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Equity Commonwealth
Form 10-K
February 15, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2017

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)

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

Title Of Each Class

Name of Each Exchange On Which Registered

Common Shares of Beneficial Interest

New York Stock Exchange

6 1/2% Series D Cumulative Convertible Preferred Shares of Beneficial Interest

New York Stock Exchange

5.75% Senior Notes due 2042

New York Stock Exchange

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

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

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

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

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

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

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" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check

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One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 aggregate market value of the voting common shares of beneficial ownership, \$0.01 par value, or common shares, of the registrant held by non-affiliates was \$3.9 billion based on the \$31.60 closing price per common share on the New York Stock Exchange on June 30, 2017.

Number of registrant's common shares of beneficial interest, \$0.01 par value per share, outstanding as of February 12, 2018: 124,427,966.

DOCUMENTS INCORPORATED BY REFERENCE

Certain Information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to the definitive Proxy Statement for the 2018 Annual Meeting of Shareholders, which Equity Commonwealth intends to file no later than 120 days after the end of its fiscal year ended December 31, 2017, or our definitive Proxy Statement.

FORWARD LOOKING STATEMENTS

Some of the statements contained in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the federal securities laws. Any forward-looking statements contained in this Annual Report on Form 10-K are intended to be made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions are forward-looking statements. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this Annual Report on Form 10-K reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, see the section entitled “Risk Factors” in this Annual Report on Form 10-K.

EQUITY COMMONWEALTH
2017 FORM 10-K ANNUAL REPORT

Table of Contents

Part I

<u>Item 1. Business</u>	<u>1</u>
<u>Item 1A. Risk Factors</u>	<u>4</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>21</u>
<u>Item 2. Properties</u>	<u>21</u>
<u>Item 3. Legal Proceedings</u>	<u>21</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>22</u>

Part II

<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
<u>Item 6. Selected Financial Data</u>	<u>25</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>47</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>47</u>
<u>Item 9A. Controls and Procedures</u>	<u>47</u>
<u>Item 9B. Other Information</u>	<u>48</u>

Part III

<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>49</u>
<u>Item 11. Executive Compensation</u>	<u>49</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>49</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>49</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>49</u>

Part IV

<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>50</u>
<u>Item 16. Form 10-K Summary.</u>	<u>53</u>
<u>Signatures</u>	

EXPLANATORY NOTE

References in this Annual Report on Form 10-K to the Company, EQC, we, us or our, refer to Equity Commonwealth and its consolidated subsidiaries as of December 31, 2017, unless the context indicates otherwise.

PART I

Item 1. Business.

The Company. We are an internally managed and self-advised real estate investment trust, or REIT, engaged in the ownership and operation primarily of office buildings throughout the United States. We were formed in 1986 under Maryland law and we have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code).

On November 10, 2016, we converted to what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT, structure. In connection with this conversion, the Company contributed substantially all of its assets to EQC Operating Trust, a Maryland real estate investment trust (the Operating Trust), and the Operating Trust assumed substantially all of the Company's liabilities pursuant to a contribution and assignment agreement between the Company and the Operating Trust.

The Company now conducts and intends to continue to conduct substantially all of its activities through the Operating Trust. The Company beneficially owned 99.97% of the outstanding shares of beneficial interest, designated as units, in the Operating Trust (OP Units) as of December 31, 2017, and the Company is the sole trustee of the Operating Trust. As the sole trustee, the Company generally has the exclusive power under the declaration of trust of the Operating Trust to manage and conduct the business of the Operating Trust, subject to certain limited approval and voting rights of other holders of OP Units.

At December 31, 2017, our portfolio, excluding properties held for sale, included 16 properties, with a combined 8.7 million square feet for a total investment of \$1.7 billion at cost and a depreciated book value of \$1.3 billion. After our new Board of Trustees was elected in 2014, we hired new executive officers and employees while transitioning from external management to internal management. Thereafter, we undertook a comprehensive review of our portfolio and operations, developing a strategy to maximize value through the disposition of a significant portion of our assets in order to reshape our portfolio to focus on higher quality properties in better, long-term markets. From 2014 through December 31, 2017, we disposed of 151 properties and three land parcels totaling 36.3 million square feet for an aggregate gross sales price of \$4.3 billion, excluding closing credits, closing costs and mortgage debt repayments, and our entire stake of common shares of Select Income REIT and its consolidated subsidiaries (SIR) for \$704.8 million. As a result of these dispositions, we have concentrated our portfolio, exiting 109 cities, 22 states and Australia. We remain focused on creating value through proactive asset management and improving operating results, while evaluating opportunities to invest capital in high-quality assets or businesses in favorable markets that offer a compelling risk-reward profile. We have generated significant proceeds from dispositions. We retired \$2.4 billion of debt and preferred shares since 2014 and have \$2.6 billion of cash and cash equivalents and marketable securities as of December 31, 2017. The set of opportunities that we pursue in the future may include acquisitions of office as well as other property types in order to create a foundation for long-term growth. Alternatively, if we do not redeploy capital, we may decide to sell or liquidate the Company if such a sale or liquidation maximizes shareholder value.

As of December 31, 2017, we had 54 full-time employees. Our principal executive offices are located at Two North Riverside Plaza, Suite 2100, Chicago, Illinois 60606, our telephone number is (312) 646-2800 and our website is www.eqcre.com. The content on any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

Policies with Respect to Certain Activities

The discussion below sets forth certain additional information regarding our investment, repositioning, disposition and financing policies. These policies are established by our Board of Trustees and may be changed by our Board of

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Trustees at any time without shareholder approval.

Investment Policies. In evaluating potential investments and asset sales, we consider various factors, including but not limited to the following:

the historical and projected rents received and likely to be received from the property;

1

- the historical and expected operating expenses, including real estate taxes, incurred and expected to be incurred at the property;
- the growth, tax and regulatory environments of the market in which the property is located;
- the quality and credit worthiness of the property's tenants;
- occupancy and demand for similar properties in the same or nearby markets;
- the construction quality, physical condition and design of the property, and expected capital expenditures that may be needed to be made to the property;
- the location and type of property; and
- the pricing of comparable properties as evidenced by recent market sales.

We have no policies which specifically limit the percentage of our assets which may be invested in any individual property, in any one type of property, in properties in one geographic area, in properties leased to any one tenant, in properties leased to an affiliated group of tenants, in real estate joint ventures, or in participating, or convertible or other types of mortgages. We have in the past provided seller financing for properties we have sold and may do so again in the future.

In the past, we have considered the possibility of entering into mergers or strategic combinations with other companies. We may undertake such considerations in the future.

Disposition and Office Repositioning Strategy. In October 2014, our Board of Trustees implemented a disposition strategy. This strategy resulted from a comprehensive review of our portfolio and operations after our transition from external management to internal management in 2014. To reshape our portfolio to higher quality assets, we sought to dispose of properties that had one or more of the following attributes:

- assets that did not offer an opportunity to create a competitive advantage;
- assets that were less than 150,000 square feet;
- assets that were not office buildings;
- assets that were not located in the U.S.; or
- assets that produced a low cash yield or required significant capital expenditures.

In December of 2016, our Board of Trustees adopted an office repositioning strategy to own and acquire, at a discount to replacement cost, high-quality multi-tenant assets in markets and sub-markets with favorable long-term supply and demand fundamentals. Our efforts in the office sector will primarily be focused on larger buildings in central business districts and major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply.

Financing Policies. Our credit agreement and our debt indenture and its supplements contain financial covenants that, among other things, restrict our ability to incur indebtedness and require us to maintain certain financial ratios and a minimum net worth. Our Board of Trustees may determine to seek additional capital through equity offerings, debt financings, retention of cash flows in excess of distributions to shareholders or a combination of these methods. Two of our properties are encumbered by mortgages. To the extent that our Board of Trustees decides to obtain additional debt financing, we may do so on an unsecured basis or a secured basis, subject to limitations in existing financing or other contractual arrangements; we may seek to obtain other lines of credit or to issue securities senior to our common and/or preferred shares, including preferred shares or debt securities which may be convertible into common shares or be accompanied by warrants to purchase common shares; or we may engage in transactions which involve a sale or other conveyance of properties to affiliated or unaffiliated entities. We may finance acquisitions by an exchange of properties, by borrowing under our credit facility, by assuming outstanding mortgage debt on the acquired properties, by the issuance of additional equity or debt securities or by using retained cash flow from operations and dispositions. The proceeds from any of our financings may be used to pay distributions, to provide working capital, to refinance existing indebtedness or to finance acquisitions and expansions of existing or new properties. We may from time to time re-evaluate and modify our financing policies in light of then current market conditions, relative availability and costs of debt and equity capital, the changing values of properties, growth and acquisition opportunities and other factors, and we may increase or decrease our ratio of debt to total capitalization.

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Competition. Investing in and operating real estate is a highly competitive business. We compete against other REITs, numerous financial institutions, individuals and public and private companies who are actively engaged in this business. Also, we compete for tenants and investments based on a number of factors including pricing, underwriting criteria and reputation. Our ability to successfully compete is also impacted by economic and population trends, availability of acceptable investment

2

opportunities, our ability to negotiate beneficial leasing and investment terms, availability and cost of capital and new and existing laws and regulations. Some of our competitors are dominant in selected geographic markets, including in markets in which we operate. Many of our competitors have greater financial and other resources than we have.

For additional information on competition and the risks associated with our business, please see "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K.

Environmental and Climate Change Matters. Under various federal, state and local laws related to environmental, health and safety matters, owners, operators and tenants of real estate may be subject to liabilities resulting from the presence of hazardous substances, waste or petroleum products at, on, under, or emanating from such property, including costs for investigating and remediating or removing hazardous substances present at or migrating from such properties, liabilities for property damage or personal injuries, natural resource damages, and costs and losses arising from property use restrictions or diminution in value. We, or our tenants, also may incur liability for failing to comply with environmental, health and safety laws. We do not believe that there are environmental conditions or issues at any of our properties that have had or will have a material adverse effect on us. However, no assurances can be given that conditions or issues are not present at our properties or that costs we may be required to incur in the future to remediate contamination or comply with environmental, health and safety laws will not have a material adverse effect on our business or financial condition.

We estimate the cost to remove hazardous substances or address environmental issues at some of our properties based in part on environmental surveys conducted on our properties.

Some of our properties have been or may be impacted by releases of hazardous substances or petroleum products. Such contamination may arise from a variety of sources, including historic uses of our properties for commercial or industrial purposes, spills of such materials at adjacent properties, or releases from tanks used on our properties to store petroleum or hazardous substances. In addition, certain of our properties are on sites upon which or are adjacent to or near other properties upon which others, including former owners or tenants, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances. Though we have reviewed these and our other properties for potential environmental liabilities, we cannot assure that we have identified all potential environmental liabilities.

Certain of our buildings contain asbestos. We believe any asbestos in our buildings is contained in accordance with current regulations. If we remove the asbestos or renovate or demolish these properties, certain environmental regulations govern the manner in which the asbestos must be handled and removed, which could result in increased costs.

For more information regarding environmental matters and their possible adverse impact on us, see "Risk Factors—Risks Related to Our Business—We could incur significant costs and liabilities with respect to environmental matters" in Part I, Item 1A of this Annual Report on Form 10-K.

The current political debate about climate change has resulted in various treaties, laws and regulations which are intended to impact carbon emissions. We believe these laws may cause energy costs at our properties to increase, but we do not expect the direct impact of these increases to be material to our results of operations because the increased costs either would be the responsibility of our tenants directly or in large part may be passed through by us to our tenants as additional lease payments. Laws enacted to mitigate climate change may cause us to make material investments in our properties which could materially and adversely affect our financial condition. We evaluate ways to improve the energy efficiency at all of our properties. For more information regarding climate change matters and their possible adverse impact on us, see "Risk Factors—Risks Related to Our Business—We may be adversely affected by laws, regulations or other issues related to climate change" in Part I, Item 1A of this Annual Report on Form 10-K.

Information About Industry Segments

Our primary business is the ownership and operation of office properties, and we account for the operations of all our properties in one reporting segment, as further described in Note 18 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Information About Geographic Areas

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As of December 31, 2017 and 2016, all of our assets were located in the United States. We owned assets in Australia prior to the sale of these assets in June 2015. For the year ended December 31, 2015, we recognized revenues in Australia of \$12.7 million.

3

Regulation FD Disclosures and Internet Website

We intend to use any of the following to comply with our disclosure obligations under Regulation FD: press releases, SEC filings, public conference calls, or our website. We routinely post important information on our website at www.eqcre.com, including information that may be deemed to be material. We encourage investors and others interested in the Company to monitor these distribution channels for material disclosures.

Copies of our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance committees are posted on our website and may be obtained free of charge by writing to our Secretary, Equity Commonwealth, Two North Riverside Plaza, Suite 2100, Chicago, Illinois 60606. We make available, free of charge, on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after these forms are filed with, or furnished to, the SEC. Any shareholder or other interested party who desires to communicate with our Board of Trustees, or our non-management Trustees, individually or as a group, may do so by contacting our investor relations department through our website. Our website address is included in this Annual Report on Form 10-K as a textual reference only and the information on the website is not incorporated by reference into this Annual Report on Form 10-K.

RISK FACTORS

Item 1A. Risk Factors.

Our business faces many risks. The risks described below may not be the only risks we face but are the risks we know of that we believe may be material at this time. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer and the trading price of our securities could decline. Investors and prospective investors should consider the following risks and the information contained under the heading "Forward Looking Statements" before deciding whether to invest in our securities.

Risks Related to Our Business

We may be unsuccessful in repositioning our portfolio through dispositions or acquisitions, which could negatively impact our stockholders' return on investment.

We are seeking to continue selling properties and to reinvest the capital from dispositions, but we cannot provide any assurances that we will be successful. The ability of our management team to reposition our portfolio depends substantially on identifying and completing dispositions and acquisitions at favorable prices. If we are unable to do so, then we will be unable to complete our portfolio repositioning, which could negatively impact our stockholders' return on investment.

If we are unable to make successful acquisitions, we may decide to sell or liquidate the Company, which could negatively impact our stockholders' return on investment.

We may not be successful in making acquisitions using the significant cash we have accumulated from prior dispositions. Our ability to identify and consummate acquisitions of properties or businesses is subject to significant risks, including the following:

- We may be unable to identify attractive acquisition opportunities;
- We may be unable to make acquisitions at favorable prices;
- We may be unable to make an acquisition because of competition from other real estate investors, such as publicly traded REITs and institutional investment funds; and
- We may be unable to finance acquisitions on favorable terms or at all.

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If we are unable to make acquisitions on favorable terms, we may sell or liquidate the Company. The Board of Trustees and management regularly evaluate the best course of action for the Company and have not set a timetable for making any decision regarding a sale or liquidation of the Company. If a sale or liquidation of the Company occurs, our common shareholders' return on investment could be negatively impacted.

4

We may make acquisitions that are viewed unfavorably by our investors, which could negatively affect our stock price.

We may make acquisitions that are viewed unfavorably by our investors. We evaluate a range of opportunities, including portfolios of properties, individual properties and businesses. As our portfolio has decreased in size, a significant acquisition will have a greater impact on our Company. Our investors may view an acquisition that we make unfavorably for a number of reasons, including because they believe we overvalued the acquired assets or they disfavor the property type, quality or location of the acquired assets. If we make a significant acquisition that is viewed unfavorably by our investors, then our stock price could be negatively affected.

We may incur significant costs pursuing acquisition opportunities that we can not consummate, which could adversely affect our results of operations.

We may incur significant costs pursuing acquisitions that we never consummate. For example, when we investigate acquisition opportunities, we typically incur expenses exploring such opportunities. Such costs include those related to due diligence and legal, advisory and consulting fees. The incurrence of failed pursuit costs could adversely affect our results of operations.

We may encounter unanticipated difficulties relating to acquired properties, which may inhibit our growth and have a material adverse effect on us.

Even if we are able to make acquisitions on favorable terms, we might encounter unanticipated difficulties and expenditures relating to acquired properties. For example, notwithstanding pre-acquisition due diligence, we could acquire a property that contains undisclosed defects in design or construction. Similarly, properties we acquire may be subject to unknown liabilities without any recourse or with only limited recourse, such as liabilities for clean-up of environmental contamination, claims by customers, vendors or other persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties. In addition, after our acquisition of a property, the market in which the acquired property is located may experience unexpected changes that adversely affect the property's value. The occupancy of properties that we acquire may decline during our ownership, and rents that are in effect at the time a property is acquired may decline thereafter. Also, our property operating and capital costs for acquisitions may be higher than we anticipate and acquisitions of properties may not yield the returns we expect and may result in shareholder dilution. We may not integrate properties or businesses we acquire successfully or anticipated synergies, revenues, cost-savings or operating metrics may not be achieved or be less than we estimated. For these reasons, among others, our business plan to acquire additional properties may not be successful.

We may make dispositions on unfavorable terms or that result in expenses or reputational harm.

Our current business plan focuses on owning larger office buildings in central business districts and major urban areas in markets and sub-markets with favorable long-term supply and demand fundamentals. In order to execute this strategy, we will need to selectively dispose of certain assets, hold other assets and acquire new assets. We may not be able to find attractive sale opportunities for assets we wish to dispose of in order to execute our repositioning strategy or that any sale will be completed in a timely manner, if at all. Our ability to continue to sell certain of our properties, and the prices we receive in any such sales, may be negatively affected by many factors. In particular, these factors could arise from weakness in or the lack of an established market for a property, the illiquid nature of real estate assets, changes in the financial condition or prospects of tenants and prospective purchasers, a limited number of prospective purchasers in certain markets, increase in the cost of or lack of availability of debt, the number of competing properties on the market, a deterioration in current local, national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. In addition, provisions of the Code relating to REITs may limit our ability to sell properties. See risk factor below "Risks Related to Our Taxation as a REIT—The tax on "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for U.S. federal income tax purposes." For these reasons, we may be unable to sell certain of our

properties for an extended period of time or at all, our business plan to sell certain of our properties may not succeed, and we may incur expenses and reputational harm.

We may not decrease our general and administrative expenses as the size of our portfolio decreases, which could have a negative effect on our results of operations.

Because our current strategy is to grow through acquisitions, we maintain a level of staffing that we believe will enable us to effectively identify acquisition opportunities and integrate any acquisitions that we complete. As a result of this strategy, our general and administrative expenses may be higher than if we were not seeking growth through acquisitions. If we are unable to grow through acquisitions and do not decrease our general and administrative expenses proportionately as we sell assets, our profitability and our results of operations could be adversely affected.

Our reliance upon CBRE, Inc., or CBRE, for third party property management may have a negative effect on our financial condition and results of operations.

We have engaged CBRE to provide property management services for our properties pursuant to a master property management agreement. The successful operation and management of our properties requires significant coordination between us and CBRE. Additionally, since the expiration of the initial term of our agreement with CBRE in September 2016, CBRE can terminate the property management agreement, as a whole or as to any one or more of our properties, without cause upon providing three months' notice, and we are permitted to terminate the property management agreement, as a whole or as to any one or more of our properties, without cause upon 60 days' notice. If we are unable to successfully coordinate with CBRE with respect to property management or the property management agreement with CBRE is terminated, in whole or in part, our operations could be disrupted, which may have a negative effect on our financial condition and results of operations.

We are currently dependent upon economic conditions relating to the commercial office real estate market, and adverse economic or regulatory developments in this market could materially and adversely affect our results of operations.

Our business is influenced by the economic and regulatory environment (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation). Such adverse developments could materially reduce the value of our real estate portfolio and our rental revenues, and thus materially and adversely affect our ability to service current debt and to pay distributions to shareholders. If economic conditions in our market worsen or fail to grow at a sufficient pace, we may experience reduced demand from tenants for our properties. In particular, as we have concentrated our portfolio in fewer markets, we are increasingly exposed to regional and local adverse economic and other conditions that could have a negative effect on our results of operations. A significant economic downturn in one or more of our markets could adversely affect our results of operations.

Future impairment charges could have a material adverse effect on our results of operations in the period for which the charge occurs.

We periodically evaluate the recoverability of the carrying values of each of the real estate assets that comprise our portfolio. In undertaking our portfolio reviews, we comprehensively review our portfolio to evaluate whether there are any indicators, including property operating performance and general market conditions, that the value of the real estate properties (including any related amortizable intangible assets or liabilities) may not be recoverable. We recorded impairment charges of \$19.7 million, \$58.5 million and \$17.2 million during the years ended December 31, 2017, 2016 and 2015, respectively, based upon updated market information in accordance with our impairment analysis procedures. There can be no assurance that we will not take additional charges in the future related to the impairment of our assets.

As part of the evaluation of our portfolio, we compare the current carrying value of the asset to the estimated undiscounted cash flows that are directly associated with the use and ultimate disposition of the asset. Our estimated cash flows are based on several key assumptions, including rental rates, costs of tenant improvements, leasing commissions, anticipated hold periods, and assumptions regarding the residual value upon disposition, including the exit capitalization rate. These key assumptions are subjective in nature and could differ materially from actual results. Additionally, changes in our disposition strategy or changes in the marketplace may alter the hold period of an asset or asset group, which may result in an impairment loss and such loss could be material to the Company's financial condition or operating performance. To the extent that the carrying value of the asset exceeds the estimated undiscounted cash flows, an impairment loss is recognized equal to the excess of carrying value over fair value. Any future impairment could have a material adverse effect on our results of operations in the period in which the charge is

taken.

Additionally, the fair value of real estate assets is highly subjective and is determined through comparable sales information and other market data if available, or through use of an income approach such as the direct capitalization method or the discounted cash flow approach. Such cash flow projections consider factors, including expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors, and therefore are subject to a significant degree of management judgment. In estimating the fair value of undeveloped land, we generally use market data and comparable sales information. These subjective assessments have a direct impact on our net income because recording an impairment charge results in an immediate negative adjustment to net income. Thus, our results of operations may be significantly affected by the subjective judgments of our management team as to the fair value of our properties.

6

If global market and economic conditions worsen, our business, financial condition and results of operations could be adversely affected.

We are unable to predict with any certainty whether economic conditions will decline, remain stable or improve. If current economic conditions deteriorate, business layoffs, downsizing, industry slowdowns and other similar factors that affect our tenants could negatively impact commercial real estate fundamentals and result in lower occupancy, lower rental rates and declining values in our real estate portfolio. Additionally, the cost and availability of credit and the commercial real estate market generally may be adversely affected by persistent high levels of unemployment, insufficient consumer demand or confidence, the impacts of changes in the U.S. federal budgetary process, changes in regulatory environments and other macro-economic factors. Deteriorating economic conditions could also have an impact on our lenders or tenants, causing them to fail to meet their obligations to us. No assurances can be given that the current economic conditions will remain stable or improve, and if market and economic conditions weaken, our ability to lease our properties and increase or maintain rental rates may be affected, which would have a material adverse effect on our business, financial condition and results of operations.

We rely on the financial condition of our tenants and would be harmed by a weakening of such condition or the inability of our tenants to pay rent.

Our performance depends on the financial condition of our tenants and their ability to fulfill their lease obligations by paying their rental payments in a timely manner. As a result, we would be harmed if one or more of our major tenants, or a number of our smaller tenants, were to experience financial difficulties, including bankruptcy, insolvency, or general downturn of business. As of December 31, 2017, the 13 largest tenants in our operating portfolio represented approximately 43.8% of our annualized rental revenue. The inability of a major tenant to pay rent, or the bankruptcy or insolvency of a major tenant, may adversely affect income. If any of our major tenants were to experience a downturn in its business, or a weakening of its financial condition, such an event could have an adverse effect on our investment or our financial condition.

Significant competition for tenants may reduce rents which could materially and adversely affect our company. All of our properties face competition for tenants. Some competing properties may be newer, better located or more attractive to tenants. Competing owners may offer available space at lower rents than we offer at our properties. This competition may affect our ability to attract and retain tenants and may reduce the rents we are able to charge. When we renew leases or lease to new tenants our rents may decline and our expenses may increase and changes in tenants' requirements for leased space may adversely affect us.

As of December 31, 2017, leases representing 4.7% of our portfolio square footage will expire by the end of 2018 and an additional 10.0% of our portfolio square footage will expire by the end of 2019. When we renew leases or lease to new tenants we may receive less rent than we currently receive. Market conditions may require us to lower our rents to retain tenants. When we lease to new tenants or renew leases we may have to spend substantial amounts for leasing commissions, tenant improvements or tenant inducements. Many of our leases are for properties that are specially suited to the particular business of our tenants. Because these properties have been designed or physically modified for a particular tenant, if the current lease is terminated or not renewed, we may be required to renovate the property at substantial costs, decrease the rent we charge or provide other concessions in order to lease the property to another tenant. In general, tenants have been seeking to increase their space utilization under their leases, including reducing the amount of square footage per employee at leased properties, which may reduce the demand for leased space. If a significant number of such events occur, our income and cash flow may materially decline and our ability to make regular distributions to our shareholders may be jeopardized.

We derive a significant portion of our revenues from ten of our properties, which puts us at risk of losses at such properties having a material adverse effect on our business.

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As of December 31, 2017, approximately 85.6% of our annualized rental revenue was derived from 10 of our 16 properties. Events that negatively impact one or more of these properties, such as a natural disaster, would have a much larger adverse effect on our revenues than a corresponding occurrence affecting a less significant property. If the revenues generated by one or more of these properties were to decline substantially, such decline could have a material adverse effect on our business.

The loss of key personnel, including our senior management team, could adversely affect our results of operations and financial condition.

The loss of key personnel could negatively affect our ability to operate effectively and could have a negative result on our business. The execution of our repositioning strategy and management of our operations depend to a significant degree on our senior management team. Our senior management team has extensive experience and a strong reputation in the real estate

7

industry, which aid us in identifying opportunities, having opportunities brought to us, and negotiating with tenants. If we are unable to attract and retain skilled executives, our results of operations and financial condition could be adversely affected.

We have substantial debt obligations which could materially and adversely affect our cost of operations.

As of December 31, 2017, we had \$848.6 million in debt outstanding, which was 20.0% of our total book capitalization. As a result, we are and expect to be subject to the risks normally associated with debt financing, including that:

• interest rates may rise;

• our cash flow will be insufficient to make required payments of principal and interest;

• any refinancing will not be on terms as favorable as those of our existing debt;

• required payments on mortgages and on our other debt are not reduced if the economic performance of any property declines;

• debt service obligations will reduce funds available for distribution to our shareholders;

• any default on our debt, due to noncompliance with financial covenants or otherwise, could result in acceleration of those obligations;

• we may be unable to refinance or repay the debt as it becomes due, and

• if our degree of leverage is viewed unfavorably by lenders or potential joint venture partners, it could affect our ability to obtain additional financing.

If we default in paying any of our debts or honoring our debt covenants, it may create one or more cross defaults, our debts may be accelerated and we could be forced to liquidate our assets for less than the values we would receive in a more orderly process. Additionally, we may not be able to refinance or repay debt as it becomes due which may force us to refinance or to incur additional indebtedness at higher rates and additional cost or, in the extreme case, to sell assets or seek protection from our creditors under applicable law.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure of any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds.

Our failure or inability to meet certain terms of our credit agreement, which includes our unsecured revolving credit facility and term loans, may prevent us from making distributions to our shareholders.

Our credit agreement includes various conditions to borrowings and various financial and other covenants, including covenants requiring us to maintain certain minimum debt service coverage and maximum leverage ratios, and events of default. We may not be able to satisfy all of these conditions or may default on some of these covenants for various reasons, including matters which are beyond our control. If we are unable to borrow under our revolving credit facility, we may be unable to meet our business obligations or to grow by buying additional properties, or we may be required to sell some of our properties. If we default under our credit agreement, the lenders may demand immediate payment or elect not to make further borrowings available. Additionally, during the continuance of any event of default under our credit agreement, we will be limited or in some cases prohibited from making distributions on our shares. Any default under our credit agreement would likely have serious and adverse consequences to us and would

likely cause the market price of our shares to materially decline.

In the future, we may obtain additional debt financing, and the covenants and conditions which apply to any such additional indebtedness may be more restrictive than the covenants and conditions contained in our current credit agreement.

Changes in capital markets may adversely affect the value of an investment in our shares.

Although interest rates remain below historical long term averages, interest rates have recently risen. Increases in interest rates may adversely affect us and the value of an investment in our shares, including in the following ways:

Amounts outstanding under our credit agreement bear interest at variable interest rates. When interest rates increase, so will our interest costs, which could adversely affect our cash flow, ability to pay principal and interest on debt, cost of refinancing debt when it becomes due and ability to make or sustain distributions to our shareholders. Additionally, if we choose to hedge our interest rate risk, we cannot assure that the hedge will be effective or that our hedging counterparty will meet its obligations to us.

An increase in interest rates could decrease the amount buyers may be willing to pay for our properties, thereby reducing the market value of our properties and limiting our ability to sell properties or to obtain mortgage financing secured by our properties. Increased interest rates may increase the cost of financing properties we acquire to the extent we utilize leverage for those acquisitions and may result in a reduction in our acquisitions to the extent we reduce the amount we offer to pay for properties, due to the effect of increased interest rates, to a price that sellers may not accept.

A lack of any limitation on our debt could result in our becoming more highly leveraged.

Our governing documents do not limit the amount of indebtedness we may incur. Furthermore, our note indenture and credit agreement permit us and our subsidiaries to incur additional debt, including secured debt. Accordingly, we may incur additional debt. We might become more highly leveraged as a result, and our financial condition, results of operations and cash available for distribution to shareholders might be negatively affected, and the risk of default on our indebtedness could increase.

If we fail to maintain an effective system of integrated internal controls, we may not be able to accurately report our financial results.

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal controls we may discover material weaknesses or significant deficiencies in our internal controls. As a result of weaknesses that may be identified in our internal controls, we may also identify certain deficiencies in some of our disclosure controls and procedures that we believe require remediation. If we discover weaknesses, we will make efforts to improve our internal and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations, which could affect our ability to remain listed with the NYSE. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the per share trading price of our securities.

