full from the proceeds of our Unsecured Credit Facility. Our Unsecured Credit Facility matures in March 2022, which may be extended to March 2023 at the Company's option upon meeting certain conditions. Borrowings under our Unsecured Credit Facility bear an interest at a rate equal to the LIBOR rate plus a margin of between 140 to 225 basis points depending upon the Company's consolidated leverage ratio. As of March 31, 2019, we had approximately $157.5 million outstanding under our Unsecured Credit Facility and a $5.3 million letter of credit to satisfy escrow requirements for a mortgage lender.

The Company and the Operating Partnership previously entered into the equity distribution agreements (collectively, the "EDAs") with the sales agents named therein (collectively, the "Sales Agents"), pursuant to which the Company may issue and sell from time to time up to 6,000,000 shares of common stock and up to 1,000,000 shares of Series A Preferred Stock through the Sales Agents, acting as agents or principals. Pursuant to the EDAs, the shares may be offered and sold through the Sales Agents in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act, including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange or, with the prior consent of the Company, in privately negotiated transactions. The Sales Agents will be entitled to compensation of up to 2.0% of the gross proceeds of shares sold through the Sales Agents from time to time under the EDAs. The Company has no obligation to sell any of the shares under the EDAs and may at any time suspend solicitations and offers under, or terminate, the EDAs.

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

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

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

Contractual Obligations and Other Long-Term Liabilities

The following table provides information with respect to our commitments as of March 31, 2019, including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extension options.

Contractual Obligations	Payments Due by Period (in thousands) Total	2019	2020-2021	2022-2023	More than 5 years
Principal payments on mortgage loans	$701,219	$ 3,712	$ 94,588	$210,692	$392,227
Interest payments (1)	165,881	22,255	56,519	38,745	48,362
Tenant-related commitments	13,583	12,468	516	599	—
Operating lease obligations	30,600	360	1,563	1,400	27,277
Total	$911,283	$38,795	$ 153,186	$251,436	$467,866

(1) Contracted interest on the floating rate debt was calculated based on our Unsecured Credit Facility balance and interest rate at March 31, 2019.

Off-Balance Sheet Arrangements

As of March 31, 2019, we had a $5.3 million letter of credit outstanding under our Unsecured Credit Facility to satisfy escrow requirements for a mortgage lender.

Inflation

Substantially all of our office leases provide for real estate tax and operating expense escalations. In addition, most of the leases provide for fixed annual rent increases. We believe that inflationary increases may be at least partially offset by these contractual rent increases and expense escalations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We have used, and will use, derivative financial instruments to manage or hedge interest rate risks related to borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. We have entered, and we will only enter into, contracts with major financial institutions based on their credit rating and other factors. As of March 31, 2019, our Company did not have any outstanding derivatives.

The primary market risk to which we are exposed is interest rate risk. Our primary interest rate exposure is LIBOR. We primarily use fixed interest rate financing to manage our exposure to fluctuations in interest rates. We consider our interest rate exposure to be minimal because as of March 31, 2019, approximately $543.7 million, or 77.5%, of our debt had fixed interest rates and approximately $157.5 million, or 22.5%, had variable interest rates. A 10% increase in LIBOR would increase our interest costs by approximately $0.4 million on debt outstanding as of March 31, 2019, and would decrease the fair value of our outstanding debt, as well as increase interest costs associated with future debt issuances or borrowings under our Unsecured Credit Facility. A 10% decrease in LIBOR would decrease our interest costs by approximately $0.4 million on debt outstanding as of March 31, 2019, and would increase the fair value of our outstanding debt, as well as decrease interest costs associated with future debt issuances or borrowings under our Unsecured Credit Facility.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on the most recent evaluation, the Company’s Chief Executive Officer and Chief Financial Officer determined that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) were effective as of March 31, 2019.

Management's Report on Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We and our subsidiaries are, from time to time, parties to litigation arising from the ordinary course of business. As of March 31, 2019, management does not believe that any such litigation will have a material adverse effect, individually or in the aggregate, on our financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the section entitled "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of City Office REIT, Inc., as amended and supplemented (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on March 1, 2018).
3.2	Second Amended and Restated Bylaws of City Office REIT, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 14, 2017).
4.1	Certificate of Common Stock of City Office REIT, Inc. (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-11/A filed with the Commission on February 18, 2014).
4.2	Form of certificate representing the 6.625% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed with the Commission on September 30, 2016).
31.1	Certification by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. †
31.2	Certification by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. †
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
101.INS	INSTANCE DOCUMENT*
101.SCH	SCHEMA DOCUMENT*
101.CAL	CALCULATION LINKBASE DOCUMENT*
101.LAB	LABELS LINKBASE DOCUMENT*
101.PRE	PRESENTATION LINKBASE DOCUMENT*
101.DEF	DEFINITION LINKBASE DOCUMENT*

† Filed herewith.

* Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements.

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SIGNATURES

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

CITY OFFICE REIT, INC.

Date: May 3, 2019

By: /s/ James Farrar
James Farrar

Chief Executive Officer and Director
(Principal Executive Officer)

Date: May 3, 2019

By: /s/ Anthony Maretic
Anthony Maretic

Chief Financial Officer, Secretary and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification

I, James Farrar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2019 of City Office REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information;

and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 3, 2019	/s/ James Farrar
Date	James Farrar Chief Executive Officer and Director (Principal Executive Officer)

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Certification

I, Anthony Maretic, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2019 of City Office REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 3, 2019	/s/ Anthony Maretic
Date	Anthony Maretic Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

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

In connection with this Quarterly Report on Form 10-Q for the period ended March 31, 2019 of City Office REIT, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James Farrar, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

May 3, 2019	/s/ James Farrar
Date	James Farrar Chief Executive Officer and Director (Principal Executive Officer)

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

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

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

In connection with this Quarterly Report on Form 10-Q for the period ended March 31, 2019 of City Office REIT, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony Maretic, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

May 3, 2019	/s/ Anthony Maretic
Date	Anthony Maretic Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)

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

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