We could become a party to legal proceedings, which could adversely affect our financial results and/or distract our Board of Trustees and management.

Claims may be filed against us in connection with any action we may or may not take in the ordinary course of business or otherwise, including any equity or debt financing we may undertake, any sales or purchases of assets, past and future changes to our corporate governance and other past or future actions taken by or on behalf of the Company. The results of litigation are difficult to predict and we can provide no assurance that our legal conclusions or positions will be upheld. Moreover, legal claims present a risk of protracted litigation, incurrence of significant attorneys' fees, costs and expenses, and diversion of management's attention from the operation of our business. In addition, we have agreed to indemnify our present and former Trustees and officers who are made or threatened to be made parties to a legal proceeding by reason of their service in that capacity, which may be costly. Adverse rulings in any such legal proceedings could have a material adverse effect on our financial results and condition and cause substantial reputational harm and/or a decline in the market price of our shares.

We could incur significant costs and liabilities with respect to environmental matters.

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Under various federal, state and local laws and regulations, as the current or former owners or operators of real estate, we may be liable for costs and damages resulting from the presence or release of hazardous substances, including waste or petroleum products, at, on, in, under or from such property, including costs for investigation, removal or remediation of such contamination and for natural resource damages arising from such contamination. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal or property damage, adversely affect our ability to lease, sell or rent such property, or adversely affect our ability to borrow using such property as collateral. Environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such

contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which those properties may be used or businesses may be operated, and these restrictions may require significant expenditures. Additionally, we may remain responsible for costs and liabilities arising from environmental issues related to representations and warranties we make in sales agreements for properties of which we have disposed. We also may be liable for the costs of removal or remediation of hazardous substances or waste at disposal or treatment facilities if we arranged for disposal or treatment of hazardous substances at such facilities, whether or not we own or operate such facility.

Some of our properties have been or may be impacted by releases of hazardous substances or petroleum products. Such contamination may arise from a variety of sources, including historic uses of our properties for commercial or industrial purposes, spills of such materials at adjacent properties, or releases from tanks used on our properties to store petroleum or hazardous substances. In addition, certain of our properties are on sites upon which or are adjacent to or near other properties upon which others, including former owners or tenants, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances.

We, our tenants, and our properties are subject to various federal, state and local regulatory requirements related to environmental, health and safety matters, such as environmental laws, state and local fire and safety requirements, building codes and land use regulations. Failure to comply with these requirements could subject us or our tenants to governmental fines or private litigant damage awards. In addition, compliance with these requirements, including new requirements or stricter interpretation of existing requirements, may require us or our tenants to incur significant expenditures. We do not know whether existing requirements will change or whether future requirements, including any requirements that may emerge from pending or future climate change laws or regulations, will develop. Environmental noncompliance liability also could impact a tenant's ability to make rental payments to us, and our reputation could be negatively affected if we or our tenant's violate environmental laws or regulations.

Buildings and other structures on properties that we currently or formerly own or operate or those we acquire or operate in the future contain, may contain, or may have contained, asbestos-containing material (or ACM). Environmental, health and safety laws require that ACM be properly managed and maintained, and include requirements to undertake special precautions, such as removal or abatement, if ACM would be disturbed during maintenance, renovation, or demolition of a building, potentially resulting in substantial costs. Moreover, laws regarding ACM may impose fines and penalties on owners, employers and operators, and we may be subject to liability for releases of ACM into the air and third parties may seek recovery from owners or operators of real property for personal injury associated with ACM.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues also can stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. The presence of mold or other airborne contaminants in our buildings could expose us to costs and liabilities to address these issues, including from third parties if property damage or personal injury occurs.

We may be adversely affected by laws, regulations or other issues related to climate change.

If we become subject to laws or regulations related to climate change, our business, results of operations and financial condition could be impacted adversely. The federal government has enacted, and some of the states and localities in which we operate may enact certain climate change laws and regulations or have begun regulating carbon footprints and greenhouse gas emissions. Although these laws and regulations have not had any known material adverse effects on our business to date, they could result in substantial costs, including compliance costs, increased energy costs, retrofit costs and construction costs, including monitoring and reporting costs, and capital expenditures for

environmental control facilities and other new equipment. Furthermore, our reputation could be negatively affected if we violate climate change laws or regulations. We cannot predict how future laws and regulations, or future interpretations of current laws and regulations, related to climate change will affect our business, results of operations and financial condition. Lastly, the potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. These impacts may adversely affect our business, financial condition and results of operations.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of

records, which may include personal identifying information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced to third party service providers. In addition, information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyber attacks. Although we have taken steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers, including ransom attacks, and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect us. We may co-invest in joint ventures with third parties. Any future joint venture investments could be adversely affected by the capital markets, lack of sole decision-making authority, reliance on joint venture partners' financial condition and any disputes that may arise between us and our joint venture partners.

We may co-invest with third parties through partnerships, joint ventures or other structures in which we acquire noncontrolling interests in, or share responsibility for, managing the affairs of a property, partnership, co-tenancy or other entity. If we enter into any such joint venture or similar ownership structure, we may not be in a position to exercise sole decision-making authority regarding the properties owned through such joint ventures or similar ownership structure. In addition, investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including potential deadlocks in making major decisions, restrictions on our ability to exit the joint venture, reliance on joint venture partners and the possibility that a joint venture partner might become bankrupt or fail to fund its share of required capital contributions, thus exposing us to liabilities in excess of our share of the joint venture or jeopardizing our REIT status. The funding of our capital contributions to such joint ventures may be dependent on proceeds from asset sales, credit facility advances or sales of equity securities. Joint venture partners may have business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to its policies or objectives. We may, in specific circumstances, be liable for the actions of its joint venture partners. In addition, any disputes that may arise between us and joint venture partners may result in litigation or arbitration that would increase its expenses. Any of the foregoing may have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Real Estate Industry

Real estate ownership creates risks and liabilities that could have a material adverse effect on us, including our results of operations and financial condition.

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to risks inherently associated with real estate ownership, including:

- changes in supply of or demand for properties in areas in which we own buildings;
- the illiquid nature of real estate markets, which limits our ability to sell our assets rapidly or to respond to changing market conditions;
- the subjectivity of real estate valuations and changes in such valuations over time;
- property and casualty losses;
- the ongoing need for property maintenance and repair, and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act;
- the inability of tenants to pay rent;
- competition from the development of new properties in the markets in which we own property and the quality of such competition, such as the attractiveness of our properties as compared to our competitors' properties based on considerations such as convenience of location, rental rates, amenities and safety record;
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civil unrest, acts of war, acts of God, including earthquakes, hurricanes and other natural disasters (which may result in uninsured losses), and other factors beyond our control;

• legislative, tax and regulatory developments that may occur at the federal, state and local levels that have direct or indirect impact on the ownership, leasing and operation of our properties; and
• litigation incidental to our business.

If any of the foregoing events occur, our properties may not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, and our cash flow and ability to pay distributions to our shareholders will be adversely affected.

Potential losses may not be covered by insurance exposing us to potential risk of loss.

We do not carry insurance for generally uninsurable losses such as loss from riots, war or acts of God. Some of our policies, such as those covering losses due to terrorism, hurricanes, earthquakes and floods, are insured subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover all losses. If we experience a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

Insurance coverage on our properties may be expensive or difficult to obtain, exposing us to potential risk of loss.

In the future, we may be unable to renew or duplicate our current insurance coverage at adequate levels or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts, environmental liabilities, or other catastrophic events including hurricanes and floods, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property after a covered period of time, but still remain obligated for any mortgage debt or other financial obligations related to the property. We cannot guarantee that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Events such as these could adversely affect our results of operations and our ability to meet our obligations.

Actual or threatened terrorist attacks, crimes, shootings, other acts of violence or other incidents beyond our control may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in large metropolitan markets that have been or may be in the future the targets of actual or threatened terrorism attacks, crimes, shootings, other acts of violence or other incidents beyond our control. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future incidents. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks or other acts of violence at our properties could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. If such an incident was to occur, we may lose tenants or be forced to close a property for some time. In addition, we may be exposed to civil liability, which could adversely affect us. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially.

Changes in accounting pronouncements may materially and adversely affect our financial statements, our tenants' credit quality and our ability to secure long-term leases and renewal options.

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the Securities and Exchange Commission, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and

application of these standards that govern the preparation of our financial statements. These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants' reported financial condition or results of operations or could affect our tenants' preferences regarding leasing real estate.

The Financial Accounting Standards Board issued an accounting standard, effective January 1, 2019 for public business entities, that requires companies to capitalize all leases on their balance sheets by recognizing a lessee's rights and obligations. Many companies that account for certain leases on an "off balance sheet" basis will be required to account for such leases "on balance sheet." This change will remove many of the differences in the way companies account for owned property and leased property, and could have a material effect on various aspects of our tenants' businesses, including their credit quality and the factors they consider in deciding whether to own or lease properties. The new standard could cause companies that lease

properties to prefer shorter lease terms, in an effort to reduce the leasing liability required to be recorded on their balance sheets. The new standard could also make lease renewal options less attractive, as, under certain circumstances, the rule would require a tenant to assume that a renewal right will be exercised and accrue a liability relating to the longer lease term.

Risks Related to Our Securities

We cannot assure that we will make distributions to our shareholders, and distributions we may make may include a return of capital.

Any distributions will be made at the discretion of our Board of Trustees and will depend upon various factors that our Board of Trustees deems relevant, including, but not limited to, our results of operations, our financial condition, debt and equity capital available to us, our expectations of our future capital requirements and operating performance, including our funds from operations, or FFO, our normalized funds from operations, or Normalized FFO, and our cash available for distribution, restrictive covenants in our financial or other contractual arrangements (including those in our credit agreement and senior notes indenture), tax law requirements to maintain our status as a REIT, restrictions under Maryland law and our expected needs and availability of cash to pay our obligations or to fund our acquisitions strategy. As a result of net operating loss carryforwards, a distribution to common shareholders was not required for 2015, 2016 or 2017. Since 2014, we have not made a distribution to common shareholders. We currently hold a significant amount of cash to allow us to pursue acquisitions and we may continue to do so for an undetermined period of time. Additionally, our ability to make distributions will be adversely affected if any of the risks described herein, or other significant adverse events, occur. For these reasons, among others, we may not make distributions or the amount of distributions we make may be less than investors expect. Also, our distributions may include a return of capital.

Changes in market conditions could adversely affect the market price of our common shares.

As with other publicly traded equity securities, the value of our common shares depends on various market conditions that may change from time-to-time. Among the market conditions that may affect the value of our common shares are the following:

• the extent of investor interest in our securities;

- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

• our underlying asset value;

• national and global economic conditions;

• interest rates;

• changes in tax laws;

• our financial performance;

• changes in our credit ratings; and

• general stock and bond market conditions.

The market value of our common shares is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash dividends. Consequently, our common shares may trade at prices that are greater or less than our net asset value per common share. If our future earnings or cash dividends are less than expected, it is likely that the market price of our common shares will diminish.

Any notes we may issue will be effectively subordinated to the debts of our subsidiaries and our secured debt.

We conduct substantially all of our business through, and substantially all of our properties are owned by, our subsidiaries. Consequently, our ability to pay debt service on our outstanding notes and any notes we issue in the future will be dependent upon the cash flow of our subsidiaries and payments by those subsidiaries to us as dividends or otherwise. Our subsidiaries are separate legal entities and have their own liabilities. Payments due on our outstanding notes, and any notes we may issue, are, or will be, effectively subordinated to liabilities of our subsidiaries, including guaranty liabilities. As of December 31, 2017, our subsidiaries had \$32.6 million of debt (including net unamortized premiums and net unamortized deferred financing costs). Our outstanding notes are, and

any notes we may issue will be, effectively subordinated to any secured debt with regard to our assets pledged to secure those debts.

Our notes may permit redemption before maturity, and our noteholders may be unable to reinvest proceeds at the same or a higher rate.

The terms of our notes may permit us to redeem all or a portion of our outstanding notes after a certain amount of time, or up to a certain percentage of the notes prior to certain dates. Generally, the redemption price will equal the principal amount being redeemed, plus accrued interest to the redemption date, plus any applicable premium. If a redemption occurs, our noteholders may be unable to reinvest the money they receive in the redemption at a rate that is equal to or higher than the rate of return on the applicable notes.

There may be no public market for notes we may issue and one may not develop.

Generally, any notes we may issue will be a new issue for which no trading market currently exists. We may not list our notes on any securities exchange or seek approval for price quotations to be made available through any automated quotation system. We cannot assure that an active trading market for any of our notes will exist in the future. Even if a market develops, the liquidity of the trading market for any of our notes and the market price quoted for any such notes may be adversely affected by changes in the overall market for fixed income securities, by changes in our financial performance or prospects, or by changes in the prospects for REITs or for the real estate industry generally.

The number of our common shares available for future issuance or sale could adversely affect the per share trading price of our common shares and may be dilutive to current shareholders.

Our declaration of trust authorizes our Board of Trustees to, among other things, issue additional shares of capital stock without stockholder approval. We cannot predict whether future issuances or sales of our common shares or the availability of shares for resale in the open market will decrease the per share trading price of our common shares. The issuance of substantial numbers of our common shares in the public market, or upon conversion of our Series D preferred shares, or the perception that such issuances might occur, could adversely affect the per share trading price of our common shares. In addition, we may issue our common shares or other long-term equity awards under the Equity Commonwealth 2015 Omnibus Incentive Plan. Any such future issuances may be dilutive to existing shareholders.

Rating agency downgrades or rising interest rates may increase our cost of capital.

Our senior notes and our preferred shares are rated by two rating agencies. These rating agencies may elect to downgrade their ratings on our senior notes and our preferred shares at any time. Such downgrades may negatively affect our access to the capital markets and increase our cost of capital, including the interest rate and fees payable under our credit agreement. In addition, rising interest rates may adversely impact our ability to access the capital markets.

Conversion of our series D preferred shares may dilute the ownership interests of existing shareholders.

The conversion of some or all of our series D preferred shares may dilute the ownership interests of existing shareholders.

Risks Related to Our Organization and Structure

Ownership limitations and certain provisions in our declaration of trust and bylaws, as well as certain provisions of Maryland law, may deter, delay or prevent a change in our control or unsolicited acquisition proposals.

Our declaration of trust and bylaws prohibit any shareholder other than certain persons who have been exempted by our Board of Trustees from owning (directly and by attribution) more than 9.8% of the number or value of shares of any class or series of our outstanding shares of beneficial interest, including our common shares. These provisions are intended to assist with our REIT compliance under the Code and otherwise promote our orderly governance.

However, these provisions also inhibit acquisitions of a significant stake in us and may deter, delay or prevent a change in our control or unsolicited acquisition proposals that a shareholder may consider favorable.

Additionally, provisions contained in our declaration of trust and bylaws or under Maryland law may have a similar impact, including, for example, provisions relating to: the authority of our Board of Trustees to fill most vacancies on our Board of Trustees; the fact that only the Chairman of the Board of Trustees, our Chief Executive Officer, our President, a majority of our Trustees or the holders of 10% of our common shares may call a special meeting of

shareholders; and advance notice requirements for shareholder proposals.

Furthermore, our Board of Trustees has the authority to create and issue new classes or series of shares (including shares with voting rights and other rights and privileges that may deter a change in control) and issue additional common shares. The authorization and issuance of a new class of capital stock or additional common shares could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders' best interests.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-prevailing market price of such shares, including: “business combination moratorium/fair price” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested shareholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes stringent fair price and super-majority shareholder voting requirements on these combinations; and “control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares” from a party other than the issuer) have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two thirds of all the votes entitled to be cast on the matter, excluding all interested shares, and are subject to redemption in certain circumstances. We have opted out of these provisions of Maryland law. However, our Board of Trustees may opt to make these provisions applicable to us at any time without obtaining shareholder approval.

Certain provisions in the organizational documents of the Operating Trust may delay, defer or prevent unsolicited acquisitions of us or changes in our control.

Provisions in the organizational documents of the Operating Trust may delay, defer or prevent a transaction or a change of control that might involve a premium price for the Company’s common shares. These provisions include, among others:

- redemption rights of qualifying parties;
- a provision that we may not be removed as the trustee of the Operating Trust with or without cause;
- transfer restrictions on the OP Units held directly or indirectly by us;
- our ability as trustee in some cases to amend the organizational documents of the Operating Partnership without the consent of the other holders of OP Units;
- the right of the holders of OP Units to consent to mergers involving us under specified circumstances; and
- the right of the holders of OP Units to consent to our withdrawal as the sole trustee of the Operating Trust.

These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some shareholders might consider such proposals, if made, desirable.

As an UPREIT, we are a holding company with no direct operations and will rely on distributions received from the Operating Trust to make distributions to our shareholders.

We are a holding company and conduct all of our operations through the Operating Trust. We do not have, apart from our ownership of the OP Units, any independent operations. As a result, we will rely on distributions from the Operating Trust to make any distributions to our shareholders we might declare on our common shares and to meet any of our obligations, including tax liability on taxable income allocated to us from the Operating Trust (which might not make distributions to our company equal to the tax on such allocated taxable income). The ability of subsidiaries of the Operating Trust to make distributions to the Operating Trust, and the ability of the Operating Trust to make distributions to us in turn, will depend on their operating results and on the terms of any financing arrangements into which they have entered. Such financing arrangements may contain lockbox arrangements, reserve requirements, covenants and other provisions that prohibit or otherwise restrict the distribution of funds, including upon default thereunder. In addition, because we are a holding company, the claims of our shareholders as common shareholders of our company will be structurally subordinated to all existing and future liabilities and other obligations (whether or not for borrowed money) and any preferred equity of the Operating Trust and its subsidiaries. Therefore, in the event

of our bankruptcy, liquidation or reorganization, our assets and those of the Operating Trust and its subsidiaries will be able to satisfy the claims of our common shareholders only after all of our and the Operating Trust's and its subsidiaries' liabilities and other obligations and any preferred equity have been paid in full.

We may acquire properties or portfolios of properties through tax-deferred contribution transactions, which could result in shareholder dilution and limit our ability to sell such assets.

In the future, we may acquire properties or portfolios of properties through tax-deferred contribution transactions in exchange for OP Units in the Operating Trust, which may result in shareholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax lives of the acquired properties, and may require that we agree to protect the contributors' abilities to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell or finance an asset at a time, or on terms, that would be favorable absent such restrictions.

Future issuances of OP Units would reduce our ownership interest in the Operating Trust and may result in shareholder dilution.

As of December 31, 2017, we beneficially owned 99.97% of the outstanding OP Units. Our Operating Trust may, in connection with our acquisition of additional properties or otherwise, issue OP Units to third parties. Additionally, we have and may in the future issue long-term equity awards convertible into OP Units (LTIP Units) to trustees, officers, or employees. Such issuances of OP Units, or the conversion of LTIP Units into OP Units, would reduce our ownership in the Operating Trust and, consequently, our share of distributions from the Operating Trust. Because OP Units may be redeemed (sometimes subject to vesting or performance achievements) for, at our election, cash or common shares, additional common shares may be issued in respect of any such redeemed OP Units, which would dilute existing shareholders. Our shareholders do not have any voting rights with respect to any such issuances, redemptions or other operational activities of the Operating Trust.

Our recourse against Trustees and officers may be limited by the limited rights granted to our shareholders in our declaration of trust.

Our declaration of trust limits the liability of our Trustees and officers to us and our shareholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our Trustees and officers will not have any liability to us and our shareholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the Trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our declaration of trust and bylaws require us to indemnify any present or former Trustee or officer, to the maximum extent permitted by Maryland law, who is made or threatened to be made a party to a proceeding by reason of his or her service in that capacity. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former Trustees and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our shareholders may have more limited rights against our present and former Trustees and officers than might otherwise exist absent the provisions in our declaration of trust and bylaws or that might exist with other companies, which could limit your recourse in the event of actions not in your best interest.

Conflicts of interest could arise in the future between the interests of the Company's shareholders and the interests of other holders of OP Units, which may impede business decisions that could benefit our shareholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between the Company and its affiliates, on the one hand, and the Operating Trust or holders of OP Units, on the other. Our trustees and officers have duties to the Company and its shareholders under applicable Maryland law in connection with their management of the Company. At the same time, we, as trustee, have fiduciary duties to the Operating Trust and to the holders of all OP Units under Maryland law in connection with the management of the Operating Trust. The Company's duties as trustee to the Operating Trust and its Unitholders may come into conflict with the duties of our trustees and officers to the Company and our shareholders.

Additionally, the organizational documents of the Operating Trust expressly limit our liability by providing that the Company will not be liable for monetary or other damages or otherwise for losses sustained, liabilities incurred or benefits not derived in connection with such decisions unless the Company acted with willful misfeasance, bad faith,

gross negligence or reckless disregard of duty, and the act or omission was material to the matter giving rise to the loss, liability or benefit not derived. Moreover, the organizational documents of the Operating Trust provide that the Operating Trust may indemnify, and pay or reimburse reasonable expenses to, the Company and the Company's and the Operating Trust's present or former unitholders, trustees, officers or agents and any other persons acting on behalf of the Company that the Company may designate from and against all claims and liabilities by reason of his, her or its service in such capacity. The Operating Trust has the power, with the approval of the Company, to provide such indemnification and advancement of expenses. The provisions of

Maryland law that allow the fiduciary duties of a trustee to be modified by such organizational documents have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the organizational documents of the Operating Trust that purport to waive or restrict our fiduciary duties that would be in effect were it not for such organizational documents.

Shareholder litigation against us or our Trustees and officers may be referred to binding arbitration proceedings which may increase our risk of default.

Our bylaws provide that actions by our shareholders against us or against our Trustees and officers, including derivative and class actions, may be referred to binding arbitration proceedings. As a result, our shareholders would not be able to pursue litigation for these disputes in courts against us or our Trustees and officers if the disputes were referred to arbitration. In addition, the ability to collect attorneys' fees or other damages may be limited, which may discourage attorneys from agreeing to represent parties wishing to commence such a proceeding.

We may change our operational, financing and investment policies without shareholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our Board of Trustees determines our operational, financing and investment policies and may amend or revise our policies, including our policies with respect to our intention to qualify for taxation as a REIT, acquisitions, dispositions, growth, operations, indebtedness, capitalization and distributions, or approve transactions that deviate from these policies, without a vote of, or notice to, our shareholders. Policy changes could adversely affect the market value of our common shares and our ability to make distributions to our shareholders. Further, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our Board of Trustees may alter or eliminate our current policy on borrowing at any time without shareholder approval. If this policy changed, we could become more highly leveraged, which could result in an increase in our debt service costs. Higher leverage also increases the risk of default on our obligations. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk.

Risks Related to Our Taxation as a REIT

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. We have owned direct or indirect interests in one or more REITs (each, a "Subsidiary REIT") that have elected to be taxed as REITs under the U.S. federal income tax laws. Each Subsidiary REIT is subject to the various REIT qualification requirements and other limitations described herein that are applicable to us. If a Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to U.S. federal income tax, (ii) our ownership of shares in such Subsidiary REIT would cease to be a qualifying asset for purposes of the asset tests applicable to REITs, and (iii) it is possible that we would fail certain of the asset tests applicable to REITs, in which event we would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. While we believe that the Subsidiary REITs have qualified as REITs under the Code, we have joined each Subsidiary REIT in filing a protective taxable REIT subsidiary election under Section 856(l) of the Code for each taxable year in which we have owned an interest in the Subsidiary REIT. Pursuant to the protective taxable REIT subsidiary election, we believe that even if a Subsidiary REIT was not a REIT for some reason, then it would instead have been considered one of our taxable REIT subsidiaries. As one of our taxable REIT subsidiaries, we believe that a Subsidiary REIT's failure to qualify as a REIT would not jeopardize our own qualification as a REIT, even if we owned more than 10% of the Subsidiary REIT.

New legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. H.R. 1, the Tax Cuts and Jobs Act, the tax reform legislation passed on December 22, 2017, makes fundamental changes to the individual and corporate tax laws that may

materially impact us and our shareholders. Certain rules applicable to REITs are particularly difficult to interpret or to apply in the case of REITs investing in real estate mortgage loans that are acquired at a discount, subject to work-outs or modifications, or reasonably expected to be in default at the time of acquisition. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

If we do not qualify as a REIT or fail to remain qualified as a REIT, we will be subject to U.S. federal income tax and potentially to additional state and local taxes which would reduce the amount of cash available for distribution to our shareholders.

We believe that we have been organized and have operated, and will continue to be organized and to operate, in a manner to allow us to qualify us to be taxed under the Code as a REIT. However, we cannot be certain that, upon review or audit, the IRS will agree with this conclusion. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult, or impossible, for us to remain qualified as a REIT. We do not intend to request a ruling from the IRS as to our REIT qualification. As a REIT, we generally do not pay U.S. federal income tax on our net income that we distribute currently to our shareholders. However, actual qualification as a REIT under the Code depends on satisfying complex statutory requirements, for which there are only limited judicial and administrative interpretations. Many of the REIT requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from specific passive sources, such as rent, that are itemized in the REIT tax laws. In addition, to qualify as a REIT, we cannot own specified amounts of debt and equity securities of some issuers. We also are required to distribute to our shareholders with respect to each year at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains). Even a technical or inadvertent mistake could jeopardize our REIT status and, given the highly complex nature of the rules governing REITs and the ongoing importance of factual determinations, we cannot provide any assurance that we will continue to qualify as a REIT.

If we fail to qualify as a REIT for U.S. federal income tax purposes, and are unable to avail ourselves of certain savings provisions set forth in the Code, we likely would be subject to U.S. federal income tax at regular corporate rates. As a taxable corporation, we would not be allowed to take a deduction for distributions to shareholders in computing our taxable income or pass through long term capital gains to individual shareholders at favorable rates. We also could be subject to the U.S. federal alternative minimum tax (for taxable years beginning before December 31, 2017) and possibly increased state and local taxes. We would not be able to elect to be taxed as a REIT for four years following the year we first failed to qualify unless the IRS were to grant us relief under certain statutory provisions. If we failed to qualify as a REIT, we likely would have to pay significant income taxes, which likely would reduce our net earnings available for investment or distribution to our shareholders. If we fail to qualify as a REIT, such failure would cause us to be in breach under our credit agreement, and may adversely affect our ability to raise capital and to service our debt. This likely would have a significant adverse effect on our earnings and the value of our securities. In addition, we would no longer be required to pay any distributions to shareholders. If we fail to qualify as a REIT for U.S. federal income tax purposes and are able to avail ourselves of one or more of the statutory savings provisions in order to maintain our REIT status, we would nevertheless be required to pay penalty taxes of \$50,000 or more for each such failure.

Distributions to shareholders generally do not qualify for the preferential tax rates available for some dividends. Dividends payable by U.S. corporations to noncorporate shareholders, such as individuals, trusts and estates, are generally eligible for reduced tax rates. In 2018, under H.R. 1, distributions paid by REITs to noncorporate shareholders generally are eligible for rates that are 20% lower than ordinary income tax rates, but those rates are higher than the 20% tax rate on qualified dividend income paid by "C" corporations. Although this does not adversely affect the taxation of REITs or dividends payable by REITs, to the extent that the preferential rates continue to apply to regular corporate qualified dividends, the more favorable rates for corporate dividends may cause investors who are individuals, trusts and estates to perceive that an investment in a REIT is less attractive than an investment in a non-REIT entity that pays dividends, thereby reducing the demand and market price of our shares.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our "REIT taxable income" (determined before the deduction for dividends paid and excluding net capital gains) in order for U.S. federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our

taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. We intend to make distributions to our shareholders to comply with the REIT requirements of the Code. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to make distributions to our shareholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with U.S. generally accepted accounting principles, or GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. Further, under amendments to the Code made by H.R. 1, income must

be accrued for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, subject to certain exceptions, which could also create mismatches between REIT taxable income and the receipt of cash attributable to such income. If we do not have other funds available in these situations we could be required to (i) borrow funds on unfavorable terms, (ii) sell investments at disadvantageous prices, (iii) distribute amounts that would otherwise be invested in future acquisitions, or (iv) make a taxable distribution of our common shares as part of a distribution in which shareholders may elect to receive our common shares or (subject to a limit measured as a percentage of the total distribution) cash to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement. These alternatives could increase our costs or reduce our shareholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our shares.

Even if we qualify and remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow. Even if we qualify and remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. We are subject to U.S. federal and state income tax (and any applicable non-U.S. taxes) on the net income earned by our taxable REIT subsidiaries. Moreover, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to U.S. federal income tax on that income because not all states and localities treat REITs the same way they are treated for federal U.S. income tax purposes. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our shareholders.

Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total securities can be represented by securities of one or more taxable REIT subsidiaries (TRS) and, effective for our taxable year that began on January 1, 2016 and all future taxable years, no more than 25% of the value of our assets can be represented by debt instruments issued by "publicly offered REITs." If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio, or contribute to a TRS, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income, increasing our income tax liability, and reducing amounts available for distribution to our stockholders. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments (or, in some cases, forego the sale of such investments) that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make, and, in certain cases, maintain ownership of certain attractive investments.

The tax on "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for U.S. federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Our Trustees have adopted a strategy to own and acquire at a discount to replacement cost high-quality, multi-tenant office assets in markets and sub-markets with favorable long-term supply and demand fundamentals. Our efforts will primarily be focused on larger office buildings in central business districts and major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply. We believe that the dispositions related to the repositioning of our portfolio along with other dispositions that we have made or that we might make in the future will not be subject to the 100% penalty tax; however, because application of the prohibited transactions tax could be based on an analysis of all of the facts and circumstances, there can be no assurance that the gains on our prior real estate sales have not, or any future real estate sales will not, be subject to the 100% prohibited transaction tax.

Our ownership of TRSs has been and will continue to be limited and our transactions with our TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's length basis.

TRSs that we have formed are subject to and will continue to be subject to U.S. federal, state and local income tax on their taxable income, and their after-tax net income is available for distribution to us but is not required to be distributed by such TRSs to us. We believe that the aggregate value of the stock and securities of our TRSs has been and we anticipate that the aggregate value will continue to be less than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets (including our TRS stock and securities). Furthermore, we have monitored and will continue to monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we have scrutinized and will continue to scrutinize all of our transactions with TRSs to ensure that they are entered into on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS limitation discussed above or to avoid application of the 100% excise tax discussed above.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code limit our ability to hedge our liabilities. Generally, income from a hedging transaction we enter into to manage risk of interest rate fluctuations with respect to borrowings, including gain from the disposition of such hedging transactions, to the extent the hedging transactions hedge indebtedness incurred, or to be incurred, by us to acquire or carry real estate assets does not constitute "gross income" for purposes of the 75% or 95% gross income tests, provided we properly identify the hedge pursuant to the applicable sections of the Code and Treasury regulations. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a taxable REIT subsidiary. This could increase the cost of our hedging activities because our taxable REIT subsidiary would be subject to tax on income or gains resulting from hedges entered into by it or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our taxable REIT subsidiary will generally not provide any tax benefit, except for being carried forward for use against future taxable income in our taxable REIT subsidiary, provided, however, losses in our taxable REIT subsidiary arising in taxable years beginning after December 31, 2017 may only be deducted against 80% of future taxable income in the taxable REIT subsidiary.

There is a risk of changes in the tax law applicable to REITs.

The IRS, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax

treatment and, therefore, may adversely affect taxation of us and/or our shareholders. In particular, H.R. 1, which generally takes effect for taxable years beginning on or after January 1, 2018 (subject to certain exceptions), makes many significant changes to the U.S. federal income tax laws that may profoundly impact the taxation of individuals and corporations (both regular C corporations as well as corporations that have elected to be taxed as REITs). A number of changes that affect noncorporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes will impact us and our shareholders in various ways, some of which may be adverse or potentially adverse compared to prior law. To date, the IRS has issued only limited guidance with respect to certain of the new provisions, and there are numerous interpretive issues that will require guidance. It is likely that technical corrections legislation will be needed to clarify certain aspects of the new law and give proper effect to Congressional intent. There can be no assurance, however, that technical clarifications or changes needed to prevent unintended or unforeseen tax consequences will be enacted by Congress in the near future.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

General. At December 31, 2017, we had real estate investments, excluding properties held for sale, totaling approximately \$1.7 billion in 16 properties (26 buildings), that were leased to approximately 300 tenants. We account for the operations of all our properties in one reporting segment. At December 31, 2017, we owned the following real estate (dollars in thousands):

Property	State	Number of Buildings	Undepreciated Carrying Value(1)	Depreciated Carrying Value(1)	Annualized Rental Revenue(2)
1225 Seventeenth Street	CO	1	\$ 159,200	\$ 128,107	\$ 21,738
5073, 5075, & 5085 S. Syracuse Street	CO	1	63,610	52,323	7,601
1601 Dry Creek Drive	CO	1	35,453	24,702	9,122
97 Newberry Road	CT	1	15,350	11,865	1,909
1250 H Street, NW	DC	1	74,411	43,421	9,511
Georgetown-Green and Harris Buildings	DC	2	60,023	52,522	6,710
600 West Chicago Avenue	IL	2	401,062	343,111	53,193
8750 Bryn Mawr Avenue	IL	2	98,340	80,998	17,260
109 Brookline Avenue	MA	1	47,401	26,907	10,835
777 East Eisenhower Parkway	MI	1	35,148	29,327	2,511
1735 Market Street	PA	1	314,085	188,709	29,469
206 East 9th Street	TX	1	50,479	44,310	6,061
Bridgepoint Square	TX	5	94,665	52,092	12,538
Research Park	TX	4	93,473	58,532	11,573
333 108th Avenue NE	WA	1	153,562	124,095	21,114
600 108th Avenue NE	WA	1	51,349	35,872	8,119
Total		26	\$ 1,747,611	\$ 1,296,893	\$ 229,264

(1) Excludes purchase price allocations for acquired real estate leases.

Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2017, plus estimated recurring expense reimbursements; includes triple net lease rents and excludes lease value amortization, straight line rent adjustments, abated ("free") rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.

At December 31, 2017, two properties (two buildings) were encumbered by mortgage notes payable totaling \$32.6 million (including net unamortized premiums and discounts and net unamortized deferred financing costs). For more information regarding these mortgage notes, see Note 8 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

We are or may be a party to various legal proceedings that arise in the ordinary course of business. We are not currently involved in any litigation nor, to our knowledge, is any litigation threatened against us where the outcome

would, in our judgment based on information currently available to us, have a material adverse effect on our consolidated financial position or consolidated results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

22

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common shares are traded on the NYSE (symbol: EQC). The following table sets forth for the periods indicated the high and low sale prices for our common shares, as reported by the NYSE:

	High	Low
2016		
First Quarter	\$28.58	\$25.23
Second Quarter	29.74	26.92
Third Quarter	31.91	29.13
Fourth Quarter	30.98	28.04
2017		
First Quarter	\$32.02	\$30.04
Second Quarter	32.51	30.46
Third Quarter	32.35	29.92
Fourth Quarter	31.63	29.65

As of February 12, 2018, there were 1,251 shareholders of record of our common shares. However, because many of our common shares are held by brokers and other institutions on behalf of shareholders, we believe that there are considerably more beneficial holders of our common shares than record holders.

Distributions

Under our governing documents and Maryland law, distributions to our shareholders are to be authorized and declared by our Board of Trustees.

We did not pay any cash distributions to our common shareholders in 2017 and 2016.

As a result of the net operating loss, a distribution to common shareholders was not required for 2017. The timing and amount of future distributions is determined at the discretion of our Board of Trustees and will depend upon various factors that our Board of Trustees deems relevant, including, but not limited to, our results of operations, our financial condition, debt and equity capital available to us, our expectations of our future capital requirements and operating performance, including our FFO, our Normalized FFO, and our cash available for distribution, restrictive covenants in our financial or other contractual arrangements (including those in our credit agreement and senior notes indenture), tax law requirements to qualify for taxation as and remain a REIT, restrictions under Maryland law and our expected needs and availability of cash to pay our obligations and fund acquisitions. Although we did not make a distribution to common shareholders in 2017, we may make a distribution in 2018. If our taxable income exceeds our net operating loss carryforwards, we will likely be required to make a distribution. Whether we will make a distribution in 2018 and the timing of any such distribution remains uncertain. There can be no assurance that we will pay distributions in the future.

Issuer Repurchases

Common Share Repurchase Program

On August 24, 2015, our Board of Trustees approved a common share repurchase program. On March 17, 2016, our Board of Trustees authorized the repurchase of up to \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. In March 2017, this share repurchase authorization, of which \$106.6 million was not utilized, expired. On March 15, 2017, our Board of Trustees authorized the repurchase of up to an additional \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization.

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During the year ended December 31, 2017, we did not purchase any common shares under our common share repurchase program. During the years ended December 31, 2016 and 2015, we purchased and retired 2,491,675 and 3,410,300 of our common shares, respectively, at a weighted average price of \$27.68 and \$25.76 per share, respectively, for a total investment of

23

\$69.0 million and \$87.8 million, respectively. Since the inception of the common share repurchase program through December 31, 2017, we have purchased and retired a total of 5,901,975 of our common shares at a weighted average price of \$26.57 per share, for a total of \$156.8 million. The \$150.0 million of remaining authorization available under our share repurchase program as of December 31, 2017 is scheduled to expire in March 2018.

Surrender of Common Shares for Tax Withholding

During the year ended December 31, 2017, certain of our employees surrendered common shares owned by them to satisfy their statutory tax withholding obligations in connection with the vesting of restricted common shares and restricted stock units.

The following table summarizes all of these repurchases during the three months ended December 31, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number or Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 2017	36,361	(1)\$ 30.20	N/A	N/A
November 2017	61,450	(1)\$ 30.48	N/A	N/A
December 2017	274	(1)\$ 30.51	N/A	N/A
Total	98,085	(1)\$ 30.38		

(1) The number of shares purchased represents common shares surrendered by certain of our employees to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted common shares and restricted stock units of beneficial interest. With respect to these shares, the price paid per share is based on the closing price of our common shares as of the date of the determination of the statutory minimum federal and state tax obligations.

Unregistered Sales of Securities

There were no unregistered sales of equity securities during the year ended December 31, 2017.

Performance Graph

Notwithstanding anything to the contrary set forth in any of our filings under the Securities Act or the Exchange Act that might incorporate SEC filings, in whole or in part, the following performance graph will not be incorporated by reference into any such filings.

The following graph compares the cumulative total shareholder return of our common shares for the period from December 31, 2012 to December 31, 2017, to the NAREIT All REITs Index, Standard & Poor's 500 Index (S&P 500 Index), and to the NAREIT Equity Office Index over the same period. The graph assumes an investment of \$100.00 in our common shares and each index and the reinvestment of all distributions. The shareholder return shown on the graph below is not indicative of future performance.

Index	Period Ending					
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Equity Commonwealth	\$100.00	\$ 154.31	\$ 171.83	\$ 185.62	\$ 202.42	\$ 204.23
NAREIT All REITs Index	\$100.00	\$ 103.21	\$ 131.23	\$ 134.23	\$ 146.69	\$ 160.29
S&P 500 Index	\$100.00	\$ 132.39	\$ 150.51	\$ 152.59	\$ 170.84	\$ 208.14
NAREIT Equity Office Index	\$100.00	\$ 105.57	\$ 132.87	\$ 133.25	\$ 150.80	\$ 158.71

Source: S&P Global Market Intelligence

Item 6. Selected Financial Data.

The following table sets forth selected financial data for the periods and dates indicated. This data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and the consolidated financial statements and accompanying notes included in "Exhibits and Financial Statement Schedules" in Part IV, Item 15 of this Annual Report on Form 10-K. Reclassifications have been made to the prior years' financial statements to conform to the current year's presentation. Amounts are in thousands, except per share data.

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Operating Data	Year Ended December 31,				
	2017	2016	2015	2014	2013
Total revenues	\$340,571	\$500,680	\$714,891	\$861,857	\$953,029
Expenses:					
Operating expenses	141,425	200,706	324,948	387,982	410,045
Depreciation and amortization	90,708	131,806	194,001	227,532	234,402
General and administrative	47,760	50,256	57,457	113,155	80,504
Loss on asset impairment	19,714	58,476	17,162	185,067	124,253
Acquisition related costs	—	—	—	5	318
Total expenses	299,607	441,244	593,568	913,741	849,522
Operating income (loss)	40,964	59,436	121,323	(51,884)	103,507
Interest and other income	26,380	10,331	5,989	1,561	1,229
Interest expense	(52,183)	(84,329)	(107,316)	(143,230)	(173,011)
(Loss) gain on early extinguishment of debt	(493)	(2,680)	6,661	4,909	(60,052)
Gain on sale of equity investment	—	—	—	171,561	66,293
Gain on issuance of shares by an equity investee	—	—	—	17,020	—
Foreign currency exchange loss	—	(5)	(8,857)	—	—
Gain on sale of properties, net	15,498	250,886	84,421	—	1,596
Income (loss) from continuing operations before income tax expense and equity in earnings of investees	30,166	233,639	102,221	(63)	(60,438)
Income tax expense	(500)	(745)	(2,364)	(3,191)	(2,634)
Equity in earnings of investees	—	—	—	24,460	25,754
Income (loss) from continuing operations	29,666	232,894	99,857	21,206	(37,318)
Discontinued operations	—	—	—	2,806	(119,649)
Net income (loss)	29,666	232,894	99,857	24,012	(156,967)
Net income attributable to noncontrolling interest	(10)	—	—	—	(20,093)
Net income (loss) attributable to Equity Commonwealth	29,656	232,894	99,857	24,012	(177,060)
Preferred distributions	(7,988)	(17,956)	(27,924)	(32,095)	(44,604)
Excess fair value of consideration paid over carrying value of preferred shares	—	(9,609)	—	—	—
Excess fair value of consideration over carrying value of preferred shares	—	—	—	(16,205)	—
Net income (loss) attributable to common shareholders	21,668	205,329	71,933	(24,288)	(221,664)
Common distributions declared	—	—	—	29,597	109,702
Weighted average common shares outstanding—basic	124,125	125,474	128,621	125,163	112,378
Weighted average common shares outstanding—diluted	125,129	126,768	129,437	125,163	112,378
Basic earnings per common share attributable to Equity Commonwealth common shareholders:					
Income (loss) from continuing operations	\$0.17	\$1.64	\$0.56	\$(0.21)	\$(0.91)
Net income (loss)	\$0.17	\$1.64	\$0.56	\$(0.19)	\$(1.97)
Diluted earnings per common share attributable to Equity Commonwealth common shareholders:					
Income (loss) from continuing operations	\$0.17	\$1.62	\$0.56	\$(0.21)	\$(0.91)
Net income (loss)	\$0.17	\$1.62	\$0.56	\$(0.19)	\$(1.97)
Common distributions declared	\$—	\$—	\$—	\$0.25	\$1.00

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Balance Sheet Data	December 31,				
	2017	2016	2015	2014	2013
Real estate properties(1)	\$1,747,611	\$2,856,890	\$3,887,352	\$5,728,443	\$5,537,165
Equity investments	—	—	—	—	517,991
Total assets	4,236,945	4,526,075	5,231,164	5,761,639	6,646,434
Total indebtedness, net	848,578	1,141,667	1,697,116	2,207,665	3,005,410
Total shareholders' equity	3,299,366	3,260,447	3,368,487	3,319,583	3,363,586
Noncontrolling interest	1,129	—	—	—	—
Total equity	3,300,495	3,260,447	3,368,487	3,319,583	3,363,586

(1) Excludes value of acquired real estate leases.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included in Part IV, Item 15 of this Annual Report on Form 10-K.

OVERVIEW

We are an internally managed and self-advised REIT primarily engaged in the ownership and operation of office buildings throughout the United States. We were formed in 1986 under Maryland law. On November 10, 2016, we converted to what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT, structure. Substantially all of the Company's assets and liabilities are now held in an Operating Trust through which the Company conducts its business.

At December 31, 2017, our portfolio, excluding properties held for sale, included 16 properties (26 buildings), with a combined 8.7 million square feet for a total investment of \$1.7 billion at cost and a depreciated book value of \$1.3 billion.

As of December 31, 2017, our overall portfolio was 91.9% leased. During the year ended December 31, 2017, we entered into leases, excluding leasing activity for assets during the quarter in which the asset was sold or classified as held for sale, for 1.3 million square feet, including lease renewals for 0.8 million square feet and new leases for 0.5 million square feet. Leases entered into during the year ended December 31, 2017, including both lease renewals and new leases, had weighted average cash rental rates that were approximately 3.9% higher than prior rental rates for the same space and weighted average GAAP rental rates that were approximately 16.4% higher than prior rental rates for the same space. The change in GAAP rents is different than the change in cash rents due to differences in the amount of rent abatements, the magnitude and timing of contractual rent increases over the lease term, and the years of term for the newly executed leases compared to the prior leases.

During the year ended December 31, 2017, we sold 16 properties (37 buildings) and two land parcels with a combined 6.6 million square feet for an aggregate gross sales price of \$862.6 million, excluding closing credits and closing costs. During the year ended December 31, 2016, we sold 30 properties (62 buildings) with a combined 8.0 million square feet for an aggregate gross sales price of \$1.3 billion, excluding closing credits and closing costs. We have generated significant proceeds from our dispositions to date and have a cash and cash equivalents and marketable securities balance of \$2.6 billion as of December 31, 2017. Additionally, in January 2018, we announced we are under contract to sell 600 West Chicago Avenue and 1600 Market Street, two properties totaling 2.4 million square feet, for \$670.0 million, excluding closing credits and closing costs. On February 14, 2018, we sold 1600 Market Street. This property was classified as held for sale as of December 31, 2017. For more information regarding these transactions, see Notes 3 and 21 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual

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Report on Form 10-K. As our real estate investments have decreased, our income from operations has also declined.

In December 2016, our Board of Trustees adopted an office repositioning strategy to own and acquire at a discount to replacement cost high-quality, multi-tenant office assets in markets and sub-markets with favorable long-term supply and demand fundamentals. We expect our efforts to be primarily focused on larger buildings in central business districts and major urban areas that offer an attractive quality of life, including opportunities for tenants to live and play in close proximity to where they work, with a preference for markets that have above average limitations on new supply. We currently target our efforts towards acquiring portfolios of properties or pursuing other large acquisitions as opposed to purchasing individual properties, although we may acquire individual properties if opportunities to do so are consistent with our office repositioning strategy.

27

While executing this strategy, depending on market conditions, we may sell additional properties. With the progress we have had executing dispositions, and the strength and liquidity of our balance sheet, we are in a position to increasingly shift our focus to capital allocation. We seek to use this capital to purchase new properties, repay debt, buy back common shares or make other investments or distributions that further our long-term strategic goals.

As we continue to reposition our portfolio, we expect our efforts will be balanced among leasing assets to create value, selling assets when we are able to achieve attractive pricing, and evaluating a wide range of opportunities to deploy capital. Our goal is to utilize the proceeds from asset dispositions to make new investments that will create shareholder value, but we may be unable to identify suitable opportunities. If we do not redeploy capital, we will strive to achieve a sale or liquidation of the Company in a manner that optimizes shareholder value. We are currently unable to predict if or when we will make a determination to sell or liquidate the Company. We continue to evaluate opportunities and courses of action to increase shareholder value and will make such a determination based on market conditions and available opportunities if and when our Board of Trustees believes it to be appropriate.

As part of the office repositioning strategy noted above, and pursuant to our accounting policy, in 2017, we evaluated the recoverability of the carrying values of each of the real estate assets that comprised our portfolio and determined that due to the shortening of the expected periods of ownership as a result of our office repositioning strategy and current estimates of market value, it was necessary to reduce the net book value of a portion of the real estate assets in our portfolio to their estimated fair values less estimated costs to sell. As a result, we recorded an impairment charge of \$19.7 million for the year ended December 31, 2017 in accordance with our impairment analysis procedures.

As a result of the net operating loss, a distribution to common shareholders was not required for 2017. Although we did not make a distribution to common shareholders in 2017, we may make a distribution in 2018. If our taxable income exceeds our net operating loss carryforwards, we will likely be required to make a distribution. Whether we will make a distribution in 2018 and the timing of any such distribution remains uncertain.

We have engaged CBRE, Inc. (CBRE) to provide property management services for our properties. We pay CBRE a property-by-property management fee and may engage CBRE from time-to-time to perform project management services, such as coordinating and overseeing the completion of tenant improvements and other capital projects at the properties. We reimburse CBRE for certain expenses incurred in the performance of its duties, including certain personnel and equipment costs.

For the years ended December 31, 2017 and 2016, we incurred expenses of \$17.9 million and \$25.8 million, respectively, related to our property management agreement with CBRE, for property management fees, typically calculated as a percentage of the properties revenues, and salary and benefits reimbursements for property personnel, such as property managers, engineers and maintenance staff. As of December 31, 2017 and 2016, we had amounts payable pursuant to these services of \$1.8 million and \$2.7 million, respectively.

Property Operations

Leased occupancy data for 2017 and 2016 is as follows (square feet in thousands):

	All Properties(1)		Comparable Properties(2)	
	As of December 31,		As of December 31,	
	2017	2016	2017	2016
Total properties	16	33	16	16
Total square feet	8,706	16,053	8,706	8,639

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Percent leased(3) 91.9 % 91.1 % 91.9 % 93.3 %

(1) Excludes properties sold or classified as held for sale in the period.

(2) Based on properties owned continuously from January 1, 2016 through December 31, 2017, and excludes properties sold or classified as held for sale during the period.

(3) Percent leased includes (i) space being fitted out for occupancy pursuant to existing leases and (ii) space which is leased but is not occupied or is being offered for sublease by tenants.

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The weighted average lease term based on square feet for leases entered into during the year ended December 31, 2017 was 9.2 years. Commitments made for leasing expenditures and concessions, such as tenant improvements and leasing commissions, for leases entered into during the year ended December 31, 2017 totaled \$44.9 million, or \$34.49 per square foot on average (approximately \$3.77 per square foot per year of the lease term).

As of December 31, 2017, approximately 4.7% of our leased square feet and 5.5% of our annualized rental revenue, determined as set forth below, are included in leases scheduled to expire through December 31, 2018. Renewed and new leases and rental rates at which available space may be rented in the future will depend on prevailing market conditions at the times these leases are negotiated. We believe that the in-place cash rents for leases expiring in 2018 are below market. Lease expirations by year, as of December 31, 2017, are as follows (square feet and dollars in thousands):

Year	Number of Tenants Expiring	Leased Square Feet Expiring(1)	% of Leased Square Feet Expiring(1)	Cumulative % of Leased Square Feet Expiring(1)	Annualized Rental Revenue Expiring(2)	% of Annualized Rental Revenue Expiring	Cumulative % of Annualized Rental Revenue Expiring
2018	44	375	4.7	% 4.7	\$ 12,546	5.5	% 5.5
2019	53	804	10.0	% 14.7	28,413	12.4	% 17.9
2020	43	977	12.2	% 26.9	33,275	14.5	% 32.4
2021	42	579	7.2	% 34.1	18,505	8.1	% 40.5
2022	35	481	6.1	% 40.2	16,182	7.1	% 47.6
2023	37	525	6.6	% 46.8	17,746	7.7	% 55.3
2024	11	200	2.5	% 49.3	6,020	2.6	% 57.9
2025	12	273	3.4	% 52.7	8,029	3.5	% 61.4
2026	11	579	7.2	% 59.9	19,051	8.3	% 69.7
2027	12	456	5.7	% 65.6	16,603	7.2	% 76.9
Thereafter	40	2,756	34.4	% 100.0	52,894	23.1	% 100.0
	340	8,005	100.0	%	\$ 229,264	100.0	%

Weighted average remaining lease term (in years):

7.2

6.3

Square feet is pursuant to existing leases as of December 31, 2017, excluding leases related to properties classified (1) as held for sale, and includes (i) space being fitted out for occupancy and (ii) space which is leased but is not occupied or is being offered for sublease by tenants.

Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2017, plus estimated recurring expense reimbursements; includes triple net lease rents and excludes lease value amortization, straight line rent adjustments, abated (free) rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an (2) estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.

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A principal source of funds for our operations is rents from tenants at our properties. Rents are generally received from our tenants monthly in advance. As of December 31, 2017, tenants representing 1.5% or more of our total annualized rental revenue were as follows (square feet in thousands):

Tenant(1)	Square Feet(2)	% of Total Square Feet(2)	% of Annualized Rental Revenue(3)	Weighted Average Remaining Lease Term
1. Expedia, Inc.	427	5.3 %	8.9 %	2.1
2. Groupon, Inc.(4)	376	4.7 %	5.3 %	8.2
3. Flextronics International Ltd.	1,051	13.1 %	4.6 %	12.1
4. Echo Global Logistics, Inc.	223	2.8 %	3.7 %	9.8
5. Ballard Spahr LLP	219	2.7 %	3.5 %	12.2
6. RE/MAX Holdings, Inc.	248	3.1 %	3.3 %	10.4
7. Georgetown University(5)	240	3.0 %	2.9 %	1.8
8. West Corporation	336	4.2 %	2.6 %	11.2
9. Wm. Wrigley Jr. Company	150	1.9 %	2.5 %	1.5
10. Level 3 Communications, LLC	95	1.2 %	1.8 %	8.2
11. Jump Operations, LLC	113	1.4 %	1.7 %	3.1
12. Dana-Farber Cancer Institute, Inc.	77	1.0 %	1.5 %	7.0
13. Beth Israel Deaconess Medical Center, Inc.	109	1.4 %	1.5 %	5.9
Total	3,664	45.8 %	43.8 %	8.4

(1) Tenants located in properties classified as held for sale are excluded.

(2) Square footage is pursuant to existing leases as of December 31, 2017, and includes (i) space being fitted out for occupancy and (ii) space which is leased but is not occupied or is being offered for sublease by tenants.

(3) Annualized rental revenue is annualized contractual rents from our tenants pursuant to leases which have commenced as of December 31, 2017, plus estimated recurring expense reimbursements; includes triple net lease rents and excludes lease value amortization, straight line rent adjustments, abated (free) rent periods and parking revenue. We calculate annualized rental revenue by aggregating the recurring billings outlined above for the most recent month during the quarter reported, adding abated rent, and multiplying the sum by 12 to provide an estimation of near-term potentially-recurring revenues. Annualized rental revenue is a forward-looking non-GAAP measure. Annualized rental revenue cannot be reconciled to a comparable GAAP measure without unreasonable efforts, primarily due to the fact that it is calculated from the billings of tenants in the most recent month at the most recent rental rates during the quarter reported, whereas historical GAAP measures include billings from a potentially different group of tenants over multiple months at potentially different rental rates.

(4) Groupon, Inc. statistics include 207,536 square feet that are sublet from Bankers Life and Casualty Company.

(5) Georgetown University's leased space includes 111,600 square that are sublet to another tenant. During the fourth quarter of 2017, the other tenant committed to lease this space from us through September 30, 2037.

Financing Activities

In December 2017, we repaid \$2.0 million of mortgage debt at 33 Stiles Lane and recognized a loss on early extinguishment of debt of \$0.2 million from prepayment fees and the write off of unamortized deferred financing fees.

In April 2017, we repaid at par \$41.3 million of mortgage debt at Parkshore Plaza and recognized a loss on early extinguishment of debt of \$0.1 million from prepayment fees and the write off of unamortized deferred financing fees, net of the write off of an unamortized premium.

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On July 15, 2017, we redeemed at par \$250.0 million of our 6.65% senior unsecured notes due 2018 and recognized a loss on early extinguishment of debt of \$0.2 million from the write off of unamortized deferred financing fees and the write off of an unamortized discount.

For more information regarding our financing sources and activities, please see the section captioned “Liquidity and Capital Resources—Our Investment and Financing Liquidity and Resources” below.

30

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RESULTS OF OPERATIONS

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

	Comparable Properties Results(1)				Other Properties Results(2)		Consolidated Results			
	Year Ended December 31,		\$ Change	% Change	2017	2016	2017	2016	\$ Change	% Change
2017	2016	2017			2016	2017	2016	2017		
	(in thousands)									
Rental income	\$ 186,456	\$ 182,297	4,159	2.3%	\$ 83,864	\$ 226,774	\$ 270,320	\$ 409,071	\$(138,751)	(33.9)%
Tenant reimbursements and other income	62,999	60,313	2,686	4.5%	7,252	31,296	70,251	91,609	(21,358)	(23.3)%
Operating expenses	(101,631)	(95,918)	(5,713)	6.0%	(39,794)	(104,788)	(141,425)	(200,706)	59,281	(29.5)%
Net operating income(3)	\$ 147,824	\$ 146,692	\$ 1,132	0.8%	\$ 51,322	\$ 153,282	199,146	299,974	(100,828)	(33.6)%
Other expenses:										
Depreciation and amortization							90,708	131,806	(41,098)	(31.2)%
General and administrative							47,760	50,256	(2,496)	(5.0)%
Loss on asset impairment							19,714	58,476	(38,762)	(66.3)%
Total other expenses							158,182	240,538	(82,356)	(34.2)%
Operating income							40,964	59,436	(18,472)	(31.1)%
Interest and other income							26,380	10,331	16,049	155.3%
Interest expense							(52,183)	(84,329)	32,146	(38.1)%
Loss on early extinguishment of debt							(493)	(2,680)	2,187	(81.6)%
Foreign currency exchange loss							—	(5)	5	(100.0)%
Gain on sale of properties, net							15,498	250,886	(235,388)	(93.8)%
Income before income taxes							30,166	233,639	(203,473)	(87.1)%
Income tax expense							(500)	(745)	245	(32.9)%
Net income							29,666	232,894	(203,228)	(87.3)%
Net income attributable to noncontrolling interest							(10)	—	(10)	100.0%
Net income attributable to Equity Commonwealth							29,656	232,894	(203,238)	(87.3)%
Preferred distributions							(7,988)	(17,956)	9,968	(55.5)%
Excess fair value of consideration paid over carrying value of preferred shares							—	(9,609)	9,609	(100.0)%
Net income attributable to Equity Commonwealth common shareholders							\$ 21,668	\$ 205,329	\$(183,661)	(89.4)%

(1) Comparable properties consist of 16 properties (26 buildings) owned continuously from January 1, 2016 to December 31, 2017.

(2) Other properties consist of properties sold or classified as held for sale as of the end of the period.

We calculate net operating income, or NOI, as shown above. We define NOI as income from our real estate including lease termination fees received from tenants less our property operating expenses. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions. We consider NOI to be an appropriate supplemental measure to net income because it may help both investors and management to understand the operations of our properties. We use NOI internally to evaluate property level performance, and we believe that NOI provides useful information to investors regarding our results of operations because it reflects only those income and expense items that are incurred at the property level and may facilitate comparisons of our operating performance between periods and with other REITs. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered as an alternative to net income, net income attributable to Equity Commonwealth common shareholders, operating income or cash flow from operating activities, determined in accordance with GAAP, or as an indicator of our financial performance or liquidity, nor is this measure necessarily indicative of sufficient cash flow to fund all of our needs. This measure should be considered in conjunction with net income, net income attributable to Equity Commonwealth common shareholders, operating income and cash flow from operating activities as presented in our consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Other REITs and real estate companies may calculate NOI differently than we do.

(3) We refer to the 16 properties (26 buildings) we owned continuously from January 1, 2016 to December 31, 2017, as comparable properties. We refer to the sold properties and properties classified as held for sale as other properties. Our consolidated statements of operations for the years ended December 31, 2017 and 2016, include the operating results of 16 properties for the entire periods, as we owned these properties as of January 1, 2016.

Rental income. Rental income decreased \$138.8 million, or 33.9%, in the 2017 period, compared to the 2016 period, primarily due to the properties sold in 2017 and 2016. Rental income at the comparable properties increased \$4.2 million, or 2.3% due to an increase in lease termination fees and an increase in rents resulting from new leasing activity, partially offset by several large tenant lease expirations and lease contractions.

Rental income includes increases for straight line rent adjustments totaling \$14.4 million in the 2017 period and \$14.1 million in the 2016 period, and net reductions for amortization of acquired real estate leases and assumed real estate lease obligations totaling \$1.8 million in the 2017 period and \$6.5 million in the 2016 period. Rental income also includes the recognition of lease termination fees totaling \$4.9 million in the 2017 period and \$23.4 million in the 2016 period.

Tenant reimbursements and other income. Tenant reimbursements and other income decreased \$21.4 million, or 23.3% in the 2017 period, compared to the 2016 period primarily due to the properties sold in 2017 and 2016. Tenant reimbursements and other income increased \$2.7 million, or 4.5%, at our comparable properties primarily due to new leasing activity and an increase in real estate tax expense, partially offset by a decrease in utility expense.

Operating expenses. Operating expenses decreased \$59.3 million, or 29.5%, in the 2017 period as compared to the 2016 period, primarily due to the properties sold in 2017 and 2016. Operating expenses at our comparable properties increased \$5.7 million, or 6.0%, primarily due to an increase in real estate tax expense, partially offset by a decrease in utility expense due to the milder winter in 2017 and a decrease in tenant usage.

Depreciation and amortization. Depreciation and amortization decreased \$41.1 million, or 31.2%, in the 2017 period, as compared to the 2016 period, primarily due to properties sold in 2017 and 2016.

General and administrative. General and administrative expenses decreased \$2.5 million, or 5.0% in the 2017 period, compared to the 2016 period, primarily due to a \$0.9 million decrease in compensation expenses related to staffing reductions, a \$1.0 million decrease related to the shareholder approved reimbursement of expenses incurred by Related/Corvex in connection with their consent solicitation to remove our former Trustees that were incurred in 2016 but not 2017, and a \$3.5 million decrease in technology, payroll and legal expenses, partially offset by a \$3.0 million increase in share-based compensation expense.

Loss on asset impairment. We recorded impairment charges of \$19.7 million in the 2017 period related to 25 S. Charles Street and the Five Property Portfolio, based upon the shortening of our expected period of ownership and updated market information in accordance with our impairment analysis procedures. For the properties included in the Five Property Portfolio, see Note 3 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. We recorded impairment charges of \$58.5 million in the 2016 period related to 111 Monument Circle, 101-115 W. Washington Street, 100 East Wisconsin Avenue, Parkshore Plaza, Cabot Business Park Land, 625 Crane Street and 111 Market Place based upon the shortening of our expected periods of ownership as a result of our disposition plan and updated market information in accordance with our impairment analysis procedures.

Operating income. Operating income decreased \$18.5 million, or 31.1%, in the 2017 period, as compared to the 2016 period, primarily due to the properties sold in 2017 and 2016.

Interest and other income. Interest and other income increased \$16.0 million in the 2017 period, as compared 2016 period, primarily due to additional interest received on higher invested balances and higher average interest rates in 2017.

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Interest expense. Interest expense decreased \$32.1 million, or 38.1%, in the 2017 period, as compared to the 2016 period, primarily due to the prepayment of \$139.1 million of our 6.25% senior unsecured notes in February 2016, the repayment of the \$167.8 million mortgage debt at 1735 Market Street in November 2016, the prepayment of \$250.0 million of our 6.25% senior unsecured notes in December 2016, the repayment of the \$41.3 million mortgage debt at Parkshore Plaza in April 2017, the prepayment of \$250.0 million of our 6.65% senior unsecured notes in July 2017 and a decrease in amortization of deferred financing fees, partially offset by an increase in interest expense related to our term loans as a result of an increase in interest rates.

Loss on early extinguishment of debt. The loss on early extinguishment of debt of \$0.5 million in the 2017 period reflects prepayment fees and the write off of unamortized deferred financing fees, net of the write off of an unamortized premium related to our repayment at par of mortgage debt at Parkshore Plaza, the write off of unamortized deferred financing fees and the write off of an unamortized discount related to our repayment at par of our 6.65% senior unsecured notes due 2018 and prepayment fees and the write off of unamortized deferred financing fees related to our repayment of mortgage debt at 33 Stiles Lane. The loss on

early extinguishment of debt of \$2.7 million in the 2016 period reflects the write-off of an unamortized discount and unamortized deferred financing fees related to our redemption of our 6.25% senior unsecured notes due 2016 and our 6.25% senior unsecured notes due 2017 and the write-off of unamortized deferred financing fees and breakage costs incurred related to our repayment of the mortgage debt at 1735 Market Street.

Gain on sale of properties, net. Gain on sale of properties, net decreased \$235.4 million in the 2017 period as compared to the 2016 period. Gain on sale of properties, net in the 2017 period primarily relates to the following (dollars in thousands):

Asset	Gain (Loss) on Sale
111 Market Place	\$(5,968)
Cabot Business Park Land	(57)
Parkshore Plaza	(2,460)
25 S. Charles Street	(3,487)
802 Delaware Avenue	9,099
1500 Market Street	38,585
6600 North Military Trail	(14,175)
789 East Eisenhower Parkway	1,242
33 Stiles Lane	2,163
625 Crane Street (Land)	249
Mineral Rights	169
Seton Center Portfolio	22,479
Five Property Portfolio	702
Pittsburgh Portfolio	(33,048)
	\$15,493

Gain on sale of properties, net in the 2016 period primarily relates to the following (dollars in thousands):

Asset	Gain (Loss) on Sale
Executive Park	\$16,531
3330 N Washington Boulevard	5,455
111 East Kilbourn Avenue	14,687
1525 Locust Street	8,956
633 Ahua Street	15,963
Lakewood on the Park	13,616
Leased Land	15,914
9110 East Nichols Avenue	642
111 River Street	78,207
Sky Park Centre	4,746
Raintree Industrial Park	(653)
8701 N Mopac	8,394
7800 Shoal Creek Boulevard	14,908
1200 Lakeside Drive	3,062
6200 Glenn Carlson Drive	7,706
Downtown Austin Portfolio	20,584
Movie Theater Portfolio	30,595

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South Carolina Industrial Portfolio	7,248
Midwest Portfolio	(15,800)
	\$250,761

Income tax expense. Income tax expense decreased \$0.2 million, or 32.9%, in the 2017 period, compared to the 2016 period, primarily due to the sale of properties in certain states.

33

Net income attributable to noncontrolling interest. In 2017, we granted LTIP Units to certain of our trustees and employees. The net income attributable to noncontrolling interest of \$10,000 in the 2017 period relates to the allocation of net income to the LTIP Unit holders.

Preferred distributions. The \$10.0 million decrease in preferred distributions is due to the redemption of all of our 11,000,000 outstanding series E preferred shares on May 15, 2016.

Excess fair value of consideration paid over carrying value of preferred shares. On May 15, 2016, we redeemed all of our 11,000,000 outstanding series E preferred shares at a price of \$25.00 per share and recorded \$9.6 million related to the excess fair value of consideration paid over the carrying value of the preferred shares as a reduction to net income attributable to common shareholders for the year ended December 31, 2016.

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RESULTS OF OPERATIONS

Year Ended December 31, 2016, Compared to Year Ended December 31, 2015

	Comparable Properties Results(1)				Other Properties Results(2)		Consolidated Results			
	Year Ended December 31,		\$ Change	% Change	2016	2015	2016	2015	\$ Change	% Change
2016	2015	2016			2015					
Rental income	\$321,963	\$311,432	\$10,531	3.4 %	\$87,108	\$258,950	\$409,071	\$570,382	\$(161,311)	(28.3) %
Tenant reimbursements and other income	74,339	78,599	(4,260)	(5.4) %	17,270	65,910	91,609	144,509	(52,900)	(36.6) %
Operating expenses	(162,654)	(163,290)	636	(0.4) %	(38,052)	(161,658)	(200,706)	(324,948)	124,242	(38.2) %
Net operating income(3)	\$233,648	\$226,741	\$6,907	3.0 %	\$66,326	\$163,202	299,974	389,943	(89,969)	(23.1) %
Other expenses:										
Depreciation and amortization							131,806	194,001	(62,195)	(32.1) %
General and administrative							50,256	57,457	(7,201)	(12.5) %
Loss on asset impairment							58,476	17,162	41,314	240.7 %
Total other expenses							240,538	268,620	(28,082)	(10.5) %
Operating income							59,436	121,323	(61,887)	(51.0) %
Interest and other income							10,331	5,989	4,342	72.5 %
Interest expense							(84,329)	(107,316)	22,987	(21.4) %
(Loss) gain on early extinguishment of debt							(2,680)	6,661	(9,341)	(140.2) %
Foreign currency exchange loss							(5)	(8,857)	8,852	(99.9) %
Gain on sale of properties, net							250,886	84,421	166,465	197.2 %
Income before income taxes							233,639	102,221	131,418	128.6 %
Income tax expense							(745)	(2,364)	1,619	(68.5) %
Net income							232,894	99,857	133,037	133.2 %
Preferred distributions							(17,956)	(27,924)	9,968	(35.7) %
Excess fair value of consideration paid over carrying value of preferred shares							(9,609)	—	(9,609)	(100.0) %
Net income attributable to Equity Commonwealth common shareholders							\$205,329	\$71,933	\$133,396	185.4 %

(1) Comparable properties consist of 33 properties (64 buildings) owned continuously from January 1, 2015 to December 31, 2016.

(2) Other properties consist of properties sold.

(3) See Note 3 on page 31 for further information regarding NOI.

We refer to the 33 properties (64 buildings) we owned continuously from January 1, 2015 to December 31, 2016, as comparable properties. We refer to the sold properties as other properties. Our consolidated statements of operations for the years ended December 31, 2016 and 2015, include the operating results of 33 properties for the entire periods, as we owned these properties as of January 1, 2015.

Rental income. Rental income decreased \$161.3 million, or 28.3%, in the 2016 period, compared to the 2015 period, primarily due to the properties sold in 2016 and 2015, partially offset by an increase of 3.4% in rental income at the comparable properties. The increase in rental income at the comparable properties is due to an increase in straight line rent adjustments related to new leasing activity where the tenants have not yet started paying rent, partially offset by several large tenant lease expirations and lease contractions. The increase in rental income at the comparable properties is also due to charges against revenue of \$2.7 million recognized during the year ended December 31, 2015 related to a one-time parking tax matter and a tenant lease termination at 600 West Chicago Avenue recognized in the 2015 period.

Rental income includes increases for straight line rent adjustments totaling \$14.1 million in the 2016 period and \$5.3 million in the 2015 period, and net reductions for amortization of acquired real estate leases and assumed real estate lease obligations totaling \$6.5 million in the 2016 period and \$7.5 million in the 2015 period. Rental income also includes the recognition of lease termination fees totaling \$23.4 million in the 2016 period and \$8.2 million in the 2015 period.

Tenant reimbursements and other income. Tenant reimbursements and other income decreased \$52.9 million, or 36.6% in the 2016 period, compared to the 2015 period primarily due to the properties sold in 2016 and 2015. Tenant reimbursements and other income decreased \$4.3 million, or 5.4%, at our comparable properties primarily due to a decrease in utility reimbursements as a result of the milder winter in 2016, a decrease in real estate tax reimbursements and a bankruptcy settlement received in the prior year.

Operating expenses. The \$124.2 million, or 38.2%, decrease in operating expenses during the 2016 period as compared to the 2015 period is primarily due to the properties sold in 2016 and 2015. Operating expenses at our comparable properties decreased \$0.6 million, or 0.4%, primarily due to a decrease in utility expense as a result of the milder winter in 2016, a decrease in real estate tax expense and a decrease in bad debt expense, partially offset by increases in maintenance and repairs.

Depreciation and amortization. The decrease of \$62.2 million, or 32.1%, in depreciation and amortization expense in the 2016 period when compared to the 2015 period primarily relates to properties sold in 2016 and 2015.

General and administrative. The decrease of \$7.2 million, or 12.5% in general and administrative expenses primarily relates to a \$7.9 million decrease related to the shareholder approved reimbursement of expenses incurred by Related/Corvex in connection with their consent solicitation to remove our former Trustees, a decrease of \$2.7 million of expenses related to the termination and cooperation agreement with our former manager, and a \$1.8 million decrease in litigation costs, partially offset by an increase of \$2.9 million for share-based compensation expense, and \$1.7 million of severance and related expenses in the 2016 period as a result of staffing reductions.

Loss on asset impairment. The increase of \$41.3 million in loss on asset impairment is due to additional charges that we incurred in the 2016 as compared to the 2015 period. We recorded impairment charges of \$43.7 million in the second quarter of 2016 related to 111 Monument Circle, 101-115 W. Washington Street and 100 East Wisconsin Avenue, and \$14.7 million in the fourth quarter of 2016 related to Parkshore Plaza, Cabot Business Park Land, 625 Crane Street and 111 Market Place based upon the shortening of our expected periods of ownership as a result of our disposition plan and updated market information in accordance with our impairment analysis procedures. During the year ended December 31, 2015, we recorded impairment charges of \$17.2 million related to 12655 Olive Boulevard, 1285 Fern Ridge Parkway and portfolios of properties located in Georgia and New York, based upon updated market information in accordance with our impairment analysis procedures.

Operating income. The decrease of \$61.9 million, or 51.0%, in operating income is primarily due to lower net operating income as a result of our smaller size portfolio of assets and an increase in the loss on asset impairment. These decreases in operating income were partially offset by a lease termination fee of \$18.0 million received at 111 Monument Circle in the 2016 period and lower depreciation expense as a result of our smaller size portfolio of assets.

Interest and other income. The increase of \$4.3 million of interest and other income in the 2016 period primarily reflects interest received on higher cash balances in the current year. Interest and other income in the 2015 period primarily reflects a \$3.1 million gain on the sale of securities in the first quarter of 2015.

Interest expense. The decrease of \$23.0 million, or 21.4%, in interest expense primarily reflects the prepayment of \$138.8 million of our 5.75% senior unsecured notes in May 2015, the foreclosure of the \$40.1 million mortgage debt balance secured by 225 Water Street in May 2015, the defeasance of the outstanding \$141.4 million balance of the mortgage debt secured by 111 East Wacker Drive, one of the buildings included in the Illinois Center disposition, in August 2015, the repayment of the \$116.0 mortgage debt at 111 Monument Circle in December 2015, the prepayment of \$139.1 million of our 6.25% senior unsecured notes in February 2016, the repayment of the \$167.8 million mortgage debt at 1735 Market Street in November 2016, the prepayment of \$250.0 million of our 6.25% senior

unsecured notes in December 2016, and a decrease in amortization of deferred financing fees, partially offset by a decrease in amortization of net mortgage debt premiums and an increase in interest expense related to our term loans as a result of an increase in interest rates.

(Loss) gain on early extinguishment of debt. We had a loss on early extinguishment of debt of \$2.7 million during the year ended December 31, 2016 compared to a gain on early extinguishment of debt of \$6.7 million during the year ended December 31, 2015. The loss on early extinguishment in the 2016 period reflects the write-off of an unamortized discount and unamortized deferred financing fees related to our redemption of our 6.25% senior unsecured notes due 2016 and our 6.25% senior unsecured notes due 2017 and the write-off of unamortized deferred financing fees and breakage costs incurred related to our repayment of the mortgage debt at 1735 Market Street. The gain on early extinguishment of debt in the 2015 period reflects a \$17.3 million gain related to the 225 Water Street foreclosure and a \$0.6 million gain related to the repayment of mortgage debt at 111 Monument Circle, partially offset by a \$6.2 million loss related to the defeasance of the mortgage loan secured by 1320 Main Street, a \$3.9 million loss related to the defeasance of the mortgage loan secured by 111 East Wacker Drive, one of

the buildings included in the Illinois Center disposition, a \$0.6 million loss related to the prepayment of mortgage debt at 2501 20th Place South, a \$0.1 million loss related to the redemption of our 5.75% senior unsecured notes due 2015 and a \$0.4 million loss related to the termination of our prior credit agreement.

Foreign currency exchange loss. The foreign currency exchange loss for the years ended December 31, 2016 and 2015 relates to the translation of proceeds from the sale of the Australian portfolio that were held in an Australian bank account.

Gain on sale of properties, net. Gain on sale of properties, net increased \$166.5 million in the 2016 period as compared to the 2015 period due to a \$16.5 million gain on the sale of Executive Park, a \$5.5 million gain on the sale of 3330 N Washington Boulevard, a \$14.7 million gain on the sale of 111 East Kilbourn Avenue, a \$9.0 million gain on the sale of 1525 Locust Street, a \$16.0 million gain on the sale of 633 Ahua Street, a \$13.6 million gain on the sale of Lakewood on the Park, a \$15.9 million gain on the sale of leased land, a \$20.6 million gain on the sale of the downtown Austin portfolio, a \$30.6 million gain on the sale of the movie theater portfolio and a \$0.6 million gain on the sale of 9110 East Nichols Avenue in the first and second quarters of 2016. In the third quarter of 2016 we recorded gains of \$78.2 million, \$4.7 million, \$8.4 million, and \$7.2 million related to the sales of 111 River Street, Sky Park Centre, 8701 N Mopac and the South Carolina industrial portfolio, respectively. In the fourth quarter of 2016 we recorded gains of \$14.9 million, \$3.1 million and \$7.7 million related to the sales of 7800 Shoal Creek Boulevard, 1200 Lakeside Drive and 6200 Glenn Carlson Drive, respectively. These gains were partially offset by losses in the third quarter of 2016 of \$0.7 million and \$15.8 million related to the sales of Raintree Industrial Park and the Midwest portfolio, respectively.

In the first quarter of 2015, we sold two properties and recorded a \$5.9 million gain on sale of properties. In the second quarter of 2015, we recorded gains of \$41.6 million and \$11.9 million related to the sales of an office portfolio in AL, LA, NC, SC and Sorrento Valley Business Park, respectively. In the third quarter of 2015, we recorded gains of \$27.0 million, \$17.6 million and \$7.9 million related to the sales of Illinois Center, 185 Asylum Street and 16th and Race Street, respectively. In the fourth quarter of 2015, we recorded gains of \$22.8 million, \$9.5 million, \$8.4 million and \$4.3 million related to the sales of Arizona Center, One Park Square, 4 South 84th Avenue and One South Church Avenue, respectively.

These gains were partially offset by a loss in the second quarter on the sale of properties in Australia of \$47.9 million, which is net of the write off of approximately \$63.2 million of foreign currency translation adjustments previously recorded in accumulated other comprehensive loss. We also recognized losses in the second quarter of \$8.2 million and \$2.3 million related to sales of a portfolio of small office and industrial properties and two properties in St. Louis, respectively, a loss in the third quarter of \$12.5 million related to the sale of a portfolio in upstate New York and losses in the fourth quarter of \$3.1 million and \$0.4 million related to the sale of a portfolio in Georgia and the sale of 775 Ridge Lake Boulevard, respectively.

Income tax expense. The \$1.6 million decrease in income tax expense primarily relates to a decrease in foreign tax expense due to the sale of the Australian assets in 2015 and federal income tax expense incurred in 2015 as a result of a taxable built-in gain triggered by the sale of a property that was previously owned by a C corporation. The decrease in income tax expense was partially offset by an increase in state income tax expense due to the sale of properties in certain states.

Preferred distributions. The \$10.0 million decrease in preferred distributions relates to the redemption of all of our 11,000,000 outstanding series E preferred shares on May 15, 2016.

Excess fair value of consideration paid over carrying value of preferred shares. On May 15, 2016, we redeemed all of our 11,000,000 outstanding series E preferred shares at a price of \$25.00 per share and recorded \$9.6 million related to the excess fair value of consideration paid over the carrying value of the preferred shares as a reduction to net income attributable to common shareholders for the year ended December 31, 2016.

Inflation

Inflation in the past several years in the United States has been modest. Future inflation might have either positive or negative impacts on our business. Inflation might cause the value of our real estate to increase. Inflation might also cause our costs of equity and debt capital and operating costs to increase. An increase in our capital costs or in our operating costs may result in decreased earnings unless it is offset by increased revenues. Further inflation may permit us to increase rents upon lease renewal or enter new leases above the previous rent amounts for the leased space. To mitigate the adverse impact of any increased cost of debt capital in the event of material inflation, we may enter into additional interest rate hedge arrangements in the future. The decision to enter into these agreements will be based on various factors, including the amount of our floating rate debt outstanding, our belief that material interest rate increases are likely to occur, the costs of and our expected benefit from these agreements and upon requirements of our borrowing arrangements.

In periods of rapid inflation, our tenants' operating costs may increase faster than revenues, which may have an adverse impact upon us if our tenants' operating income becomes insufficient to pay our rent. To mitigate the adverse impact of tenant financial distress upon us, we require many of our tenants to provide guarantees or security for our rent.

LIQUIDITY AND CAPITAL RESOURCES

Our Operating Liquidity and Resources

As of December 31, 2017, we had \$2.6 billion of cash and cash equivalents and marketable securities. We expect to use our cash balances, cash flow from our operations and proceeds of any future property sales to fund our operations, repay debt, make distributions, purchase our common shares, acquire assets or entities, fund tenant improvements and leasing costs and for other general business purposes. We believe our cash balances and the cash flow from our operations will be sufficient to fund our ordinary course activities.

Our future cash flows from operating activities will depend primarily upon our:

- ability to maintain or improve the occupancy of, and the rental rates at, our properties;
- ability to control operating and financing cost increases at our properties; and
- ability to purchase additional properties, consistent with our office repositioning strategy, which produce rents, less property operating expenses, in excess of our costs of acquisition capital.

Volatility in energy costs and real estate taxes may cause our future operating costs to fluctuate; however, the impact of these fluctuations is expected to be partially offset by the pass through of operating costs to our tenants pursuant to lease terms, although there can be no assurance that we will be able to successfully offset these costs or that doing so would not negatively impact our competitive position or business.

Cash flows provided by (used in) operating, investing and financing activities were \$100.0 million, \$465.6 million and \$(306.2) million, respectively, for the year ended December 31, 2017, and \$163.7 million, \$1.0 billion and \$(923.2) million, respectively, for the year ended December 31, 2016. Changes in these three categories of our cash flows between 2017 and 2016 are primarily related to a decrease in property net operating income, real estate improvements, dispositions of properties, purchase of marketable securities, redemption of preferred shares, repayments of debt and repurchase of our common shares.

Our Investment and Financing Liquidity and Resources

In order to maintain financial flexibility, to fund potential acquisitions and to meet cash needs that may result from timing differences between our receipt of rents and our desire or need to make distributions and investments or pay operating or capital expenses, we maintain an unsecured revolving credit facility with a group of institutional lenders. Our credit agreement provides us with (i) a \$750.0 million unsecured revolving credit facility, (ii) a \$200.0 million 5-year term loan facility and (iii) a \$200.0 million 7-year term loan facility. The revolving credit facility has a scheduled maturity date of January 28, 2019, which maturity date may be extended for up to two additional periods of six months at our option subject to satisfaction of certain conditions and the payment of an extension fee of 7.5 basis points of the aggregate amount available under the revolving credit facility. The 5-year term loan and the 7-year term loan have scheduled maturity dates of January 28, 2020 and January 28, 2022, respectively.

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Borrowings under our revolving credit facility currently bear interest at LIBOR plus a spread, which was 105 basis points as of December 31, 2017. We also pay a facility fee of 20 basis points per annum on the total amount of lending commitments under our revolving credit facility. Both the interest rate spread and the facility fee are subject to adjustment based upon changes to our credit ratings. We are allowed to borrow, repay and reborrow funds available under our revolving credit facility until maturity, and no principal repayment is due until maturity. As of December 31, 2017, the interest rate payable on borrowings under our revolving credit facility was 2.61%. As of December 31, 2017, we had no balance outstanding under our revolving credit facility.

Our term loans currently bear interest at a rate of LIBOR plus a spread, which was 115 and 155 basis points for the 5-year and 7-year term loan, respectively, as of December 31, 2017. The interest rate spread is subject to adjustment based upon changes to our credit ratings. As of December 31, 2017, the interest rate for the amounts outstanding under our term loan was

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2.71% and 3.11% for the 5-year and 7-year term loan, respectively. As of December 31, 2017, our 5-year and 7-year term loans each had outstanding balances of \$200.0 million.

In November 2017, Moody's Investor Services upgraded our senior unsecured debt rating to Baa2 from Baa3, which reduced the spreads and facility fee on our revolving credit facility by 20 basis points and 5 basis points, respectively, and reduced the spreads on our 5-year and 7-year term loans by 25 basis points. The reduced spreads were effective December 1, 2017.

In April 2017, we repaid at par \$41.3 million of mortgage debt at Parkshore Plaza. On July 15, 2017, we redeemed at par \$250.0 million of our 6.65% senior unsecured notes due 2018. In December 2017, we repaid \$2.0 million of mortgage debt at 33 Stiles Lane.

During the year ended December 31, 2017, we paid an aggregate of \$8.0 million of distributions on our series D preferred shares. On January 12, 2018, we announced that our Board of Trustees declared a dividend of \$0.40625 per series D preferred share, which will be paid on February 15, 2018 to shareholders of record on January 30, 2018.

On March 17, 2016, our Board of Trustees authorized the repurchase of up to \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. In March 2017, this share repurchase authorization, of which \$106.6 million was not utilized, expired. On March 15, 2017, our Board of Trustees authorized the repurchase of up to an additional \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. The \$150.0 million of remaining authorization available under our share repurchase program as of December 31, 2017 is scheduled to expire in March 2018. During the year ended December 31, 2017, we did not purchase any common shares.

During the year ended December 31, 2017, we purchased \$276.2 million of marketable securities. For further information about our marketable securities, see Note 6 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Our outstanding debt maturities and weighted average interest rates as of December 31, 2017, were as follows (dollars in thousands):

Year	Scheduled Principal Payments During Period				Weighted Average Interest Rate(2)	
	Unsecured Floating Rate Debt	Unsecured Fixed Rate Debt	Secured Fixed Rate Debt	Total(1)		
2018	\$—	\$—	\$1,063	\$1,063	5.7	%
2019	—	—	1,126	1,126	5.7	%
2020	200,000	250,000	1,189	451,189	4.5	%
2021	—	—	25,463	25,463	5.7	%
2022	200,000	—	663	200,663	3.1	%
2023	—	—	702	702	5.7	%
2024	—	—	743	743	5.7	%
2025	—	—	787	787	5.7	%
2026	—	—	204	204	5.7	%
2027	—	—	—	—	—	%
Thereafter	—	175,000	(3)—	175,000	5.8	%
	\$400,000	\$425,000	\$31,940	\$856,940	4.5	%

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- (1) Total debt outstanding as of December 31, 2017, including net unamortized premiums and discounts and net unamortized deferred financing costs, equals \$848,578.
- (2) Weighted based on current contractual interest rates.
- (3) The 5.75% senior unsecured notes due 2042 are callable at par through maturity. On January 30, 2018, we delivered notice of our intent to redeem at par our \$175 million 5.75% senior unsecured notes due 2042 on March 7, 2018. The notes will be redeemed for cash at a price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest up to, but excluding, the redemption date.

For further information about our indebtedness, see Note 8 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference.

When significant amounts are outstanding under our revolving credit facility, or as the maturity dates of our revolving credit facility and term debts approach, we explore alternatives to repay amounts due. Such alternatives may include incurring additional debt and issuing new equity securities, extending the maturity of our revolving credit facility and entering into a new revolving credit facility. We have an effective shelf registration statement that allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for such securities.

We believe that we will have access to various types of financings, including debt or equity offerings, to fund any future acquisitions and to pay our debts and other obligations as they become due. The completion and the costs of any future debt transactions will depend primarily upon market conditions and our credit ratings. We have no control over market conditions. Our credit ratings depend upon evaluations by credit rating agencies of our business practices and plans and, in particular, whether we appear to have the ability to maintain our earnings, to space our debt maturities and to balance our use of debt and equity capital so that our financial performance and leverage ratios afford us flexibility to withstand any reasonably foreseeable adverse changes. We intend to conduct our business activities in a manner which will continue to afford us reasonable access to capital for investment and financing activities. However, there can be no assurance regarding our credit ratings or our ability to complete any debt or equity offerings or that our cost of any future public or private financings will not increase.

As a result of the net operating loss, a distribution to common shareholders was not required for 2017. Although we did not make a distribution to common shareholders in 2017, we may make a distribution in 2018. If our taxable income exceeds our net operating loss carryforwards, we will likely be required to make a distribution. Whether we will make a distribution in 2018 and the timing of any such distribution remains uncertain.

During the year ended December 31, 2017, we sold 16 properties (37 buildings) with a combined 6.6 million square feet for an aggregate sales price of \$862.6 million, excluding closing credits and closing costs. In January 2018, we announced we are under contract to sell 600 West Chicago Avenue and 1600 Market Street, two properties totaling 2.4 million square feet, for \$670.0 million, excluding closing credits and closing costs. On February 14, 2018, we sold 1600 Market Street. This property was classified as held for sale as of December 31, 2017. For more information regarding these transactions, see Notes 3 and 21 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K, which are incorporated herein by reference.

During the years ended December 31, 2017, 2016 and 2015 amounts capitalized at our properties, including properties sold or classified as held for sale, for tenant improvements, leasing costs and building improvements were as follows (amounts in thousands):

	Years Ended December		
	31,		
	2017	2016	2015
Tenant improvements(1)	\$29,161	\$80,975	\$54,272
Leasing costs(2)	16,073	34,329	44,590
Building improvements(3)	25,880	29,767	21,403

(1) Tenant improvements include capital expenditures to improve tenants' space.

(2) Leasing costs primarily include brokerage commissions and legal expenses.

(3) Building improvements generally include expenditures to replace obsolete building components and expenditures that extend the useful life of existing assets. Tenant-funded capital expenditures are excluded.

During the year ended December 31, 2017, commitments made for expenditures in connection with leasing space at our properties, excluding leasing activity for assets during the quarter in which the asset was sold or classified as held for sale, were as follows (dollar and square foot measures in thousands):

	New Leases	Renewals	Total
Rentable square feet leased during the period	532	768	1,300
Tenant improvements and leasing commissions	\$ 22,956	\$ 21,896	\$ 44,852
Tenant improvements and leasing commissions per rentable square foot	\$ 43.15	\$ 28.51	\$ 34.49
Weighted average lease term by square foot (years)	7.4	10.4	9.2
Tenant improvements and leasing commissions per rentable square foot per year	\$ 5.83	\$ 2.75	\$ 3.77

Debt Covenants

Our unsecured debt obligations at December 31, 2017 were our term loans and our publicly issued senior unsecured notes. Our public debt indenture and related supplements and our credit agreement contain a number of financial ratio covenants which generally restrict our ability to incur debts, in excess of calculated amounts, restrict our ability to make distributions under certain circumstances and require us to maintain other financial ratios. At December 31, 2017, we believe we were in compliance with all covenants under both our indenture and related supplements and under our credit agreement. In addition to our unsecured debt obligations, we had \$32.6 million (including net unamortized premiums and net unamortized deferred financing costs) of mortgage notes outstanding at December 31, 2017.

None of our indenture and related supplements, our credit agreement, or our mortgage notes contain provisions for acceleration or require us to provide collateral security which could be triggered by our debt ratings. However, our senior debt rating is used to determine the interest rate and the fees payable under our credit agreement.

OFF BALANCE SHEET ARRANGEMENTS

As of December 31, 2017, we had no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. We had no swaps or hedges as of December 31, 2017, other than the interest rate cap described in Note 13 of the Notes to Consolidated Financial

Statements and under “Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk—Cap Agreement” in Part II, Item 7A of this Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS

As of December 31, 2017, our contractual obligations were as follows (dollars in thousands):

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt obligations	\$856,940	\$1,063	\$452,315	\$226,126	\$177,436
Tenant related obligations(1)	63,195	60,232	1,205	896	862
Projected interest expense(2)	329,856	38,219	66,990	27,351	197,296
Operating lease obligations—corporate office space	2,600	852	1,748	—	—
Total	\$1,252,591	\$100,366	\$522,258	\$254,373	\$375,594

(1) Committed tenant related obligations are leasing commissions and tenant improvements and are based on leases in effect as of December 31, 2017.

(2) Projected interest expense is attributable to only the long term debt obligations listed above at existing rates and is not intended to project future interest costs which may result from debt prepayments, new debt issuances or changes in interest rates. Projected interest expense does not include interest that may become payable related to future borrowings under our revolving credit facility.

FUNDS FROM OPERATIONS (FFO) AND NORMALIZED FFO

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (NAREIT). NAREIT defines FFO as net income (loss), calculated in accordance with GAAP, excluding real estate depreciation and amortization, gains (or losses) from sales of depreciable property, impairment of depreciable real estate, and our portion of these items related to equity investees and non-controlling interests. Our calculation of Normalized FFO differs from NAREIT's definition of FFO because we exclude certain items that we view as nonrecurring or impacting comparability from period to period. We consider FFO and Normalized FFO to be appropriate measures of operating performance for a REIT, along with net income, net income attributable to Equity Commonwealth common shareholders, operating income and cash flow from operating activities.

We believe that FFO and Normalized FFO provide useful information to investors because by excluding the effects of certain historical amounts, such as depreciation expense, FFO and Normalized FFO may facilitate a comparison of our operating performance between periods and with other REITs. FFO and Normalized FFO do not represent cash generated by operating activities in accordance with GAAP and should not be considered as alternatives to net income, net income attributable to Equity Commonwealth common shareholders, operating income or cash flow from operating activities, determined in accordance with GAAP, or as indicators of our financial performance or liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of our needs. These measures should be considered in conjunction with net income, net income attributable to Equity Commonwealth common shareholders, operating income and cash flow from operating activities as presented in our consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Other REITs and real estate companies may calculate FFO and Normalized FFO differently than we do.

The following table provides a reconciliation of net income to FFO attributable to Equity Commonwealth common shareholders and unitholders and a calculation to Normalized FFO attributable to Equity Commonwealth common shareholders and unitholders (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Reconciliation to FFO:			
Net income	\$29,666	\$232,894	\$99,857
Real estate depreciation and amortization	89,519	130,765	194,001
Loss on asset impairment	19,714	58,476	17,162
Gain on sale of properties, net	(15,498)	(250,886)	(84,421)
FFO attributable to Equity Commonwealth	123,401	171,249	226,599
Preferred distributions	(7,988)	(17,956)	(27,924)
Excess fair value of consideration paid over carrying value of preferred shares	—	(9,609)	—
FFO attributable to Equity Commonwealth common shareholders and unitholders	\$115,413	\$143,684	\$198,675
Reconciliation to Normalized FFO:			
FFO attributable to Equity Commonwealth common shareholders and unitholders	\$115,413	\$143,684	\$198,675
Lease value amortization	1,774	6,531	7,515
Straight line rent adjustments	(14,425)	(14,083)	(5,328)
Loss (gain) on early extinguishment of debt	493	2,680	(6,661)
Minimum cash rent from direct financing lease	—	—	7,451
Interest earned from direct financing lease	—	—	(407)
Shareholder litigation costs and transition-related expenses	—	999	10,869
Transition services fee	—	—	2,679
Gain on sale of securities	—	—	(3,080)

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Foreign currency exchange loss	—	5	8,857
Excess fair value of consideration paid over carrying value of preferred shares	—	9,609	—
Normalized FFO attributable to Equity Commonwealth common shareholders and unitholders	\$ 103,255	\$ 149,425	\$ 220,570

42

PROPERTY NET OPERATING INCOME (NOI)

We use property net operating income, or NOI, to evaluate the performance of our properties. We define NOI as income from our real estate including lease termination fees received from tenants less our property operating expenses. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions and corporate level expenses.

The following table includes the reconciliation of NOI to net income, the most directly comparable financial measure under GAAP reported in our consolidated financial statements. We consider NOI to be an appropriate supplemental measure to net income because it helps to understand the operations of our properties. We use NOI internally to evaluate property level performance, and we believe that NOI provides useful information to investors regarding our results of operations because it reflects only those income and expense items that are incurred at the property level and may facilitate comparisons of our operating performance between periods and with other REITs. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered as an alternative to net income, net income attributable to Equity Commonwealth common shareholders, operating income or cash flow from operating activities, determined in accordance with GAAP, or as an indicator of our financial performance or liquidity, nor is this measure necessarily indicative of sufficient cash flow to fund all of our needs. This measure should be considered in conjunction with net income, net income attributable to Equity Commonwealth common shareholders, operating income and cash flow from operating activities as presented in our consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows. Other REITs and real estate companies may calculate NOI differently than we do.

A reconciliation of NOI to net income for the years ended December 31, 2017, 2016 and 2015, is as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Rental income	\$270,320	\$409,071	\$570,382
Tenant reimbursements and other income	70,251	91,609	144,509
Operating expenses	(141,425)	(200,706)	(324,948)
NOI	\$199,146	\$299,974	\$389,943
NOI	\$199,146	\$299,974	\$389,943
Depreciation and amortization	(90,708)	(131,806)	(194,001)
General and administrative	(47,760)	(50,256)	(57,457)
Loss on asset impairment	(19,714)	(58,476)	(17,162)
Operating income	40,964	59,436	121,323
Interest and other income	26,380	10,331	5,989
Interest expense	(52,183)	(84,329)	(107,316)
(Loss) gain on early extinguishment of debt	(493)	(2,680)	6,661
Foreign currency exchange loss	—	(5)	(8,857)
Gain on sale of properties, net	15,498	250,886	84,421
Income before income taxes	30,166	233,639	102,221
Income tax expense	(500)	(745)	(2,364)
Net income	\$29,666	\$232,894	\$99,857

CRITICAL ACCOUNTING POLICIES

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Our critical accounting policies are those that will have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and estimates are consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in real property. These policies affect our:

43

- allocation of purchase price among various asset categories and the related impact on the recognition of rental income and depreciation and amortization expense;
- assessment of the carrying values and impairments of long lived assets; and
- classification of leases.

We allocate the consideration paid for our properties among land, buildings and improvements and, for properties that qualify as acquired businesses under the Business Combinations Topic of The FASB Accounting Standards Codification™, identified intangible assets and liabilities, consisting of the value of above market and below market leases, the value of acquired in place leases and the value of tenant relationships. Purchase price allocations and the determination of useful lives are based on our estimates and, under some circumstances, studies from independent real estate appraisal firms to provide market information and evaluations that are relevant to our purchase price allocations and determinations of useful lives; however, we are ultimately responsible for the purchase price allocations and determination of useful lives.

We allocate the consideration to land, buildings and improvements based on a determination of the fair values of these assets assuming the property is vacant. We determine the fair value of a property using methods that we believe are similar to those used by independent appraisers. Purchase price allocations to above market and below market leases are based on the estimated present value (using an interest rate which reflects our assessment of the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the acquired in place leases and (2) our estimate of fair market lease rates for the corresponding leases, measured over a period equal to the remaining non-cancelable terms of the respective leases. Purchase price allocations to acquired in place leases and tenant relationships are determined as the excess of (1) the purchase price paid for a property after adjusting existing acquired in place leases to estimated market rental rates over (2) the estimated fair value of the property as if vacant. We aggregate this value between acquired in place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease; however, the value of tenant relationships has not been separated from acquired in place lease value for our properties because we believe such value and related amortization expense is immaterial for acquisitions reflected in our historical financial statements. We consider certain factors in performing these analyses including estimates of carrying costs during the expected lease up periods, including real estate taxes, insurance and other operating income and expenses and costs to execute similar leases in current market conditions, such as leasing commissions, legal and other related costs. If we believe the value of tenant relationships is material in the future, those amounts will be separately allocated and amortized over the estimated lives of the relationships. We recognize the excess, if any, of the consideration paid over amounts allocated to land, buildings and improvements and identified intangible assets and liabilities as goodwill and we recognize gains if amounts allocated exceed the consideration paid.

We compute depreciation expense using the straight line method over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property. We do not depreciate the allocated cost of land. We amortize capitalized above market lease values (presented in our consolidated balance sheets as acquired real estate leases) as a reduction to rental income over the remaining non-cancelable terms of the respective leases. We amortize capitalized below market lease values (presented in our consolidated balance sheets as assumed real estate lease obligations) as an increase to rental income over the remaining terms of the respective leases. We amortize the value of acquired in place leases exclusive of the value of above market and below market in place leases to expense over the remaining non-cancelable periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. Purchase price allocations require us to make certain assumptions and estimates. Incorrect assumptions and estimates may result in inaccurate depreciation and amortization charges over future periods.

We periodically evaluate our properties for possible impairments. Impairment indicators may include declining tenant occupancy, lack of progress releasing vacant space, tenant bankruptcies, low long term prospects for improvement in property performance, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life and legislative, market or industry changes that could permanently reduce the value of a property. If indicators of impairment are present, we evaluate the carrying value of the related property

by comparing it to the expected future undiscounted cash flows to be generated from that property. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. Projections of expected future operating cash flows require that we estimate future market rental revenue amounts subsequent to the expiration of current lease agreements, future property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property's fair value and could result in the misstatement of the carrying value of our real estate assets and net income (loss).

Each time we enter a new lease or materially modify an existing lease we evaluate its classification as either a capital or operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and fair market value of a leased property, appropriate discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases.

These policies involve significant judgments made based upon experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual value, the ability and willingness of our tenants to perform their obligations to us, current and future economic conditions and competitive factors in the markets in which our properties are located. Competition, economic conditions and other factors may cause occupancy declines in the future. In the future, we may need to revise our carrying value assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense related to properties we own, result in the classification of our leases as other than operating leases or decrease the carrying values of our assets.

RELATED PERSON TRANSACTIONS

For information about our related person transactions, see Note 19 of the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to risks associated with market changes in interest rates, as set forth below.

Interest Rate Risk

We manage our exposure to interest rate risk by monitoring available financing alternatives. Other than as described below, we do not currently foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

At December 31, 2017, our outstanding fixed rate debt consisted of the following senior unsecured notes and secured mortgage notes (dollars in thousands):

Senior Unsecured Notes:

Debt	Principal Balance(1)	Annual Interest Rate(1)	Annual Interest Expense(1)	Maturity	Open at Par Date
5.875% senior unsecured notes due 2020	\$ 250,000	5.88 %	\$ 14,688	9/15/2020	3/15/2020
5.750% senior unsecured notes due 2042(2)	175,000	5.75 %	10,063	8/1/2042	Open
	\$ 425,000		\$ 24,751		

The principal balance, annual interest rate and annual interest expense are the amounts stated in the applicable contracts. In accordance with GAAP, our carrying values and recorded interest expense may differ from these (1) amounts because of market conditions and issuance costs at the time we issued these debts. For more information, see Note 8 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K.

On January 30, 2018, we delivered notice of our intent to redeem at par our \$175 million 5.75% senior unsecured (2) notes due 2042 on March 7, 2018. The notes will be redeemed for cash at a price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest up to, but excluding, the redemption date.

No principal repayments are due under our senior unsecured notes until maturity.

Secured Mortgage Notes:

Debt	Principal Balance(1)	Annual Interest Rate(1)	Annual Interest Expense(1)	Maturity	Open at Par Date
206 East 9th Street	\$ 26,536	5.69 %	\$ 1,601	1/5/2021	7/5/2020
97 Newberry Road	5,404	5.71 %	378	3/1/2026	None
	\$ 31,940		\$ 1,979		

The principal balance, annual interest rate and annual interest expense are the amounts stated in the applicable contracts. In accordance with GAAP, our carrying values and recorded interest expense may differ from these (1) amounts because of market conditions and issuance costs at the time we assumed or issued these debts. For more information, see Note 8 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K.

Our secured notes require principal and interest payments through maturity pursuant to amortization schedules.

Fixed Rate Debt

Because our fixed rate unsecured and secured notes bear interest at fixed rates, changes in market interest rates during the term of these debts will not affect our interest obligations. If all of these notes were refinanced at interest rates which are 100 basis points higher or lower than shown above, our per annum interest cost would increase or decrease, respectively, by approximately \$4.6 million.

Each of our fixed rate unsecured debt arrangements and our secured debt arrangements allow us to make repayments earlier than the stated maturity date. We are generally allowed to make prepayments only at a premium equal to a make whole amount, as defined, which is generally designed to preserve a stated yield to the note holder. Also, we have repurchased and retired some of our outstanding debts and we may do so again in the future. These prepayment rights and our ability to repurchase and retire outstanding debt may afford us opportunities to mitigate the risk of refinancing our debts at maturity at higher rates by refinancing prior to maturity.

Floating Rate Debt

At December 31, 2017, our outstanding floating rate debt consisted of our term loans. Our \$200.0 million 5-year term loan matures in January 2020 and our \$200.0 million 7-year term loan matures in January 2022. Borrowings under our revolving credit facility and term loan are in U.S. dollars and bear interest at LIBOR plus spreads that are subject to adjustment based upon changes to our credit ratings. As of December 31, 2017, we had no balance outstanding and \$750.0 million available under our revolving credit facility. Accordingly, we are vulnerable to changes in U.S. dollar based short term rates, specifically LIBOR. Effective April 1, 2016, we entered into an interest rate cap agreement with respect to \$400.0 million of floating rate debt, as described above under "Cap Agreement." In addition, upon renewal or refinancing of our revolving credit facility or term loans, we are vulnerable to increases in interest rates due to market conditions or our perceived credit risk. Generally, a change in market interest rates would not affect the value of these floating rate debts, but would affect our operating results.

The following table presents the impact a 100 basis point increase in interest rates would have on our floating rate interest expense as of December 31, 2017 (dollars in thousands):

Impact of Changes in Interest Rates		
Interest Rate Per Year(1)	Outstanding Debt	Total Interest

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			Expense Per Year
Term loans at December 31, 2017	2.71%/3.11%	\$ 400,000	\$ 11,657
100 basis point increase	3.71%/4.11%	\$ 400,000	\$ 15,657

(1)Based on the interest rates and outstanding borrowings of our floating rate debt as of December 31, 2017.

Swap Agreements

We have utilized and may utilize in the future interest rate swap agreements to manage our interest rate risk exposure on mortgage notes. Prior to November 2016, we had interest rate swap agreements on mortgage debt, which required us to pay interest at a rate equal to a spread over LIBOR. These interest rate swap agreements effectively modified our exposure to interest rate risk arising from this floating rate mortgage loan by converting this floating rate debt to a fixed rate, thus reducing the impact of interest rate changes on future interest expense. While we do not currently have any interest rate swap agreements, we may enter into such agreements in the future.

Cap Agreement

We entered into an interest rate cap agreement on March 4, 2016, effective April 1, 2016, to manage our interest rate risk exposure on \$400.0 million of floating rate debt, which requires us to pay interest at a rate equal to a spread over LIBOR. The interest rate cap has a maturity date of March 1, 2019. From and after the effective date, this interest rate cap agreement reduces our exposure to variability in expected future cash outflows attributable to changes in LIBOR, relating to a portion of our outstanding floating rate debt, by protecting us from increases in the hedged cash flows on our floating rate debt attributable to changes in LIBOR above the strike rate of the interest rate cap. As of December 31, 2017, the fair value of our derivative instrument included in other assets and cumulative other comprehensive loss in our consolidated balance sheet totaled \$17,000.

United States Treasury Notes

Changes in interest rates may affect the fair value of the United States Treasury notes that we hold. An increase in market interest rates could decrease the fair value of these securities, while a decrease in rates could increase the fair value of these securities. To provide a meaningful assessment of the interest rate risk associated with the United States Treasury notes we hold, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the United States Treasury notes assuming a 100 basis point parallel shift in the yield curve. Based on our position as of December 31, 2017, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$2.7 million incremental decline in the fair market value of the United States Treasury notes. Such losses would only be realized if we sold the investments prior to maturity.

Item 8. Financial Statements and Supplementary Data.

The information required by Item 8 is included in Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2017.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Assessment of Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in Internal Control—Integrated Framework. Based on our assessment, we believe that, as of December 31, 2017 our internal control over financial reporting is effective.

Ernst & Young LLP, the independent registered public accounting firm that audited our 2017 consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting. The report appears on page F-2.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Our Code of Business Conduct and Ethics applies to all our representatives, including our officers and Trustees. Our Code of Business Conduct and Ethics is posted on our website, www.eqcre.com. A printed copy of our Code of Business Conduct and Ethics is also available free of charge to any person who requests a copy by writing to our Secretary, Equity Commonwealth, Two North Riverside Plaza, Suite 2100, Chicago, IL 60606. We have disclosed and intend to disclose any amendments or waivers to our Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller (or any person performing similar functions) on our website.

The remainder of the information required by Item 10 is incorporated by reference to our definitive Proxy Statement.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 is incorporated by reference to our definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is incorporated by reference to our definitive Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 is incorporated by reference to our definitive Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(i) and (ii) Financial Statements and Financial Statement Schedules.

The following consolidated financial statements and financial statement schedules of Equity Commonwealth are included on the pages indicated:

	Page
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>F-1</u>
<u>Consolidated Balance Sheets</u>	<u>F-3</u>
<u>Consolidated Statements of Operations</u>	<u>F-4</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>F-5</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>F-6</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-10</u>
<u>Schedule II—Valuation and Qualifying Accounts</u>	<u>S-1</u>
<u>Schedule III—Real Estate and Accumulated Depreciation</u>	<u>S-2</u>
<u>Schedule IV—Mortgage Loans on Real Estate</u>	<u>S-4</u>

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, or are inapplicable, and therefore have been omitted.

(iii) Exhibits.

The following documents are filed as exhibits to this Annual Report on Form 10-K:

Exhibit Number	Description
3.1	<u>Articles of Amendment and Restatement of Declaration of Trust of the Company, dated July 1, 1994, as amended to date.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed August 1, 2014.)
3.2	<u>Articles Supplementary, dated October 10, 2006.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed October 11, 2006.)
3.3	<u>Articles Supplementary, dated May 31, 2011.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed May 31, 2011.)
3.4	<u>Third Amended and Restated Bylaws of the Company, adopted March 15, 2017.</u> (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.)
4.1	<u>Form of Common Share Certificate.</u> (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.)
4.2	<u>Form of 61/2% Series D Cumulative Convertible Preferred Share Certificate.</u> (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.)
4.3	

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Indenture, dated as of July 9, 1997, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, File Number 001-09317.)

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Exhibit Number	Description
4.4	<u>Supplemental Indenture No. 20, dated as of September 17, 2010, between the Company and U.S. Bank, relating to the Company's 5.875% Senior Notes due 2020, including form thereof.</u> (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.)
4.5	<u>Supplemental Indenture No. 21, dated as of July 25, 2012, between the Company and U.S. Bank, relating to the Company's 5.75% Senior Notes due 2042, including form thereof.</u> (Incorporated by reference to the Company's Registration Statement on Form 8-A dated July 25, 2012.)
10.1	<u>Articles of Amendment and Restatement of Declaration of Trust of EOC Operating Trust, dated November 10, 2016.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed November 14, 2016.)
10.2	<u>Amended and Restated Credit Agreement, dated as of November 10, 2016, among EOC Operating Trust, Wells Fargo Bank, National Association, as administrative agent, and the other financial institutions or entities from time to time party thereto.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed November 14, 2016.)
10.3	<u>Assumption Agreement, dated as of November 10, 2016, between EOC Operating Trust and Equity Commonwealth.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed November 14, 2016.)
10.4	<u>Contribution and Assignment Agreement, dated November 10, 2016, between the Company and EOC Operating Trust.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed November 14, 2016.)
10.5	<u>Master Sub-Management Agreement, dated as of June 13, 2014, between Equity Commonwealth Management LLC, a wholly owned subsidiary of the Company, and CBRE, Inc. (+)</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed June 17, 2014.)
10.6	<u>Equity Commonwealth 2015 Omnibus Incentive Plan.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed June 18, 2015.)
10.7	<u>Amendment No. 1 to the Equity Commonwealth 2015 Omnibus Incentive Plan. (+)</u> (Incorporated by reference to the Company's Annual Report on Form 10-K filed February 18, 2016.)
10.8	<u>Form of Restricted Stock Agreement for Employees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+)</u> (Filed herewith.)
10.9	<u>Form of Restricted Stock Unit Agreement for Employees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+)</u> (Filed herewith.)
10.10	<u>Form of Time-Based LTIP Unit Agreement for Employees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+)</u> (Filed herewith.)
10.11	

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Form of Performance-Based LTIP Unit Agreement for Employees under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Filed herewith.)

10.12 Form of Restricted Stock Agreement for Chairman of the Board under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Filed herewith.)

10.13 Form of Restricted Stock Unit Agreement for Chairman of the Board under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) Filed herewith.)

10.14 Form of Time-Based LTIP Unit Agreement for Chairman of the Board under Equity Commonwealth 2015 Omnibus Incentive Plan. (+) (Filed herewith.)

51

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Exhibit Number	Description
10.15	<u>Form of Performance-Based LTIP Unit Agreement for Chairman of the Board under Equity Commonwealth 2015 Omnibus Incentive Plan.</u> (+) (Filed herewith.)
10.16	<u>Form of Restricted Stock Agreement for Trustees under Equity Commonwealth 2015 Omnibus Incentive Plan.</u> (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed June 15, 2016.)
10.17	<u>Form of Time-Based LTIP Unit Agreement for Trustees under Equity Commonwealth 2015 Omnibus Incentive Plan.</u> (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed June 21, 2017.)
10.18	<u>Commonwealth REIT 2012 Equity Compensation Plan, renamed as the Equity Commonwealth 2012 Equity Compensation Plan.</u> (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed May 11, 2012.)
10.19	<u>Amendment No. 1 to Commonwealth REIT 2012 Equity Compensation Plan, renamed as the Equity Commonwealth 2012 Equity Compensation Plan, dated October 28, 2014.</u> (+) (Incorporated by reference to the Registration Statement on Form S-8 filed October 28, 2014.)
10.20	<u>Form of Restricted Share Agreement for Employees (Special Awards) under Equity Commonwealth 2012 Equity Compensation Plan.</u> (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed October 31, 2014.)
10.21	<u>Form of Restricted Share Unit Agreement for Employees (Special Awards) under Equity Commonwealth 2012 Equity Compensation Plan.</u> (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed October 31, 2014.)
10.22	<u>Form of Restricted Share Agreement for Chairman of the Board (Special Awards) under Equity Commonwealth 2012 Equity Compensation Plan.</u> (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed October 31, 2014.)
10.23	<u>Form of Restricted Share Unit Agreement for Chairman of the Board (Special Awards) under Equity Commonwealth 2012 Equity Compensation Plan.</u> (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed October 31, 2014.)
10.24	<u>Real Estate Sale Agreement, dated as of January 22, 2018, among the Company, EOC 600 West Chicago Property, LLC and Chicago Kingsbury, LLC.</u> (+) (Incorporated by reference to the Company's Current Report on Form 8-K filed January 23, 2018.)
10.25	<u>Summary of Trustee Compensation.</u> (+) (Filed herewith.)
12.1	<u>Computation of Ratio of Earnings to Fixed Charges.</u> (Filed herewith.)
12.2	<u>Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Distributions.</u> (Filed herewith.)
21.1	<u>Subsidiaries of the Company.</u> (Filed herewith.)

- 23.1 Consent of Ernst & Young LLP. (Filed herewith.)
- 31.1 Rule 13a-14(a) Certification. (Filed herewith.)
- 31.2 Rule 13a-14(a) Certification. (Filed herewith.)
- 32.1 Section 1350 Certification. (Furnished herewith.)

52

Exhibit Number	Description
101.1	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) related notes to these financial statements, tagged as blocks of text and in detail. (Filed herewith.)
(+)	Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary.
Not applicable

SIGNATURES

Pursuant to the requirements of Section 13 and 15(d) 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.

EQUITY COMMONWEALTH

By: /s/ David A. Helfand
 David A. Helfand
 President and Chief Executive Officer

Dated: February 15, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant, in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David A. Helfand David A. Helfand	President and Chief Executive Officer (principal executive officer), Trustee	February 15, 2018
/s/ Adam S. Markman Adam S. Markman	Executive Vice President, Chief Financial Officer and Treasurer (principal financial officer)	February 15, 2018
/s/ Sam Zell Sam Zell	Chairman of the Board of Trustees	February 15, 2018
/s/ James S. Corl James S. Corl	Trustee	February 15, 2018
/s/ Martin L. Edelman Martin L. Edelman	Trustee	February 15, 2018
/s/ Edward A. Glickman Edward A. Glickman	Trustee	February 15, 2018
/s/ Peter Linneman Peter Linneman	Trustee	February 15, 2018
/s/ James L. Lozier, Jr. James L. Lozier, Jr.	Trustee	February 15, 2018
/s/ Mary Jane Robertson Mary Jane Robertson	Trustee	February 15, 2018

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/s/ Kenneth Shea Trustee
Kenneth Shea

February 15,
2018

/s/ Gerald A. Spector Trustee
Gerald A. Spector

February 15,
2018

/s/ James A. Star Trustee
James A. Star

February 15,
2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Trustees of Equity Commonwealth

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Equity Commonwealth (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 15, 2018 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for cash flows for each of the three years in the period ended December 31, 2017.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1986.

Chicago, Illinois

February 15, 2018

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Trustees of Equity Commonwealth

Opinion on Internal Control Over Financial Reporting

We have audited Equity Commonwealth's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Equity Commonwealth (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO Criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Equity Commonwealth as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedules listed at Item 15(a) and our report dated February 15, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Chicago, Illinois
February 15, 2018

F-2

EQUITY COMMONWEALTH
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	December 31,	
	2017	2016
ASSETS		
Real estate properties:		
Land	\$ 191,775	\$ 286,186
Buildings and improvements	1,555,836	2,570,704
	1,747,611	2,856,890
Accumulated depreciation	(450,718)	(755,255)
	1,296,893	2,101,635
Properties held for sale	97,688	—
Acquired real estate leases, net	23,847	48,281
Cash and cash equivalents	2,351,693	2,094,674
Marketable securities	276,928	—
Restricted cash	8,897	6,532
Rents receivable, net of allowance for doubtful accounts of \$4,771 and \$5,105, respectively	93,436	152,031
Other assets, net	87,563	122,922
Total assets	\$4,236,945	\$4,526,075
LIABILITIES AND EQUITY		
Senior unsecured debt, net	\$815,984	\$1,063,950
Mortgage notes payable, net	32,594	77,717
Liabilities related to properties held for sale	1,840	—
Accounts payable and accrued expenses	69,220	95,395
Assumed real estate lease obligations, net	1,001	1,946
Rent collected in advance	11,076	18,460
Security deposits	4,735	8,160
Total liabilities	936,450	1,265,628
Commitments and contingencies		
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; 124,217,616 and 123,994,465 shares issued and outstanding, respectively	1,242	1,240
Additional paid in capital	4,380,313	4,363,177
Cumulative net income	2,596,259	2,566,603
Cumulative other comprehensive loss	(95)	(208)
Cumulative common distributions	(3,111,868)	(3,111,868)
Cumulative preferred distributions	(685,748)	(677,760)
Total shareholders' equity	3,299,366	3,260,447
Noncontrolling interest	1,129	—
Total equity	3,300,495	3,260,447
Total liabilities and equity	\$4,236,945	\$4,526,075
See accompanying notes.		

EQUITY COMMONWEALTH
CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

	December 31,		
	2017	2016	2015
Revenues:			
Rental income	\$270,320	\$409,071	\$570,382
Tenant reimbursements and other income	70,251	91,609	144,509
Total revenues	340,571	500,680	714,891
Expenses:			
Operating expenses	141,425	200,706	324,948
Depreciation and amortization	90,708	131,806	194,001
General and administrative	47,760	50,256	57,457
Loss on asset impairment	19,714	58,476	17,162
Total expenses	299,607	441,244	593,568
Operating income	40,964	59,436	121,323
Interest and other income	26,380	10,331	5,989
Interest expense (including net amortization of debt discounts, premiums and deferred financing fees of \$3,135, \$3,725, and \$1,028, respectively)	(52,183)	(84,329)	(107,316)
(Loss) gain on early extinguishment of debt	(493)	(2,680)	6,661
Foreign currency exchange loss	—	(5)	(8,857)
Gain on sale of properties, net	15,498	250,886	84,421
Income before income taxes	30,166	233,639	102,221
Income tax expense	(500)	(745)	(2,364)
Net income	29,666	232,894	99,857
Net income attributable to noncontrolling interest	(10)	—	—
Net income attributable to Equity Commonwealth	29,656	232,894	99,857
Preferred distributions	(7,988)	(17,956)	(27,924)
Excess fair value of consideration paid over carrying value of preferred shares	—	(9,609)	—
Net income attributable to Equity Commonwealth common shareholders	\$21,668	\$205,329	\$71,933
Weighted average common shares outstanding — basic	124,125	125,474	128,621
Weighted average common shares outstanding — diluted	125,129	126,768	129,437
Earnings per common share attributable to Equity Commonwealth common shareholders:			
Basic	\$0.17	\$1.64	\$0.56
Diluted	\$0.17	\$1.62	\$0.56
See accompanying notes.			

EQUITY COMMONWEALTH
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(amounts in thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income	\$29,666	\$232,894	\$99,857
Other comprehensive income (loss), net of tax:			
Unrealized (loss) gain on derivative instruments and other assets	(248)	3,479	612
Foreign currency translation adjustments	—	—	48,917
Unrealized gain, net on marketable securities	361	—	—
Total comprehensive income	\$29,779	\$236,373	\$149,386
Comprehensive income attributable to the noncontrolling interest	(10)	—	—
Total comprehensive income attributable to Equity Commonwealth	\$29,769	\$236,373	\$149,386

See accompanying notes.

EQUITY COMMONWEALTH
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(amounts in thousands, except share data)

	Equity Commonwealth Shareholders				Common Shares				
	Preferred Shares Series D		Series E		Cumulative Preferred Distributions	Number of Shares	Common Shares	Cumulative Common Distributions	Additional Paid in Capital
	Number of Shares	Preferred Shares	Number of Shares	Preferred Shares					
Balance at December 31, 2014	4,915,497	\$119,266	11,000,000	\$265,391	\$(622,271)	129,607,279	\$1,296	\$(3,111,868)	\$4,487,13
Comprehensive income:									
Net income	—	—	—	—	—	—	—	—	—
Unrealized gain on derivative instrument	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—
Total comprehensive income									
Purchase of shares	—	—	—	—	—	(3,410,300)	(35)	—	(87,948
Redemption of shares	(301)	(3)	—	—	—	144	—	—	3
Share-based compensation	—	—	—	—	—	152,791	2	—	15,423
Distributions	—	—	—	—	(27,924)	—	—	—	—
Balance at December 31, 2015	4,915,196	119,263	11,000,000	265,391	(650,195)	126,349,914	1,263	(3,111,868)	4,414,611
Comprehensive income:									
Net income	—	—	—	—	—	—	—	—	—
Unrealized gain on derivative instruments	—	—	—	—	—	—	—	—	—
Total comprehensive income									
Purchase of shares	—	—	—	—	—	(2,491,675)	(25)	—	(69,962
	—	—	(11,000,000)	(275,000)	—	—	—	—	—

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Redemption of shares									
Excess fair value of consideration paid over carrying value of preferred shares	—	—	—	9,609	(9,609)	—	—	—	—
Share-based compensation	—	—	—	—	—	136,226	2	—	18,528
Distributions	—	—	—	—	(17,956)	—	—	—	—
Balance at December 31, 2016	4,915,196	119,263	—	—	(677,760)	123,994,465	1,240	(3,111,868)	4,363,177

See accompanying notes.

F-6

EQUITY COMMONWEALTH
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Continued)
 (amounts in thousands, except share data)

	Equity Commonwealth Shareholders Preferred Shares			Common Shares			Additional Paid in Capital	Cumulative Net Income	Cumulative Other Comprehe Loss	Cumulative Net Income
	Series D	Series E	Cumulative	Number	Common	Cumulative				
	Number of Shares	Preferred Shares	Number of Preferred Shares Distributions	of Shares	Shares	Common Distributions				
Comprehensive income:										
Net income	—	—	—	—	—	—	—	29,656	—	10
Unrealized loss on derivative instruments	—	—	—	—	—	—	—	—	(248)	—
Unrealized gain on marketable securities	—	—	—	—	—	—	—	—	361	—
Total comprehensive income										
Purchase of shares	—	—	—	(43,329)	—	—	(3,188)	—	—	—
Share-based compensation	—	—	—	266,480	2	—	20,156	—	—	1,
Contributions	—	—	—	—	—	—	—	—	—	31
Distributions	—	—	(7,988)	—	—	—	—	—	—	—
Adjustment for noncontrolling interest	—	—	—	—	—	—	168	—	—	(1
Balance at December 31, 2017	4,915,196	\$119,263	—	—	124,217,616	\$1,242	\$(3,111,868)	\$4,380,313	\$2,596,259	\$(95)

See accompanying notes.

EQUITY COMMONWEALTH
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Year Ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$29,666	\$232,894	\$99,857
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	73,169	102,695	145,888
Net amortization of debt discounts, premiums and deferred financing fees	3,135	3,725	1,028
Straight line rental income	(14,425)	(14,083)	(5,255)
Amortization of acquired real estate leases	8,994	21,129	34,277
Other amortization	9,989	14,513	21,309
Share-based compensation	21,414	18,530	15,425
Loss on asset impairment	19,714	58,476	17,162
Loss (gain) on early extinguishment of debt	493	2,680	(6,661)
Foreign currency exchange loss	—	5	8,857
Net gain on sale of properties	(15,498)	(250,886)	(84,421)
Change in assets and liabilities:			
Rents receivable and other assets	(23,708)	(23,921)	(47,472)
Accounts payable and accrued expenses	(9,047)	4,663	(4,643)
Rent collected in advance	(3,563)	(6,981)	(8,462)
Security deposits	(337)	264	1,225
Cash provided by operating activities	99,996	163,703	188,114
CASH FLOWS FROM INVESTING ACTIVITIES:			
Real estate acquisitions	—	(2,802)	—
Real estate improvements	(64,813)	(121,450)	(70,633)
Insurance proceeds received	4,000	500	—
Principal payments received from direct financing lease	—	—	7,352
Principal payments received from real estate mortgages receivable	313	—	—
Proceeds from sale of properties, net	802,324	1,149,471	1,888,815
Purchase of marketable securities	(276,238)	—	—
Proceeds from sale of securities	—	—	27,068
Cash provided by investing activities	465,586	1,025,719	1,852,602
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase and retirement of common shares	(3,188)	(69,987)	(87,983)
Redemption of preferred shares	—	(275,000)	—
Payments on borrowings	(295,053)	(560,187)	(469,963)
Deferred financing fees	—	(52)	(7,143)
Contributions from holders of noncontrolling interest	31	—	—
Distributions to preferred shareholders	(7,988)	(17,956)	(27,924)
Cash used in financing activities	(306,198)	(923,182)	(593,013)
Effect of exchange rate changes on cash	—	(8)	(9,502)
Increase in cash, cash equivalents, and restricted cash	259,384	266,232	1,438,201
Cash, cash equivalents, and restricted cash at beginning of year	2,101,206	1,834,974	396,773

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Cash, cash equivalents, and restricted cash at end of year	\$2,360,590	\$2,101,206	\$1,834,974
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See accompanying notes.

F-8

EQUITY COMMONWEALTH
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(amounts in thousands)

	Year Ended December 31,		
	2017	2016	2015
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	\$56,796	\$85,310	\$111,324
Taxes paid	910	327	6,028
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Increase (decrease) in capital expenditures recorded as liabilities	3,970	10,331	(13,528)
Mortgage note payable and interest payable transferred in consensual foreclosure	—	—	43,255

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows (in thousands):

	December 31,		
	2017	2016	2015
Cash and cash equivalents	\$2,351,693	\$2,094,674	\$1,802,729
Restricted cash	8,897	6,532	32,245
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$2,360,590	\$2,101,206	\$1,834,974

See accompanying notes.

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Equity Commonwealth (the Company) is a real estate investment trust, or REIT, formed in 1986 under the laws of the State of Maryland. Our business is the ownership and operation of real estate, primarily office buildings, throughout the United States.

On November 10, 2016, the Company converted to what is commonly referred to as an umbrella partnership real estate investment trust, or UPREIT, structure. In connection with this conversion, the Company contributed substantially all of its assets to EQC Operating Trust, a Maryland real estate investment trust (the Operating Trust), and the Operating Trust assumed substantially all of the Company's liabilities pursuant to a contribution and assignment agreement between the Company and the Operating Trust.

The Company now conducts and intends to continue to conduct substantially all of its activities through the Operating Trust. The Company beneficially owned, 99.97% of the outstanding shares of beneficial interest, designated as units, in the Operating Trust (OP Units) as of December 31, 2017, and the Company is the sole trustee of the Operating Trust. As the sole trustee, the Company generally has the exclusive power under the declaration of trust of the Operating Trust to manage and conduct the business of the Operating Trust, subject to certain limited approval and voting rights of other holders of OP Units.

At December 31, 2017, our portfolio, excluding properties held for sale, included 16 properties (26 buildings), with a combined 8.7 million square feet. As of December 31, 2017, we had \$2.6 billion of cash and cash equivalents and marketable securities. All numbers of properties, numbers of buildings and square feet are unaudited.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation. The consolidated financial statements include our investments in 100% owned subsidiaries and majority owned subsidiaries that are controlled by us. References to we, us, our and the Company, refer to Equity Commonwealth and its consolidated subsidiaries as of December 31, 2017, unless the context indicates otherwise. All intercompany transactions and balances have been eliminated.

Real Estate Properties. We record real estate properties at cost. We depreciate real estate investments on a straight line basis over estimated useful lives of up to 40 years for buildings and improvements, and up to 12 years for personal property.

Each time we enter into a new lease, or materially modify an existing lease, we evaluate its classification as either a capital or operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and fair market value of a leased property, appropriate discount rates and future cash flows.

We allocate the consideration paid for our properties among land, buildings and improvements and, for properties that qualify as acquired businesses under the Business Combinations Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), to identified intangible assets and liabilities, consisting of the value of above market and below market leases, the value of acquired in place leases and the value of tenant relationships. Purchase price allocations and the determination of useful lives are based on our estimates and, under some circumstances, studies from independent real estate appraisal firms to provide market information and evaluations that are relevant to our purchase price allocations and determinations of useful lives; however, we are ultimately responsible for the purchase price allocations and determination of useful lives.

We allocate the consideration to land, buildings and improvements based on a determination of the fair values of these assets assuming the property is vacant. We determine the fair value of a property using methods that we believe are similar to those used by independent appraisers. Purchase price allocations to above market and below market leases are based on the estimated present value (using an interest rate which reflects our assessment of the risks associated

with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the acquired in place leases and (2) our estimate of fair market lease rates for the corresponding leases, measured over a period equal to the remaining non-cancelable terms of the respective leases. Purchase price allocations to acquired in place leases and tenant relationships are determined as the excess of (1) the purchase price paid for a property after adjusting existing in place leases to estimated market rental rates over (2) the estimated fair value of the property as if vacant. We aggregate this value between acquired in place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease; however, the value of tenant relationships has not been separated from acquired in place lease value for our properties because we believe such value and

F-10

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

related amortization expense is immaterial for acquisitions reflected in our historical financial statements. We consider certain factors in performing these analyses including estimates of carrying costs during the expected lease up periods, including real estate taxes, insurance and other operating income and expenses and costs to execute similar leases in current market conditions, such as leasing commissions, legal and other related costs. If we believe the value of tenant relationships is material in the future, those amounts will be separately allocated and amortized over the estimated lives of the relationships. We recognize the excess, if any, of the consideration paid over amounts allocated to land, buildings and improvements and identified intangible assets and liabilities as goodwill and we recognize gains if amounts allocated exceed the consideration paid.

We amortize capitalized above market lease values (presented in our consolidated balance sheets as acquired real estate leases) as a reduction to rental income over the remaining terms of the respective leases. We amortize capitalized below market lease values (presented in our consolidated balance sheets as assumed real estate lease obligations) as an increase to rental income over the remaining terms of the respective leases. We amortize the value of acquired in place leases exclusive of the value of above market and below market acquired in place leases to expense over the remaining terms of the respective leases. If a lease is terminated prior to its stated expiration, the unamortized lease intangibles relating to that lease is written off.

We review our properties for impairment quarterly, or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment indicators may include declining tenant occupancy, lack of progress releasing vacant space, tenant bankruptcies, low long term prospects for improvement in property performance, weak or declining tenant profitability, cash flow or liquidity, and our decision to dispose of an asset before the end of its estimated useful life. When indicators of potential impairment are present that suggest that the carrying amounts of real estate assets may not be recoverable, we assess the recoverability of these assets by determining whether the respective carrying values will be recovered through the estimated undiscounted future operating cash flows expected from the use of the assets and their eventual disposition. The determination of undiscounted cash flow includes consideration of many factors including income to be earned from the investment, holding costs (exclusive of interest), estimated selling prices, and prevailing economic and market conditions. In the event that such expected undiscounted future cash flows do not exceed the carrying values, we estimate the fair value of the assets and record an impairment charge equal to the amount by which the carrying value exceeds the estimated fair value. Estimated fair values are calculated based on the following information, (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of future cash flows. During the years ended December 31, 2017, 2016, and 2015 we recorded a loss on asset impairment in continuing operations totaling \$19.7 million, \$58.5 million and \$17.2 million respectively, to reduce the carrying value of properties to their estimated fair values (see Note 16).

When we classify properties as held for sale, we discontinue the recording of depreciation expense and estimate their fair value less costs to sell. If we determine that the carrying value for these properties exceed their estimated fair value less costs to sell, we record a loss on asset impairment.

Certain of our real estate assets contain hazardous substances, including asbestos. We believe any asbestos in our buildings is contained in accordance with current regulations, and we have no current plans to remove any such asbestos. If we remove the asbestos or renovate or demolish these properties, certain environmental regulations govern the manner in which the asbestos must be handled and removed. We do not believe that there are other environmental conditions at any of our properties that have a material adverse effect on us. However, no assurances can be given that such conditions are not present in our properties or that other costs we incur to remediate contamination will not have a material adverse effect on our business or financial condition. As of December 31, 2017 and 2016, we did not have any accrued environmental remediation costs.

Cash and Cash Equivalents. Our cash and cash equivalents consist of cash maintained in time deposits, depository accounts and money market accounts. We continually monitor the credit ratings of the financial institutions holding

our deposits to minimize our exposure to credit risk. Throughout the year, we have cash balances in excess of federally insured limits deposited with various financial institutions. We do not believe we are exposed to any significant credit risk on cash and cash equivalents.

Marketable Securities. All of our marketable securities are classified as available-for-sale and consist of United States Treasury notes and common stock. Available-for-sale securities are presented on our consolidated balance sheets at fair value. Changes in values of these securities are recognized in cumulative other comprehensive income (loss). Realized gains and losses are recognized in earnings only upon the sale of the securities.

We evaluate our marketable securities for impairment each reporting period. For securities with unrealized losses, we review the underlying cause of the decline in value and the estimated recovery period, as well as the severity and duration of the decline. In our evaluation, we consider our ability and intent to hold these investments for a reasonable period of time

F-11

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sufficient for us to recover our cost basis. To the extent an other-than-temporary impairment is deemed to have occurred, an impairment charge is recorded and a new cost basis is established.

Restricted Cash. Restricted cash consists of amounts escrowed for future real estate taxes, insurance, leasing costs, capital expenditures and debt service, as required by some of our mortgage debts, as well as security deposits paid to us by some of our tenants.

Other Assets, Net. Other assets consist principally of deferred financing fees, deferred leasing costs, capitalized lease incentives and prepaid property operating expenses. Deferred financing fees include issuance costs related to borrowings and are capitalized and amortized over the terms of the respective loans. Deferred leasing costs include brokerage, legal and other fees associated with the successful negotiation of leases and are amortized on a straight line basis over the terms of the respective leases. Capitalized lease incentives are amortized on a straight line basis against rental income over the terms of the respective leases.

Accounting Policy for Derivative Instruments. Derivative instruments are recognized as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether such instrument has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. As of December 31, 2017, we have an interest rate cap agreement that qualifies as a cash flow hedge.

We are exposed to certain risks relating to our ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. Interest rate swaps and caps are entered into to manage interest rate risk associated with our floating rate borrowings. We designate interest rate swaps and caps as cash flow hedges of floating rate borrowings.

Revenue Recognition. Rental income from operating leases, which includes rent concessions (including free rent and other lease incentives) and scheduled increases in rental rates during the lease term, is recognized on a straight line basis over the life of the lease agreements. We defer the recognition of contingent rental income, such as percentage rents, until the specific targets that trigger the contingent rental income are achieved. Tenant reimbursements and other income includes property level operating expenses reimbursed by our tenants, as well as other incidental revenues, which are recorded as expenses are incurred.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of certain tenants to make payments required under their leases. The computation of the allowance is based on the tenants' payment histories and current credit profiles, as well as other considerations.

Share-Based Compensation. All share-based compensation is measured at fair value on the grant date or date of modification, as applicable, and recognized in earnings over the requisite service period. Depending upon the settlement terms of the awards, all or a portion of the fair value of share-based awards may be presented as a liability or as equity in the consolidated balance sheets.

Earnings Per Common Share. Earnings per common share, or EPS, is computed using the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if our series D convertible preferred shares, our restricted share units (RSUs) or beneficial interests in the Operating Trust (LTIP Units) were converted into our common shares, which could result in a lower EPS amount. The effect of our series D convertible preferred shares on net income attributable to common shareholders is anti-dilutive for all periods presented.

Reclassifications. Reclassifications have been made to the prior years' financial statements and notes to conform to the current year's presentation.

Income Taxes. We are a REIT under the Internal Revenue Code of 1986, as amended, and are generally not subject to federal and state income taxes provided we distribute our taxable income to our shareholders and meet other

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requirements for qualifying as a real estate investment trust. However, we are subject to certain state and local taxes without regard to our REIT status.

The Income Taxes Topic of the ASC prescribes how we should recognize, measure and present in our financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Deferred tax assets are recognized to the extent that it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent

F-12

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the "more likely than not" standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that has a greater than 50% likelihood of being realized upon settlement. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

Use of Estimates. Preparation of these financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires us to make estimates and assumptions that may affect the amounts reported in these financial statements and related notes. The actual results could differ from these estimates.

Foreign Operations. During the year ended December 31, 2015, we sold our Australian properties and no longer have any foreign operations. The U.S. dollar was the functional currency for our consolidated subsidiaries operating in the United States prior to the sale of the Australian portfolio. The functional currency for our consolidated subsidiaries in countries other than the United States was the principal currency in which the entity's assets, liabilities, income and expenses were denominated. The functional currency of our consolidated subsidiary that operated in Australia was the Australian dollar. We translated our Australian subsidiary's financial statements into U.S. dollars when we consolidated that subsidiary's financial statements on a quarterly basis. Generally, we translated assets and liabilities at the exchange rate in effect as of the balance sheet date. The resulting translation adjustments were included in cumulative other comprehensive loss in our consolidated balance sheets. We translated income statement accounts using the average exchange rate for the period and income statement accounts that include significant non-recurring transactions at the rate in effect as of the date of the transaction. We were subject to foreign currency risk due to potential fluctuations in exchange rates between Australian and U.S. currencies.

New Accounting Pronouncements. In August 2017, the FASB issued Accounting Standards Update (ASU) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The amendments also simplify the application of hedge accounting in certain situations. This update is effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. We are evaluating the impact ASU 2017-12 will have on our financial position and results of operations.

In May 2017, the FASB issued ASU 2017-09 Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 is designed to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, to a change to the terms or conditions of a share-based payment award. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017. We do not expect that the adoption of this ASU will have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05 Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 is designed to provide guidance on how to recognize gain and losses on sales, including partial sales, of nonfinancial assets to noncustomers. ASU 2017-05 is effective beginning January 1, 2018. Early adoption is permitted but the standard is required to be adopted concurrently with ASU 2014-09. We do not expect that the adoption of this ASU will have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. This update is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. We early adopted this ASU effective January 1, 2017, and the adoption of this ASU did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which amends ASC Topic 230, Statements of Cash Flows, to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. This update is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This update is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period.

F-13

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We early adopted both ASU 2016-18 and ASU 2016-15 on December 31, 2017 and made the following reclassifications to the prior years' consolidated statements of cash flows to conform to the current year's presentation (in thousands):

Statement of Cash Flow for the year ended December 31, 2016	Originally Reported	Effect of Change	As Adjusted
Cash provided by operating activities	\$ 163,016	\$ 687	\$ 163,703
Cash provided by investing activities	1,052,119	(26,400)	1,025,719
Statement of Cash Flow for the year ended December 31, 2015	Originally Reported	Effect of Change	As Adjusted
Cash provided by operating activities	\$ 181,544	\$ 6,570	\$ 188,114
Cash provided by investing activities	1,648,893	203,709	1,852,602
Cash used in financing activities	(382,722)	(210,29)	(593,013)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires more timely recognition of credit losses associated with financial assets. This update is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. We are currently in the process of evaluating the impact, if any, the adoption of this ASU will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This update is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, but early adoption is permitted. We adopted this ASU on January 1, 2017 and the adoption did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASU 2016-02 supersedes previous leasing standards. ASU 2016-02 is effective for us for reporting periods beginning after December 15, 2018, with early adoption permitted. We are still assessing the impact of adopting ASU 2016-02. For leases where we are the lessor, we expect to account for these leases using an approach that is substantially equivalent to current guidance. Additionally, under ASU 2016-02 lessors may only capitalize incremental direct leasing costs. For leases in which we are the lessee, we expect to recognize a right-of-use asset and a lease liability equal to the present value of the minimum lease payments with rent expense being recognized on a straight-line basis and the right of use asset being reduced when lease payments are made.

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In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, related to certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 will require entities to measure their equity investments at fair value and recognize any changes in fair value in net income, with certain exceptions, rather than other comprehensive income. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard was effective for us beginning on January 1, 2018 and it did not have a material effect on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The objective of ASU 2014-09, as amended, is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that an entity should recognize revenue to depict the transfer of promised 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. In

F-14

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

applying ASU 2014-09, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB's ASC, and more particularly lease contracts with customers, which are a scope exception. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2017, with early adoption permitted. We expect to use the modified retrospective method of adoption that will result in a cumulative effect adjustment as of the date of adoption. We developed a project plan, which consisted of gathering and evaluating the inventory of our revenue streams. As our portfolio is currently comprised, the adoption of this ASU will not have a material impact on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, or ASU 2014-08. ASU 2014-08 changes the criteria for reporting a discontinued operation. Under this pronouncement, a disposal of a part of an organization that has a major effect on its operations and financial results is a discontinued operation. We adopted ASU 2014-08 on January 1, 2015, and determined that our 2017, 2016 and 2015 dispositions do not individually represent a strategic shift, as defined by the standard, that has or will have a major effect on our operations and financial results. As a result, the 2017, 2016 and 2015 dispositions have not been presented as discontinued operations in the statements of operations.

Note 3. Real Estate Properties

Acquisitions and Expenditures

In October 2016, we purchased a parcel of land adjacent to our Research Park property in Austin, Texas for \$2.8 million. We did not make any acquisitions during the year ended December 31, 2017.

During the years ended December 31, 2017, 2016, and 2015, we made improvements, excluding tenant-funded improvements, to our properties totaling \$55.0 million, \$110.7 million and \$75.7 million, respectively.

We committed \$44.9 million for expenditures related to 1.3 million square feet of leases executed during 2017. Committed but unspent tenant related obligations are leasing commissions and tenant improvements. Based on existing leases as of December 31, 2017, committed but unspent tenant related obligations were \$63.2 million.

Properties Held For Sale:

We classify all properties that meet the criteria outlined in the Property, Plant and Equipment Topic of the FASB ASC as held for sale on our consolidated balance sheets. As of December 31, 2016, we had no properties classified as held for sale. As of December 31, 2017, we classified the following property as held for sale (dollars in thousands):

Asset	Date Sold	Number of Properties	Number of Buildings	Square Footage	Gross Sales Price
1600 Market Street	February 2018	1	1	825,968	\$ 160,000

Summarized balance sheet information for the property classified as held for sale is as follows (in thousands):

	December 31, 2017
Real estate properties	\$ 76,066
Rents receivable, net of allowance for doubtful accounts of \$5	13,270
Other assets, net	8,352
Assets held for sale	\$ 97,688

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Accounts payable and accrued expenses	\$ 1,021
Rent collected in advance	408
Security deposits	411
Liabilities related to properties held for sale	\$ 1,840

F-15

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property Dispositions:

During the year ended December 31, 2017, we sold the following properties (dollars in thousands):

Asset	Date Sold	Number of Properties	Number of Buildings	Square Footage	Gross Sales Price	Gain (Loss) on Sale
Properties						
111 Market Place	January 2017	1	1	589,380	\$60,100	\$(5,968)
Cabot Business Park Land	March 2017	—	—	—	575	(57)
Parkshore Plaza	April 2017	1	4	271,072	40,000	(2,460)
25 S. Charles Street	April 2017	1	1	359,254	24,500	(3,487)
802 Delaware Avenue	May 2017	1	1	240,780	34,000	9,099
1500 Market Street	July 2017	1	1	1,759,193	328,000	38,585
6600 North Military Trail	August 2017	1	3	639,825	132,050	(14,175)
789 East Eisenhower Parkway(1)	December 2017	—	1	130,961	24,942	1,242
33 Stiles Lane	December 2017	1	1	175,301	10,500	2,163
625 Crane Street (Land)	December 2017	—	—	—	307	249
Mineral Rights	December 2017	—	—	—	200	169
Portfolios of properties						
4515 Seton Center Parkway	March 2017	1	1	117,265		
4516 Seton Center Parkway	March 2017	1	1	120,559		
Seton Center		2	2	237,824	\$52,450	\$22,479
Cherrington Corporate Center	December 2017	1	7	454,700		
Foster Plaza	December 2017	1	8	727,743		
Pittsburgh Portfolio		2	15	1,182,443	\$71,000	\$(33,048)
820 W. Diamond	July 2017	1	1	134,933		
Danac Stiles Business Park	July 2017	1	3	276,637		
411 Farwell Avenue	July 2017	1	1	422,727		
2250 Pilot Knob Road	July 2017	1	1	87,183		
4700 Belleview Avenue	July 2017	1	1	80,615		
Five Property Portfolio		5	7	1,002,095	\$84,000	\$702
		16	37	6,588,128	\$862,624	\$15,493

(1) We sold one building in a property containing two buildings.

During the year ended December 31, 2016, we disposed of the following properties (dollars in thousands):

Asset	Date Sold	Number of Properties	Number of Buildings	Square Footage	Gross Sales Price	Gain (Loss) on Sale
Properties						
Executive Park	February 2016	1	9	427,443	\$50,865	\$16,531
3330 N Washington Boulevard	March 2016	1	1	55,719	11,250	5,455

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111 East Kilbourn Avenue	March 2016	1	1	373,669	60,500	14,687
1525 Locust Street	April 2016	1	1	98,009	17,700	8,956
633 Ahua Street	April 2016	1	1	93,141	29,000	15,963

F-16

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Asset	Date Sold	Number of Properties	Number of Buildings	Square Footage	Gross Sales Price	Gain (Loss) on Sale
Lakewood on the Park	May 2016	1	2	180,558	37,100	13,616
Leased Land	June 2016	1	7	—	48,450	15,914
9110 East Nichols Avenue	June 2016	1	1	143,958	17,200	642
111 River Street(1)	July 2016	1	1	566,215	235,000	78,207
Sky Park Centre	July 2016	1	2	63,485	13,700	4,746
Raintree Industrial Park	July 2016	1	12	563,182	11,500	(653)
8701 N Mopac	August 2016	1	1	121,901	21,500	8,394
7800 Shoal Creek Boulevard	October 2016	1	4	151,917	29,210	14,908
1200 Lakeside Drive	November 2016	1	1	260,084	65,270	3,062
6200 Glenn Carlson Drive	December 2016	1	1	338,000	23,050	7,706
Portfolios of properties						
812 San Antonio Street	May 2016	1	1	59,321		
1601 Rio Grande Street	May 2016	1	1	56,219		
Downtown Austin portfolio		2	2	115,540	\$32,600	\$20,584
785 Schilinger Road South	June 2016	1	1	72,000		
401 Vine Street	June 2016	1	1	53,980		
633 Frazier Drive	June 2016	1	1	150,000		
9840 Gateway Boulevard North	June 2016	1	1	72,000		
3003 South Expressway 281	June 2016	1	1	150,000		
1331 North Center Parkway	June 2016	1	1	53,980		
Movie theater portfolio		6	6	551,960	\$109,100	\$30,595
128 Crews Drive	July 2016	1	1	185,600		
111 Southchase Boulevard	July 2016	1	1	168,087		
1043 Global Avenue	July 2016	1	1	450,000		
South Carolina industrial portfolio		3	3	803,687	\$30,000	\$7,248
100 East Wisconsin Avenue	August 2016	1	1	435,067		
111 Monument Circle	August 2016	1	2	1,121,764		
101-115 W. Washington Street	August 2016	1	1	634,058		
North Point Office Complex	August 2016	1	2	873,335		
Midwest portfolio		4	6	3,064,224	\$416,900	\$(15,800)

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Total	30	62	7,972,692	\$1,259,895	\$250,761
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(1) Property sale represented a leasehold interest.

During the year ended December 31, 2015, we sold 91 properties (135 buildings) with a combined 18,939,185 square feet for an aggregate gross sales price of \$2.0 billion, excluding closing costs and mortgage debt repayments.

Lease Payments

Our real estate properties are generally leased on gross lease, modified gross lease or triple net lease bases pursuant to non-cancelable, fixed term operating leases expiring between 2018 and 2037. Our triple net leases generally require the lessee to pay all property operating costs. Our gross leases and modified gross leases require us to pay all or some property operating

F-17

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expenses and to provide all or some property management services. A portion of these property operating expenses are reimbursed by the tenants.

The future minimum lease payments, excluding tenant reimbursement revenue, scheduled to be received by us during the current terms of our leases as of December 31, 2017 are as follows (in thousands):

2018	\$187,984
2019	177,325
2020	158,000
2021	141,937
2022	131,362
Thereafter	693,119
	\$1,489,727

One of our real estate properties that we sold in 2016, 111 River Street in Hoboken, New Jersey, was subject to a ground lease. The amount of ground lease expense included in operating expenses during the years ended December 31, 2016 and 2015, totaled \$0.9 million and \$1.8 million, respectively. Ground lease expense includes percentage rent.

Note 4. Lease Intangibles

The following table summarizes the carrying amounts for our acquired real estate leases and assumed real estate lease obligations as of December 31, 2017, and 2016, and (in thousands):

	December 31,	
	2017	2016
Acquired in-place leases	\$56,853	\$102,102
Acquired above market leases	21,021	44,752
Acquired real estate leases	77,874	146,854
Accumulated amortization, acquired in-place leases	(41,978)	(71,320)
Accumulated amortization, acquired above market leases	(12,049)	(27,253)
Acquired real estate leases, net	\$23,847	\$48,281
Acquired below market leases	\$6,093	\$10,434
Accumulated amortization	(5,092)	(8,488)
Assumed real estate lease obligations, net	\$1,001	\$1,946

Amortization of the lease intangibles for the years ended December 31, 2017, 2016, and 2015, is as follows (in thousands):

	Income Statement Location	December 31,		
		2017	2016	2015
Amortization of acquired in-place leases	Depreciation and amortization	\$7,220	\$14,598	\$26,787
Amortization of above and below market leases	Increase (decrease) to rental income	(1,774)	(6,531)	(7,515)

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future amortization of net intangible lease assets and liabilities to be recognized by us during the current terms of our leases as of December 31, 2017, are approximately (in thousands):

2018	\$7,285
2019	3,702
2020	2,449
2021	2,236
2022	1,959
Thereafter	5,215
	\$22,846

Note 5. Investment in Direct Financing Lease

We had an investment in a direct financing lease that related to a lease with a term that exceeded 75% of the useful life of an office tower located within a mixed use property in Phoenix, AZ. In December 2015, we sold this property. Prior to the sale of the property, we recognized income using the effective interest method to produce a level yield on funds not yet recovered.

Note 6. Marketable Securities

All of our marketable securities are classified as available-for-sale and consist of United States Treasury notes, which mature in 2019, and common stock. Below is a summary of our marketable securities as of December 31, 2017 (in thousands):

	December 31, 2017		
	Cost or Amortized Cost	Unrealized Gain, Net	Estimated Fair Value
Marketable securities	\$276,567	\$ 361	\$276,928

Note 7. Other Assets

Real Estate Mortgages Receivable

As of December 31, 2017, and 2016, we had total real estate mortgages receivable with an aggregate carrying value of \$7.7 million and \$8.1 million, respectively, included in other assets in our consolidated balance sheets. We provided mortgage financing totaling \$7.7 million at 6.0% per annum in connection with our sale of three properties (18 buildings) in January 2013 in Dearborn, MI; this real estate mortgage requires monthly interest payments and matures on January 24, 2023. We also provided mortgage financing totaling \$0.4 million at 6.0% per annum in connection with our sale of a property in Salina, NY in April 2012. In September 2017, we received a \$0.3 million repayment, representing a settlement of the obligation, related to this real estate mortgage receivable and recorded a loss of \$0.1 million in interest and other income for the year ended December 31, 2017.

We monitor the payment history of the borrowers and have determined that no allowance for losses related to these real estate mortgages receivable was necessary at December 31, 2017, and 2016.

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Financing Fees, Deferred Leasing Costs and Capitalized Lease Incentives

The following table summarizes our deferred financing fees related to our unsecured revolving credit facility included in other assets, deferred leasing costs and capitalized lease incentives as of December 31, 2017, and 2016 (in thousands):

	December 31,	
	2017	2016
Deferred financing fees	\$14,458	\$14,458
Accumulated amortization	(12,709)	(11,093)
Deferred financing fees, net	\$1,749	\$3,365
Deferred leasing costs	\$85,606	\$133,771
Accumulated amortization	(22,067)	(41,148)
Deferred leasing costs, net	\$63,539	\$92,623
Capitalized lease incentives	\$8,562	\$10,344
Accumulated amortization	(2,054)	(2,680)
Capitalized lease incentives, net	\$6,508	\$7,664

Future amortization of deferred leasing costs and capitalized lease incentives to be recognized by us during the current terms of our leases as of December 31, 2017 are approximately (in thousands):

	Deferred Leasing Costs	Capitalized Lease Incentives
2018	\$7,707	\$ 983
2019	7,694	798
2020	7,383	758
2021	6,595	592
2022	6,046	547
Thereafter	28,114	2,830
	\$63,539	\$ 6,508

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Indebtedness

At December 31, 2017 and 2016, our outstanding indebtedness included the following (in thousands):

	Interest		December 31,	
	Rate at	Maturity	2017	2016
	December	Date		
	31, 2017			
Unsecured revolving credit facility, at LIBOR plus a premium	2.61 %	1/28/2019	\$—	\$—
5-year unsecured term loan, at LIBOR plus a premium	2.71 %	1/28/2020	200,000	200,000
7-year unsecured term loan, at LIBOR plus a premium	3.11 %	1/28/2022	200,000	200,000
Unsecured floating rate debt	2.91 % (1)		\$400,000	\$400,000
6.65% Senior Unsecured Notes due 2018	— %	—	\$—	\$250,000
5.875% Senior Unsecured Notes due 2020	5.875 %	9/15/2020	250,000	250,000
5.75% Senior Unsecured Notes due 2042(2)	5.75 %	8/1/2042	175,000	175,000
Unsecured fixed rate debt	5.82 % (1)		\$425,000	\$675,000
Parkshore Plaza	— %	—	\$—	\$41,275
206 East 9th Street	5.69 %	1/5/2021	26,536	27,041
33 Stiles Lane	— %	—	—	2,415
97 Newberry Road	5.71 %	3/1/2026	5,404	5,903
Secured fixed rate debt	5.69 % (1)		\$31,940	\$76,634
			\$856,940	\$1,151,634
Unamortized net premiums, discounts and deferred financing fees			(8,362)	(9,967)
			\$848,578	\$1,141,667

(1) Represents weighted average interest rate at December 31, 2017.

On January 30, 2018, we delivered notice of our intent to redeem at par our \$175 million 5.75% senior unsecured (2) notes due 2042 on March 7, 2018. The notes will be redeemed for cash at a price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest up to, but excluding, the redemption date.

Unsecured Revolving Credit Facility and Term Loan:

On January 29, 2015, we entered into a new credit agreement, pursuant to which the lenders agreed to provide (i) a \$750.0 million unsecured revolving credit facility, (ii) a \$200.0 million 5-year term loan facility and (iii) a \$200.0 million 7-year term loan facility. The new agreement replaced our prior credit agreement, dated as of August 9, 2010, and our prior term loan agreement, dated as of December 16, 2010. In connection with the termination of the prior agreements, we recognized a loss on early extinguishment of debt of \$0.4 million from the write-off of unamortized deferred financing fees for the year ended December 31, 2015.

On November 10, 2016, in connection with our conversion to an UPREIT structure, the Operating Trust entered into an amended and restated credit agreement, replacing the Company's prior credit agreement. Under the amended and restated credit agreement, the Operating Trust has assumed all obligations of the Company as borrower and the Company is released from such obligations. The economic terms of the amended and restated credit agreement are substantially the same as the terms of the Company's prior credit agreement.

The revolving credit facility has a scheduled maturity date of January 28, 2019, which maturity date may be extended for up to two additional periods of six months at our option subject to satisfaction of certain conditions and the

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payment of an extension fee of 7.5 basis points of the aggregate amount available under the revolving credit facility. The 5-year term loan and the 7-year term loan have scheduled maturity dates of January 28, 2020 and January 28, 2022, respectively. We used the

F-21

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

proceeds of borrowings under the credit agreement to repay all amounts outstanding and due under the previous term loan agreement.

The credit agreement permits us to utilize up to \$100.0 million of the revolving credit facility for the issuance of letters of credit. Amounts outstanding under the credit agreement generally may be prepaid at any time without premium or penalty, subject to certain exceptions. We have the right to request increases in the aggregate maximum amount of borrowings available under the revolving credit facility and term loans up to an additional \$1.15 billion, subject to certain conditions.

Borrowings under the 5-year term loan and 7-year term loan will, subject to certain exceptions, bear interest at a LIBOR rate plus a margin of 90 to 180 basis points for the 5-year term loan and 140 to 235 basis points for the 7-year term loan, in each case depending on our credit rating. Borrowings under the revolving credit facility will, subject to certain exceptions, bear interest at a rate equal to, at our option, either a LIBOR rate or a base rate plus a margin of 87.5 to 155 basis points for LIBOR rate advances and 0 to 55 basis points for base rate advances, in each case depending on our credit rating. In addition, we are required to pay a facility fee of 12.5 to 30 basis points, depending on our credit rating, on the borrowings available under the revolving credit facility, whether or not utilized.

Borrowings under our revolving credit facility currently bear interest at LIBOR plus a spread, which was 105 basis points as of December 31, 2017. As of December 31, 2017, the interest rate payable on borrowings under our revolving credit facility was 2.61%. As of December 31, 2017, we had no balance outstanding and \$750.0 million available under our revolving credit facility and the facility fee as of December 31, 2017 was 20 basis points. Our term loans currently bear interest at a rate of LIBOR plus a spread, which was 115 and 155 basis points for the 5-year and 7-year term loan, respectively, as of December 31, 2017. As of December 31, 2017, the interest rates for the amounts outstanding under our 5-year term loan and 7-year term loan were 2.71% and 3.11%, respectively. As of December 31, 2017, we had \$200.0 million outstanding under each of our 5-year and 7-year term loans.

Debt Covenants:

Our public debt indenture and related supplements and our credit agreement contain a number of financial and other covenants, including covenants that restrict our ability to incur indebtedness or to make distributions under certain circumstances and require us to maintain financial ratios and a minimum net worth. At December 31, 2017, we believe we were in compliance with all of our respective covenants under our public debt indenture and related supplements and our credit agreement.

Senior Unsecured Notes:

On July 15, 2017, we redeemed at par \$250.0 million of our 6.65% senior unsecured notes due 2018 and recognized a loss on early extinguishment of debt of \$0.2 million for the year ended December 31, 2017 from the write off of unamortized deferred financing fees and the write off of an unamortized discount.

On December 15, 2016, we redeemed at par \$250.0 million of our 6.25% senior unsecured notes due 2017 and recognized a loss on early extinguishment of debt of \$0.1 million for the year ended December 31, 2016 from the write-off of an unamortized discount and unamortized deferred financing fees.

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On February 16, 2016, we redeemed at par \$139.1 million of our 6.25% senior unsecured notes due 2016 and recognized a loss on early extinguishment of debt of \$0.1 million for the year ended December 31, 2016 from the write-off of an unamortized discount and unamortized deferred financing fees.

On May 1, 2015, we redeemed at par \$138.8 million of our 5.75% senior unsecured notes due 2015 and recognized a loss on early extinguishment of debt of \$0.1 million for the year ended December 31, 2015 from the write-off of an unamortized discount and unamortized deferred financing fees.

Mortgage Notes Payable:

At December 31, 2017, two of our properties with an aggregate net book value of \$56.2 million had secured mortgage notes totaling \$32.6 million (including net premiums and unamortized deferred financing fees) maturing in 2021 and 2026.

F-22

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2017, we repaid \$2.0 million of mortgage debt at 33 Stiles Lane and recognized a loss on early extinguishment of debt of \$0.2 million for the year ended December 31, 2017 from prepayment fees and the write off of unamortized deferred financing fees.

In April 2017, we repaid at par \$41.3 million of mortgage debt at Parkshore Plaza and recognized a loss on early extinguishment of debt of \$0.1 million for the year ended December 31, 2017 from prepayment fees and the write off of unamortized deferred financing fees, net of the write off of an unamortized premium.

On November 10, 2016, we repaid at par \$167.8 million of mortgage debt at 1735 Market Street and recognized a loss on early extinguishment of debt of \$2.4 million from the write-off of unamortized deferred financing fees and breakage costs for the year ended December 31, 2016. We also recognized \$0.2 million of expense included in interest and other income related to an interest rate swap as a result of the early repayment of debt for the year ended December 31, 2016.

On December 1, 2015, we repaid at par \$116.0 million of mortgage debt at 111 Monument Circle and recognized a gain on early extinguishment of debt of \$0.6 million for the year ended December 31, 2015 from the write-off of an unamortized premium, net of the write-off of unamortized deferred financing fees.

In accordance with the agreement to sell Illinois Center, we were required to deliver the property unencumbered. On August 3, 2015, prior to the sale, we defeased the outstanding \$141.4 million balance of the mortgage loan secured by 111 East Wacker Drive, one of the buildings included in Illinois Center. The defeasance costs and write off of the unamortized deferred financing costs, net of the write off of the unamortized premium, resulted in a net loss on early extinguishment of debt of \$3.9 million for the year ended December 31, 2015.

In accordance with the agreement to sell 2501 20th Place South, we were required to deliver the property unencumbered. On June 5, 2015, we prepaid \$10.0 million of mortgage debt at 2501 20th Place South and recognized a loss on early extinguishment of debt totaling \$0.6 million for the year ended December 31, 2015, which consisted of a prepayment premium and the write off of unamortized deferred financing fees, net of the write off of an unamortized premium.

In accordance with the agreement to sell 1320 Main Street, we were required to deliver the property unencumbered. On June 3, 2015, prior to the sale, we defeased the \$38.7 million outstanding balance of the mortgage loan secured by 1320 Main Street. The defeasance costs and write off of the unamortized deferred financing costs, net of the write off of the unamortized premium, resulted in a net loss on early extinguishment of debt of \$6.2 million for the year ended December 31, 2015.

During the quarter ended June 30, 2014, we made the decision to cease making loan servicing payments on 225 Water Street in Jacksonville, Florida. The first payment we determined not to make for this property was due on June 11, 2014. The property was secured by a non-recourse mortgage loan. On October 10, 2014, we were notified by the lender that our decision to cease making loan servicing payments created an event of default effective July 11, 2014, and the lender exercised its option to accelerate the maturity of the unpaid balance of the loan. Beginning July 11, 2014, we accrued interest on this loan at 10.03%, to include the 4.0% of default interest. The lender filed a suit of foreclosure for this property and we cooperated with the lender to allow for a consensual foreclosure process. On May 22, 2015, title to 225 Water Street was transferred to the lender pursuant to the consensual foreclosure in full

satisfaction of the mortgage debt, with a principal balance of \$40.1 million. The transaction resulted in a gain on early extinguishment of debt of \$17.3 million for the excess of the debt principal balance over the net book value of the property for the year ended December 31, 2015.

F-23

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Required Principal Payments:

The required principal payments due during the next five years and thereafter under all of our outstanding debt at December 31, 2017 are as follows (in thousands):

2018	\$1,063
2019	1,126
2020	451,189
2021	25,463
2022	200,663
Thereafter(1)	177,436
	\$856,940

On January 30, 2018, we delivered notice of our intent to redeem at par our \$175 million 5.75% senior unsecured (1) notes due 2042 on March 7, 2018. The notes will be redeemed for cash at a price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest up to, but excluding, the redemption date.

Note 9. Shareholders' Equity

Common Share Issuances:

During the year ended December 31, 2015, we issued 144 common shares to holders of 301 of our series D cumulative convertible preferred shares (series D preferred shares) who elected to convert their series D preferred shares into our common shares.

See Note 14 for information regarding equity issuances related to share-based compensation.

Common Share Repurchases:

On August 24, 2015, our Board of Trustees approved a common share repurchase program, which authorizes the repurchase of up to \$100.0 million of our outstanding common shares over the twelve month period following the date of authorization. On September 14, 2015, our Board of Trustees authorized the repurchase of up to an additional \$100.0 million of our outstanding common shares over the twelve month period following the date of authorization. In August and September 2016, the first two share repurchase authorizations, of which \$86.6 million was not utilized, expired. On March 17, 2016, our Board of Trustees authorized the repurchase of up to an additional \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization. In March 2017, this share repurchase authorization, of which \$106.6 million was not utilized, expired. On March 15, 2017, our Board of Trustees authorized the repurchase of up to an additional \$150.0 million of our outstanding common shares over the twelve month period following the date of authorization.

During the year ended December 31, 2017, we did not purchase any common shares under our common share repurchase program. During the years ended December 31, 2016 and 2015, we purchased and retired 2,491,675 and 3,410,300 of our common shares, respectively, at a weighted average price of \$27.68 and \$25.76 per share, respectively, for a total investment of \$69.0 million and \$87.8 million, respectively. Since the inception of the common share repurchase program through December 31, 2017, we have purchased and retired a total of 5,901,975 of our common shares at a weighted average price of \$26.57 per share, for a total of \$156.8 million. The \$150.0 million of remaining authorization available under our share repurchase program as of December 31, 2017 is scheduled to

expire in March 2018.

During the years ended December 31, 2017 and 2016, certain of our employees surrendered 43,329 and 31,025 common shares, respectively, owned by them to satisfy their statutory tax withholding obligations in connection with the vesting of such common shares under the Equity Commonwealth 2015 Omnibus Incentive Plan (the 2015 Incentive Plan).

F-24

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common Share Distributions:

Our credit agreement contains a number of financial and other covenants, including a covenant which restricts our ability to make distributions under certain circumstances. See Note 8 for additional information regarding our credit agreement. We did not pay any cash distributions to our common shareholders in 2017, 2016 and 2015.

Series D Preferred Shares:

Each of our 4,915,196 series D cumulative convertible preferred shares accrue dividends of \$1.625, or 6.50% per annum of the liquidation amount, payable in equal quarterly payments. Our series D preferred shares are convertible, at the holder's option, into our common shares at an initial conversion rate of 0.480775 common shares per series D preferred share, which is equivalent to an initial conversion price of \$52.00 per common share, or 2,363,103 additional common shares at December 31, 2017. On or after November 20, 2011, if our common shares trade at or above the then applicable conversion price, we may, at our option, convert some or all of the series D preferred shares into common shares at the then applicable conversion rate. If a fundamental change occurs, which generally will be deemed to occur upon a change in control or a termination of trading of our common shares (or other equity securities into which our series D preferred shares are then convertible), holders of our series D preferred shares will have a special right to convert their series D preferred shares into a number of our common shares per \$25.00 liquidation preference, plus accrued and unpaid distributions, divided by 98% of the average closing market price of our common shares for a specified period before such event is effective, unless we exercise our right to repurchase these series D preferred shares for cash, at a purchase price equal to 100% of their liquidation preference, plus accrued and unpaid distributions. The issuance of a large number of common shares as a result of the exercise of this conversion right after a fundamental change may have a dilutive effect on net income attributable to Equity Commonwealth common shareholders per share for future periods. As of December 31, 2017, we had 4,915,196 outstanding series D preferred shares that were convertible into 2,363,103 of our common shares.

Series E Preferred Shares:

On May 15, 2016, we redeemed all of our 11,000,000 outstanding series E preferred shares at a price of \$25.00 per share, for a total of \$275.0 million, plus any accrued and unpaid dividends. The redemption payment occurred on May 16, 2016 (the first business day following the redemption date). We recorded \$9.6 million related to the excess fair value of consideration paid over the carrying value of the preferred shares as a reduction to net income attributable to common shareholders for the year ended December 31, 2016.

Preferred Share Distributions:

Under our governing documents and Maryland law, distributions to our shareholders are to be authorized and declared by our Board of Trustees. In 2017, our Board of Trustees declared distributions on our series D preferred shares to date as follows:

Declaration Date	Record Date	Payment Date	Dividend Per Share
January 12, 2017	January 30, 2017	February 15, 2017	\$0.40625
April 10, 2017	April 28, 2017	May 15, 2017	\$0.40625
June 30, 2017	July 28, 2017	August 15, 2017	\$0.40625
October 12, 2017	October 30, 2017	November 15, 2017	\$0.40625

Alternative Minimum Tax:

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Alternative minimum tax adjustments are to be apportioned between a REIT and its shareholders under Internal Revenue Code Section 59(d). Although regulations have not yet been issued under that provision, based on regulations issued pursuant to a similar provision of prior law and the legislative history of the current provision, it appears that such alternative minimum tax adjustments are to be apportioned to a REIT's shareholders to the extent that the REIT distributes its regular taxable income. It is our policy to distribute all of our regular taxable income and accordingly, all of our alternative minimum tax adjustments are being apportioned to our shareholders.

We have determined that 0%, 96.31% and 0% of each distribution to our shareholders for the tax years ended December 31, 2017, 2016, and 2015, respectively, consists of an alternative minimum tax adjustment.

F-25

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10. Noncontrolling Interest

Noncontrolling interest represents the portion of the units in the Operating Trust not beneficially owned by the Company. An operating partnership unit (OP Unit) and a share of our common stock have essentially the same economic characteristics. Distributions with respect to OP Units will generally mirror distributions with respect to the Company's common shares. Unitholders (other than the Company) generally have the right, commencing six months from the date of issuance of such OP Units, to cause the Operating Trust to redeem their OP Units in exchange for cash or, at the option of the Company, common shares of the Company on a one-for-one basis. As sole trustee, the Company will have the sole discretion to elect whether the redemption right will be satisfied by the Company in cash or the Company's common shares. As a result, the Noncontrolling interest is classified as permanent equity. As of December 31, 2017, the portion of the Operating Trust not beneficially owned by the Company is in the form of LTIP Units (see Note 14 for a description of LTIP Units). LTIP Units may be subject to additional vesting requirements.

The following table presents the changes in Equity Commonwealth's issued and outstanding common shares and units for the year ended December 31, 2017:

	Common Shares	LTIP Units	Total	
Outstanding at January 1, 2017	123,994,465	—	123,994,465	
Restricted share, time-based LTIP Unit grants and vested restricted stock units, net of forfeitures	223,151	42,520	265,671	
Outstanding at December 31, 2017	124,217,616	42,520	124,260,136	
Noncontrolling ownership interest in the Operating Trust			0.03	%

The carrying value of the Noncontrolling interest is allocated based on the number of LTIP Units in proportion to the number of LTIP Units plus the number of common shares. We adjust the noncontrolling interest balance at the end of each period to reflect the noncontrolling partners' interest in the net assets of the Operating Trust. Net income is allocated to the Noncontrolling interest in the Operating Trust based on the weighted average ownership percentage during the period. Equity Commonwealth's weighted average ownership interest in the Operating Trust was 99.97% for the year ended December 31, 2017.

Note 11. Cumulative Other Comprehensive Loss

The following tables present the amounts recognized in cumulative other comprehensive loss for the years ended December 31, 2017 and 2016 (in thousands):

	Unrealized Loss on Derivative Instruments	Unrealized Gain, Net on Marketable Securities	Total
Balances as of January 1, 2017	\$ (208)	\$ —	\$(208)
Other comprehensive (loss) income before reclassifications	(297)	361	64
Amounts reclassified from cumulative other comprehensive loss to net income	49	—	49
Net current period other comprehensive (loss) income	(248)	361	113

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Unrealized Loss on Derivative Instruments
Balance as of January 1, 2016	\$ (3,687)
Other comprehensive loss before reclassifications	(554)
Amounts reclassified from cumulative other comprehensive loss to net income	4,033
Net current period other comprehensive income	3,479
Balance as of December 31, 2016	\$ (208)

The following tables present reclassifications out of cumulative other comprehensive loss for the years ended December 31, 2017 and 2016 (in thousands):

Details about Cumulative Other Comprehensive Loss Components	Amounts Reclassified from Cumulative Other Comprehensive Loss to Net Income Year Ended December 31,		Affected Line Items in the Statement of Operations
	2017	2016	
Interest rate swap contracts	\$ —	\$ 3,792	Interest expense
Interest rate swap contracts	—	241	Interest and other income
Interest rate cap contract	49	—	Interest expense
	\$ 49	\$ 4,033	

Note 12. Income Taxes

Our provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Current:			
State	\$500	\$745	\$270
Federal	—	—	513
Foreign	—	—	2,336
	500	745	3,119
Deferred:			
Foreign	—	—	(755)
	—	—	(755)

Income tax expense \$500 \$745 \$2,364

Federal income tax expense for the year ended December 31, 2015 relates to taxes incurred as a result of a taxable built-in gain triggered by the sale of a property that was previously owned by a C corporation. As a result of the

disposition of the Australian properties, we incurred net income tax expense of \$1.6 million for the year ended December 31, 2015.

F-27

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of our effective tax rate and the U.S. Federal statutory income tax rate is as follows:

	Year Ended December 31,					
	2017		2016		2015	
Taxes at statutory U.S. federal income tax rate	35.00	%	35.00	%	35.00	%
Dividends paid deduction and net operating loss utilization	(35.00)	%	(35.00)	%	(35.00)	%
Federal taxes on built-in gain	—	%	—	%	0.50	%
State, local, and foreign income taxes	1.66	%	0.32	%	1.81	%
Effective tax rate	1.66	%	0.32	%	2.31	%

At December 31, 2017, we had net operating loss (NOL) carryforwards of approximately \$120 million. These amounts can be used to offset future taxable income, if any. The REIT will be entitled to utilize NOL carryforwards only to the extent that REIT taxable income exceeds our deduction for dividends paid. NOLs arising in taxable years ending before January 1, 2018 can generally be carried forward 20 years. Our NOL carryforwards expire in years 2035 to 2037. We are still analyzing certain aspects of H.R. 1, the Tax Cuts and Jobs Act, and refining our calculations, which could potentially affect the measurement of our NOL carryforwards.

Note 13. Derivative Instruments

Risk Management Objective of Using Derivatives

We are exposed to certain risks relating to our ongoing business operations, including the effect of changes in interest rates. The only risk we currently manage by using derivative instruments is related to our interest rate risk.

We may use derivative financial instruments, including interest rate swaps, caps, options, floors and other interest rate derivative contracts, to hedge all or a portion of the interest rate risk associated with our borrowings. The principal objective of such arrangements is to reduce the risks and/or costs associated with our operating and financial structure as well as to hedge specific anticipated transactions. We do not intend to utilize derivatives for speculative or other purposes other than interest rate risk management. The use of derivative financial instruments carries certain risks, including the risk that the counterparties to these contractual arrangements are not able to perform under the agreements. To reduce this risk, we only enter into derivative financial instruments with counterparties with high credit ratings and with major financial institutions with which we and our affiliates may also have other financial relationships. We do not anticipate that any of the counterparties will fail to meet their obligations.

Cash Flow Hedges of Interest Rate Risk

We utilize interest rate derivatives to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we use interest rate swaps, caps, or other similar instruments as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts if interest rates rise above the cap strike rate.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in cumulative other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2017, such derivatives were used to hedge the variable cash flows associated with variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

Amounts reported in cumulative other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, we estimate that an additional \$0.4 million will be reclassified from cumulative other comprehensive loss as an increase to interest expense.

We previously had interest rate swap agreements to manage our interest rate risk exposure on \$167.8 million of mortgage debt at 1735 Market Street, which required interest at a spread over LIBOR. The interest rate swap agreements utilized by us

F-28

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

qualified as cash flow hedges and effectively modified our exposure to interest rate risk by converting our floating interest rate debt to a fixed interest rate basis for this loan through December 1, 2016, thus reducing the impact of interest rate changes on future interest expense. On November 10, 2016 we repaid at par the mortgage debt at 1735 Market Street and terminated the related interest rate swap agreement. We recognized \$0.2 million of expense in interest and other income on the consolidated statement of operations for the year ended December 31, 2016 related to the early termination of the interest rate swap agreement.

On March 4, 2016, we purchased an interest rate cap with a LIBOR strike price of 2.50%. The interest rate cap, effective April 1, 2016, has a notional amount of \$400.0 million and a maturity date of March 1, 2019.

As of December 31, 2017, we had the following outstanding interest rate derivative that was designated as a cash flow hedge of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional Amount (in thousands)
Interest rate cap	1	\$400,000

The table below presents the fair value of our derivative financial instrument as well as its classification on the consolidated balance sheets as of December 31, 2017, and 2016 (amounts in thousands):

Interest Rate Derivative Designated as Hedging Instrument	Balance Sheet Location	Fair Value as of December 31,	
		2017	2016
Interest rate cap	Other assets	\$ 17	\$ 314

The table below details the location in the financial statements of the gain or loss recognized on interest rate derivatives designated as cash flow hedges for the years ended December 31, 2017, 2016, and 2015 (amounts in thousands):

	Year Ended December 31,		
	2017	2016	2015
Amount of loss recognized in cumulative other comprehensive loss (effective portion)	\$(297)	\$(554)	\$(1,149)
Amount of loss reclassified from cumulative other comprehensive loss into interest expense (effective portion)	49	3,792	4,924
Amount of loss recognized in income (ineffective portion and amount excluded from effectiveness testing)	—	241	—

Credit-risk-related Contingent Features

As of December 31, 2017, we did not have any derivatives in a net liability.

Note 14. Share-Based Compensation
Equity Commonwealth 2015 Omnibus Incentive Plan

On June 16, 2015, at our 2015 annual meeting of shareholders, our shareholders approved the 2015 Incentive Plan. The 2015 Incentive Plan replaced the Equity Commonwealth 2012 Equity Compensation Plan (as amended, the 2012 Plan). The Board of Trustees approved the 2015 Incentive Plan, subject to shareholder approval, on March 18, 2015 (the Effective Date). On January 26, 2016, the Board of Trustees approved an amendment to the 2015 Incentive Plan to allow the Compensation Committee (Committee) to authorize in an award agreement a transfer of all or a part of certain equity awards not for value to a “family member” (as defined in the 2015 Incentive Plan). The following description of certain terms of the 2015 Incentive Plan is qualified in all respects by the terms of the 2015 Incentive Plan.

Eligibility. Awards may be granted under the 2015 Incentive Plan to employees, officers and non-employee directors of the Company, its subsidiaries or its affiliates, or consultants and advisors (who are natural persons) providing services to the Company, its subsidiaries or its affiliates, or any other person whose participation in the 2015 Incentive Plan is determined by the Committee to be in the best interests of the Company.

F-29

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Term. The 2015 Incentive Plan terminates automatically ten years after the Effective Date, unless it is terminated earlier by the Board of Trustees.

Shares Available for Issuance. Subject to adjustment as provided in the 2015 Incentive Plan, the maximum number of common shares of the Company that are available for issuance under the 2015 Incentive Plan is 3,250,000 shares.

Awards. The following types of awards may be made under the 2015 Incentive Plan, subject to limitations set forth in the 2015 Incentive Plan:

- Stock options;
- Stock appreciation rights;
- Restricted stock;
- Restricted stock units;
- Unrestricted stock;
- Dividend equivalent rights;
- Performance shares and other performance-based awards;
- Limited partnership interests in any partnership entity through which the Company may conduct its business in the future;
- Other equity-based awards; and
- Cash bonus awards.

Recipients of the Company's restricted shares have the same voting rights as any other common shareholder. During the period of restriction, the Company's unvested restricted shareholders are eligible to receive dividend payments on their shares at the same rate and on the same date as any other common shareholder. The restricted shares are service based awards and vest over a four-year period.

Recipients of the Company's restricted stock units (RSUs) are entitled to receive dividends with respect to the common shares underlying the RSUs if and when the RSUs are earned, at which time the recipient will be entitled to receive an amount in cash equal to the aggregate amount of cash dividends that would have been paid in respect of the common shares underlying the recipient's earned RSUs had such common shares been issued to the recipient on the first day of the performance period. To the extent that an award does not vest, the dividends related to the unvested RSUs will be forfeited. The RSUs are market based awards with a service condition and recipients may earn RSUs based on the Company's total shareholder return (TSR) relative to the TSRs of the companies that comprise the NAREIT Office Index over a three year performance period. Following the end of the performance period, the number of earned awards will be determined. The earned awards vest in two tranches with 50% of the earned award vesting at the end of the performance period and the remaining 50% of the earned award vesting one year after the end of the performance period, subject to the grant recipient's continued employment. Compensation expense for the RSUs is determined using a Monte Carlo simulation model and is recognized ratably from the grant date to the vesting date of each tranche.

LTIP Units are a class of beneficial interests in the Operating Trust that may be issued to employees, officers, or trustees of the Operating Trust, the Company or their subsidiaries. Time-based LTIP Units have the same general characteristics as restricted shares and market-based LTIP Units have the same general characteristics as RSUs. Each LTIP Unit will convert automatically into an OP Unit on a one-for-one basis when the LTIP Unit becomes vested and its capital account is equalized with the per-unit capital account of the OP Units. Holders of LTIP Units generally will

be entitled to receive the same per-unit distributions as the other outstanding OP Units in the Operating Trust, except that market-based LTIP Units will not participate in distributions until expiration of the applicable performance period, at which time any earned market-based LTIP Units generally will become entitled to receive a catch-up distribution for the periods prior to such time.

Administration. The 2015 Incentive Plan will be administered by the Committee, which will determine all terms and recipients of awards under the 2015 Incentive Plan.

2017 Equity Award Activity

On November 8, 2017, 226,258 RSUs vested and we issued 226,258 common shares, prior to certain employees surrendering their common shares to satisfy statutory tax withholding obligations (see Note 9).

F-30

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On June 20, 2017, in accordance with the Company's compensation plan for independent Trustees, the Compensation Committee of our Board of Trustees (the Committee) awarded each of the nine independent Trustees \$0.1 million in restricted shares or time-based LTIP Units as part of their compensation for the 2017-2018 year of service on the Board of Trustees. These awards equated to 3,156 shares or time-based LTIP Units per Trustee, for a total of 25,248 shares and 3,156 time-based LTIP Units, valued at \$31.69 per share and unit, the closing price of our common shares on the New York Stock Exchange (NYSE) on that day. These shares and time-based LTIP Units vest one year after the date of the award.

On January 24, 2017, the Committee approved a grant of 119,288 LTIP Units (which includes time-based LTIP Units and market-based LTIP Units), 76,424 restricted shares and 155,168 RSUs at target (386,756 RSUs at maximum) to the Company's officers, certain employees and to Mr. Zell, the Chairman of our Board of Trustees, as part of their compensation for fiscal year 2016. The LTIP Unit grant includes 39,364 time-based LTIP Units and 79,924 market-based LTIP Units at target (199,211 market-based LTIP Units at maximum). The restricted shares and time-based LTIP Units were granted on January 24, 2017 and were valued at \$31.47 per share, the closing price of our common shares on the NYSE on that day.

2016 Equity Award Activity

On June 15, 2016, in accordance with the Company's compensation plan for independent Trustees, the Committee awarded each of the nine independent Trustees \$0.1 million in restricted shares as part of their compensation for the 2016-2017 year of service on the Board of Trustees. These awards equated to 3,463 shares per Trustee, for a total of 31,167 shares, valued at \$28.88 per share, the closing price of our common shares on the NYSE on that day. These shares vest one year after the date of the award.

On January 26, 2016, the Committee approved a grant of 136,623 restricted shares and 277,386 RSUs at target (691,385 RSUs at maximum) to the Company's officers, certain employees and to Mr. Zell, the Chairman of our Board of Trustees, as part of their compensation for fiscal year 2015. The restricted shares were granted on January 26, 2016 and were valued at \$26.93 per share, the closing price of our common shares on the NYSE on that day.

2015 Equity Award Activity

On June 16, 2015, in accordance with the Company's compensation plan for independent Trustees, the Committee awarded each of the nine independent Trustees \$0.1 million in restricted shares as part of their compensation for the 2015-2016 year of service on the Board of Trustees. These awards equated to 3,843 shares per Trustee, for a total of 34,587 shares, valued at \$26.02 per share, the closing price of our common shares on the NYSE on that day. These shares vest one year after the date of the award.

On January 28, 2015, the Committee approved a grant of 126,319 restricted common shares and 256,467 RSUs at target (639,250 RSUs at maximum) to the Company's officers, certain employees and to Mr. Zell, the Chairman of our Board of Trustees, as part of their compensation for fiscal year 2014. The restricted shares were granted on January 28, 2015 and were valued at \$26.58 per share, the closing price of our common shares on the NYSE on that day.

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Outstanding Equity Awards

The table below presents a summary of restricted share, RSU and LTIP Unit activity for the years ended December 31, 2017, 2016 and 2015:

	Number of Restricted Shares and Time-Based LTIP Units	Weighted Average Grant Date Fair Value	Number of RSUs and Market-Based LTIP Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2014	710,182	\$ 26.66	1,266,237	\$ 15.99
Granted	160,906	26.46	639,250	15.47
Vested	(86,517)	26.66	—	—
Forfeited	(8,115)	26.64	(21,377)	15.80
Outstanding at December 31, 2015	776,456	\$ 26.62	1,884,110	\$ 15.82
Granted	167,790	27.29	691,385	15.57
Vested	(191,498)	26.54	—	—
Forfeited	(539)	26.82	(2,727)	15.54
Outstanding at December 31, 2016	752,209	\$ 26.79	2,572,768	\$ 15.75
Granted	144,192	31.51	585,967	15.97
Vested	(217,449)	27.97	(226,258)	15.99
Not earned(1)	—	—	(800,530)	15.99
Outstanding at December 31, 2017	678,952	\$ 27.41	2,131,947	\$ 15.69

(1) The table presents the maximum number of shares issued or issuable from outstanding equity awards. RSUs and Market-based LTIP Units Not earned are the shares market-based award recipients do not receive based on the performance measurement completed at the end of the performance period.

The 678,952 unvested restricted shares and time-based LTIP Units as of December 31, 2017 are scheduled to vest as follows: 402,399 shares/units in 2018, 123,764 shares/units in 2019, 95,287 shares/units in 2020 and 57,502 shares/units in 2021. As of December 31, 2017, the estimated future compensation expense for all unvested restricted shares and time-based LTIP Units was \$9.3 million. Compensation expense for the restricted share and time-based LTIP Units is being recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. The weighted average period over which the future compensation expense will be recorded for the restricted shares and time-based LTIP Units is approximately 1.7 years.

As of December 31, 2017, the estimated future compensation expense for all unvested RSUs and market-based LTIP Units was \$14.8 million. The weighted average period over which the future compensation expense will be recorded for the RSUs and market-based LTIP Units is approximately 1.9 years.

The assumptions and fair values for the RSUs and market-based LTIP Units granted for the years ended December 31, 2017, 2016 and 2015 are included in the following table on a per share and unit basis.

	2017	2016	2015
Fair value of RSUs and market-based LTIP Units granted at the target amount	\$39.81	\$38.80	\$38.55
Fair value of RSUs granted at the maximum amount	\$15.97	\$15.57	\$15.47
Expected term (years)	4	4	4
Expected volatility	—	—	—
Expected dividend yield	1.59 %	1.86 %	1.88 %
Risk-free rate	1.49 %	1.07 %	0.81 %

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the years ended December 31, 2017, 2016 and 2015, we recorded \$21.4 million, \$18.5 million and \$15.4 million, respectively, of compensation expense, net of forfeitures, in general and administrative expense for grants to our Trustees and employees related to our equity compensation plans. Forfeitures are recognized as they occur. At December 31, 2017, 1,628,305 shares/units remain available for issuance under the 2015 Incentive Plan.

Note 15. Defined Contribution Plan

We have a defined contribution plan that covers employees meeting eligibility requirements. We match 100% of the first 3% of compensation that an employee elects to defer plus 50% of compensation that an employee elects to defer exceeding 3% but not exceeding 5%, subject to a maximum of \$8,000. The Company's matching contribution vests immediately. The Company's contributions were \$0.3 million, \$0.4 million and \$0.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Note 16. Fair Value of Assets and Liabilities

The table below presents certain of our assets and liabilities measured at fair value during 2017 and 2016, categorized by the level of inputs used in the valuation of each asset and liability (dollars in thousands):

Description	Total	Fair Value at December 31, 2017 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Fair Value Measurements:				
Effective portion of interest rate cap contract	\$ 17	\$ —	\$ 17	\$ —
Marketable securities	\$ 276,928	\$ 276,928	\$ —	\$ —
Description	Total	Fair Value at December 31, 2016 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Fair Value Measurements:				
Effective portion of interest rate cap contract	\$ 314	\$ —	\$ 314	\$ —

Effective Portion of Interest Rate Cap Contract

The fair value of our interest rate cap contract is determined using the net discounted cash flows of the derivative based on the market based interest rate curve (level 2 inputs) and adjusted for our credit spread and the actual and estimated credit spreads of the counterparties (level 3 inputs). Although we have determined that the majority of the inputs used to value our derivative fall within level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivative utilize level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and the counterparties. As of December 31, 2017, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative position and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivative. As a result, we have determined that our derivative valuation in its entirety is classified as level 2 inputs in the fair value hierarchy.

Properties Held and Used and Properties Held for Sale

As part of our office repositioning strategy adopted by our Board of Trustees in December 2016, and pursuant to our accounting policy, in 2017, we evaluated the recoverability of the carrying values of each of the real estate assets that comprised our portfolio and determined that due to the shortening of the expected periods of ownership as a result of the office repositioning strategy and current estimates of market value less estimated costs to sell, it was necessary to reduce the net book value of a portion of the real estate assets in our portfolio to their estimated fair values. As a result, in the first quarter of 2017, we recorded an impairment charge related to 25 S. Charles Street of \$1.3 million in accordance with our impairment analysis

F-33

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

procedures. We determined this impairment based on third party offer prices, which are level 2 inputs according to the fair value hierarchy established in ASC 820. We reduced the aggregate carrying value of this property from \$24.6 million to its estimated fair value less estimated costs to sell of \$23.3 million. This property was sold in April 2017 (see Note 3 for additional information). In the second quarter of 2017, we recorded an impairment charge related to the Five Property Portfolio held for sale as of June 30, 2017 of \$18.4 million in accordance with our impairment analysis procedures. We determined this impairment based on third party offer prices, which are level 2 inputs according to the fair value hierarchy established in ASC 820. We reduced the aggregate carrying value of these properties from \$99.0 million to their estimated fair value less estimated costs to sell of \$80.6 million. This portfolio of properties was sold in July 2017 (see Note 3 for additional information). We evaluated each of our properties and determined there were no additional valuation adjustments necessary at December 31, 2017.

As part of our disposition plan, and pursuant to our accounting policy, in 2016, we evaluated the recoverability of the carrying values of each of the real estate assets that comprised our portfolio and determined that due to the shortening of the expected periods of ownership as a result of the disposition plan and current estimates of market value, it was necessary to reduce the net book value of a portion of the real estate assets in our portfolio to their estimated fair values. As a result, in the second quarter of 2016, we recorded an impairment charge related to 111 Monument Circle, 101-115 W. Washington Street and 100 East Wisconsin Avenue of \$43.7 million for the year ended December 31, 2016 in accordance with our impairment analysis procedures. We reduced the aggregate carrying value of these properties from \$308.6 million to their estimated fair value of \$264.9 million. These properties were sold in August 2016 (see Note 3 for additional information). In the fourth quarter of 2016, we recorded an impairment charge related to Parkshore Plaza, Cabot Business Park Land, 625 Crane Street and 111 Market Place of \$14.7 million for the year ended December 31, 2016 in accordance with our impairment analysis procedures. We reduced the aggregate carrying value of these properties from \$98.2 million to their estimated fair value of \$83.5 million. These properties were sold in 2017 (see Note 3 for additional information). We determined these impairments based on third party offer prices and independent third party broker information, which are level 2 inputs according to the fair value hierarchy established in ASC 820. We evaluated each of our properties and determined there were no additional valuation adjustments necessary at December 31, 2016.

Financial Instruments

In addition to the assets and liabilities described in the above table, our financial instruments include our cash and cash equivalents, real estate mortgage receivable, restricted cash, senior unsecured debt and mortgage notes payable. At December 31, 2017 and 2016, the fair value of these additional financial instruments were not materially different from their carrying values, except as follows (in thousands):

	December 31, 2017		December 31, 2016	
	Principal	Fair	Principal	Fair Value
	Balance	Value	Balance	
Senior unsecured debt and mortgage notes payable	\$856,940	\$874,280	\$1,151,634	\$1,167,031

The fair values of our senior notes are based on quoted market prices (level 2 inputs) and our mortgage notes payable are based on estimates using discounted cash flow analyses and currently prevailing interest rates adjusted by credit risk spreads (level 3 inputs).

Other financial instruments that potentially subject us to concentrations of credit risk consist principally of rents receivable; however, as of December 31, 2017, no single tenant of ours is responsible for more than 8.9% of our total

annualized rents.

Our interest rate cap counterparty is a major financial institution and we monitor the amount of credit exposure to any one counterparty.

F-34

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Earnings Per Common Share

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

	Year Ended December 31,		
	2017	2016	2015
Numerator for earnings per common share - basic:			
Net income	\$29,666	\$232,894	\$99,857
Net income attributable to noncontrolling interest	(10)	—	—
Preferred distributions	(7,988)	(17,956)	(27,924)
Excess fair value of consideration paid over carrying value of preferred shares	—	(9,609)	—
Numerator for net income per share - basic	\$21,668	\$205,329	\$71,933
Numerator for earnings per common share - diluted:			
Net income	\$29,666	\$232,894	\$99,857
Preferred distributions	(7,988)	(17,956)	(27,924)
Excess fair value of consideration paid over carrying value of preferred shares	—	(9,609)	—
Numerator for net income per share - diluted	\$21,678	\$205,329	\$71,933
Denominator for earnings per common share - basic and diluted:			
Weighted average number of common shares outstanding - basic	124,125	125,474	128,621
RSUs	912	1,294	816
LTIP Units	92	—	—
Weighted average number of common shares outstanding - diluted(1)	125,129	126,768	129,437
Net income per common share attributable to Equity Commonwealth common shareholders:			
Basic	\$0.17	\$1.64	\$0.56
Diluted	\$0.17	\$1.62	\$0.56
Anti-dilutive securities:			
Effect of Series D preferred shares; 6 1/2% cumulative convertible(2)	2,363	2,363	2,363

As of December 31, 2017, we had granted RSUs and LTIP Units to certain employees, officers, and trustees. The RSUs and LTIP Units contain service and market-based vesting components. If the market-based vesting component of these awards was measured as of December 31, 2017, 2016 and 2015, 673, 1,027 and 1,143 common shares would be issued, respectively.

The Series D preferred shares are excluded from the diluted earnings per share calculation because including the Series D preferred shares would also require that the preferred distributions be added back to net income, resulting in anti-dilution during the periods presented.

Note 18. Segment Information

Our primary business is the ownership and operation of office properties, and we currently have one reportable segment. More than 95% of our revenues for the year ended December 31, 2017 are from office properties.

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 19. Related Person Transactions

The following discussion includes a description of our related person transactions for the years ended December 31, 2017, 2016 and 2015.

Two North Riverside Plaza Joint Venture Limited Partnership and Equity Group Investments and associated entities: Effective July 20, 2015, we entered into a lease with Two North Riverside Plaza Joint Venture Limited Partnership, an entity associated with Mr. Zell, our Chairman, to occupy office space on the twentieth and twenty-first floors of Two North Riverside Plaza in Chicago, Illinois (20th/21st Floor Office Lease). The initial term of the lease is approximately five years, with one 5-year renewal option. We completed improvements to the office space utilizing the \$0.7 million tenant improvement allowance pursuant to the lease. In connection with the 20th/21st Floor Office Lease, we also have a lease with Two North Riverside Plaza Joint Venture Limited Partnership for storage space in the basement of Two North Riverside Plaza. The lease expires December 31, 2020; however, each party has the right to terminate on 30 days' prior written notice. During the years ended December 31, 2017 and 2016, we recognized expense of \$0.8 million and \$0.8 million, respectively, pursuant to the 20th/21st Floor Office Lease and the related storage space. The future minimum lease payments scheduled to be paid by us during the current terms of this lease as of December 31, 2017 are as follows: \$0.9 million in 2018, \$0.9 million in 2019 and \$0.9 million in 2020. As of December 31, 2017 and 2016, we had \$0.0 million and \$0.1 million, respectively, due to Two North Riverside Plaza Joint Venture Limited Partnership pursuant to the 20th/21st Floor Office Lease and the related storage space.

We had a license agreement with Equity Group Investments, a private investment firm (Equity Group), to use office space on the sixth floor at Two North Riverside Plaza. The license fee included the non-exclusive use of additional areas on the sixth floor (such as conference rooms and common areas), certain administrative services (such as mail room services and reception desk staffing), office equipment, office furniture, supplies, licensee's share of building operating expenses and real estate taxes and access to one parking space. Mr. Zell, our Chairman, is the Chairman and Chief Executive Officer of Equity Group, and Mr. Helfand, our President and Chief Executive Officer, is the Co-President of Equity Group. The license agreement was terminated as of December 30, 2015. During the year ended December 31, 2015, we recognized expense of \$0.2 million pursuant to the license agreement.

We had a one-year lease with one 3-month renewal option with Two North Riverside Plaza Joint Venture Limited Partnership to occupy office space on the fourteenth floor at Two North Riverside Plaza. This lease was terminated, effective January 31, 2015. During the year ended December 31, 2015, we recognized expense of \$13,000 pursuant to the office space on the fourteenth floor.

We had a sublease with Equity Residential Management, L.L.C., an entity associated with Mr Zell, our Chairman, to occupy office space on the tenth floor of Two North Riverside Plaza. Equity Residential Management, L.L.C. leases the space from Two North Riverside Plaza Joint Venture Limited Partnership. The sublease agreement was terminated as of December 30, 2015. During the year ended December 31, 2015, we recognized expense of \$0.4 million pursuant to the tenth floor office sublease.

Related/Corvex: On July 31, 2014, at the reconvened session of our 2014 annual meeting of shareholders, our shareholders voted to approve the reimbursement of approximately \$33.5 million of verified expenses incurred by Related Fund Management, LLC and Corvex Management LP (Related/Corvex) in connection with their consent solicitations to remove our former Trustees and elect the new Board of Trustees and to engage in related litigation. Approximately \$16.7 million was paid during the year ended December 31, 2014. Up to \$8.4 million was to be

reimbursed only if the average closing price of our common shares was at least \$26.00 (as adjusted for any share splits or share dividends) during the one year period after the date on which the reimbursement was approved by shareholders, and up to \$8.4 million was to be reimbursed only if the average closing price of our common shares was at least \$26.00 (as adjusted for any share splits or share dividends) during the one year period between the first and second anniversaries of the date on which the reimbursement was approved by shareholders. The average closing price of our common shares was at least \$26.00 during both the first and second one year periods after the date on which the reimbursement was approved by shareholders, and as a result, in August 2016 and 2015, we paid \$8.2 million and \$8.4 million, respectively, to Related/Corvex.

Termination and Cooperation Agreement: Pursuant to a termination and cooperation agreement entered into with Reit Management & Research LLC (RMR) and RMR Australia Asset Management Pty Ltd (together, Former Manager), Former Manager agreed to use best efforts to assist us in the transition of our management and operations. We paid Former Manager

F-36

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$1.2 million per month for transition services from October 1, 2014 to February 28, 2015, which included continued management and other services for the Australian assets pursuant to an Australia management agreement. Beginning March 1, 2015, we agreed to pay Former Manager \$0.1 million per month until we no longer required such services or until the Australia management agreement was terminated, which was terminated in the third quarter of 2015, effective October 31, 2015. There is no future obligation to pay any fees to Former Manager.

Note 20. Selected Quarterly Financial Data (Unaudited)

The following is a summary of our unaudited quarterly results of operations for 2017 and 2016 (dollars in thousands):

	2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$99,551	\$91,599	\$77,798	\$71,623
Net income (loss) attributable to Equity Commonwealth common shareholders	21,817	(7,806)	31,215	(23,558)
Net income (loss) attributable to Equity Commonwealth common shareholders per share—basic	0.18	(0.06)	0.25	(0.19)
Net income (loss) attributable to Equity Commonwealth common shareholders per share—diluted	0.17	(0.06)	0.25	(0.19)

The decrease in the third and fourth quarter 2017 total revenues is primarily attributable to properties sold in 2017. The second quarter 2017 net loss attributable to Equity Commonwealth common shareholders was primarily attributable to the loss on asset impairment of \$18.4 million. The fourth quarter 2017 net loss attributable to Equity Commonwealth common shareholders was primarily attributable to the loss on sale of properties of \$29.2 million.

	2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$137,135	\$145,367	\$114,632	\$103,546
Net income attributable to Equity Commonwealth common shareholders	39,421	71,254	84,391	10,263
Net income attributable to Equity Commonwealth common shareholders per share—basic	0.31	0.57	0.67	0.08
Net income attributable to Equity Commonwealth common shareholders per share—diluted	0.31	0.56	0.67	0.08

The increase in the second quarter 2016 total revenues was primarily attributable to a \$16.6 million lease termination fee received at 111 Monument Circle. The decrease in the third and fourth quarter 2016 total revenues is primarily attributable to properties sold in 2016. The increase in the second and third quarter 2016 net income attributable to Equity Commonwealth common shareholders was primarily attributable to the gain on sale of properties of \$106.4 million and \$82.2 million, respectively.

Note 21. Subsequent Events

On January 12, 2018, we announced that our Board of Trustees declared a dividend of \$0.40625 per series D preferred share, which will be paid on February 15, 2018 to shareholders of record on January 30, 2018.

On January 22, 2018, we entered into a contract to sell our 1,561,477 square foot property at 600 West Chicago Avenue, for a sales price of \$510.0 million, excluding closing credits and closing costs. This transaction is subject to customary closing extensions and conditions, and there is no certainty that this transaction will close.

On January 30, 2018, we delivered notice of our intent to redeem at par our \$175 million 5.75% senior unsecured notes due 2042 on March 7, 2018. The notes will be redeemed for cash at a price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest up to, but excluding, the redemption date (see Note 8).

F-37

Table of Contents

EQUITY COMMONWEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On February 14, 2018, we sold 1600 Market Street, a 825,968 square foot property, for a sales price of \$160.0 million, excluding closing credits and closing costs. This property was classified as held for sale as of December 31, 2017 (see Note 3).

F-38

EQUITY COMMONWEALTH
 SCHEDULE II
 VALUATION AND QUALIFYING ACCOUNTS
 December 31, 2017
 (dollars in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Year Ended December 31, 2015:				
Allowance for doubtful accounts	\$ 6,565	\$ 4,533	\$ (3,383)	\$ 7,715
Year Ended December 31, 2016:				
Allowance for doubtful accounts	\$ 7,715	\$ 1,056	\$ (3,666)	\$ 5,105
Year Ended December 31, 2017:				
Allowance for doubtful accounts	\$ 5,105	\$ 935	\$ (1,269)	\$ 4,771

S-1

EQUITY COMMONWEALTH
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2017
(dollars in thousands)

Property	City	State	Encumbrances	Initial Cost to Company		Costs			Cost Amount Carried at Close of Period		Total
				Land(1)	Buildings and Improvements	Capitalized Subsequent to Acquisition, Net	Impairment/Downs	Write Land	Buildings and Improvements		
1225 Seventeenth Street	Denver	CO	\$—	\$22,400	\$110,090	\$28,273	\$(1,563)	\$22,400	\$136,800	\$159,000	
5073, 5075, & 5085 S. Syracuse Street	Denver	CO	—	4,720	58,890	—	—	4,720	58,890	63,610	
1601 Dry Creek Drive	Longmont	CO	—	3,714	24,397	7,498	(156)	3,714	31,739	35,450	
97 Newberry Road	East Windsor	CT	5,404	2,960	12,360	30	—	2,943	12,407	15,350	
1250 H Street, NW	Washington	DC	—	5,975	53,778	14,906	(248)	5,975	68,436	74,410	
Georgetown-Green and Harris Buildings	Washington	DC	—	24,000	35,979	44	—	24,000	36,023	60,023	
600 West Chicago Avenue	Chicago	IL	—	34,980	315,643	50,761	(322)	34,980	366,082	401,000	
8750 Bryn Mawr Avenue	Chicago	IL	—	6,600	77,764	14,234	(258)	6,600	91,740	98,340	
109 Brookline Avenue	Boston	MA	—	3,168	30,397	15,233	(1,397)	3,168	44,233	47,400	
777 East Eisenhower Parkway	Ann Arbor	MI	—	3,675	26,988	4,485	—	3,675	31,473	35,148	
1735 Market Street	Philadelphia	PA	—	24,753	222,775	81,484	(14,927)	24,748	289,337	314,090	
206 East 9th Street	Austin	TX	26,536	7,900	38,533	4,058	(12)	7,900	42,579	50,479	
Bridgepoint Square	Austin	TX	—	7,784	70,526	17,125	(770)	7,784	86,881	94,661	
Research Park	Austin	TX	—	15,859	60,175	17,439	—	21,213	72,260	93,474	
333 108th Avenue NE	Bellevue	WA	—	14,400	136,412	2,781	(31)	14,400	139,162	153,562	
600 108th Avenue NE	Bellevue	WA	—	3,555	30,244	18,407	(857)	3,555	47,794	51,341	
			\$31,940	\$186,443	\$1,304,951	\$276,758	\$(20,541)	\$191,775	\$1,555,836	\$1,747,611	

S-2

EQUITY COMMONWEALTH
 SCHEDULE III
 REAL ESTATE AND ACCUMULATED DEPRECIATION
 December 31, 2017
 (dollars in thousands)

Analysis of the carrying amount of real estate properties and accumulated depreciation:

	Real Estate Properties	Accumulated Depreciation
Balance at January 1, 2015	\$5,728,443	\$ 1,030,445
Additions(4)	68,118	144,844
Loss on asset impairment	(17,162)	—
Disposals	(1,892,047)	(276,350)
Balance at December 31, 2015	3,887,352	898,939
Additions	113,258	101,647
Loss on asset impairment	(58,595)	(119)
Disposals	(1,085,125)	(245,212)
Balance at December 31, 2016	2,856,890	755,255
Additions	55,041	71,979
Loss on asset impairment	(6,711)	—
Properties classified to held for sale	(138,130)	(62,064)
Disposals	(1,019,479)	(314,452)
Balance at December 31, 2017	\$1,747,611	\$ 450,718

(1) Excludes net unamortized premiums and net unamortized deferred financing costs.

(2) Excludes value of real estate intangibles. Aggregate cost for federal income tax purposes is approximately \$1,907,759.

(3) Depreciation is calculated using the straight line method over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property.

(4) Includes adjustments related to changes in foreign currency exchange rates for real estate properties additions of \$0, \$0 and \$(13,217), and adjustments to accumulated depreciation additions of \$0, \$0 and \$(887), during 2017, 2016 and 2015, respectively.

EQUITY COMMONWEALTH
SCHEDULE IV
MORTGAGE LOANS ON REAL ESTATE
December 31, 2017
(dollars in thousands)

Location	Interest Rate	Final Maturity Date	Periodic Payment Terms	Face Amount of Mortgage ⁽¹⁾	Carrying Amount of Mortgage	Principal Amount of Loans Subject to Delinquent Principal or Interest
Dearborn, MI	6.00%	1/24/2023	Interest payable monthly in arrears. \$7,688 due at maturity.	\$ 7,688	\$ 7,688	\$ —

Reconciliation of the carrying amount of mortgage loans at the beginning of the period:

Balance at December 31, 2015	\$ 8,087
Collection of principal	(7)
Balance at December 31, 2016	\$ 8,080
Collection of principal	(320)
Loss on repayment	(72)
Balance at December 31, 2017	\$ 7,688

(1) Also represents cost for federal income tax purposes.