

COUSINS PROPERTIES INC

Form 10-K

February 06, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-11312

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COUSINS PROPERTIES INCORPORATED

(Exact name of registrant as specified in its charter)

Georgia

58-0869052

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

3344 Peachtree Road NE, Suite 1800, Atlanta, Georgia

30326-4802

(Address of principal executive offices)

(Zip Code)

(404) 407-1000

(Registrant's telephone number, including area code)

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

Title of each class \_\_\_\_\_ Name of Exchange on which registered \_\_\_\_\_

Common Stock (\$1 par value) New York Stock Exchange

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

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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 Exchange 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer

Accelerated filer

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

As of June 30, 2018, the aggregate market value of the common stock of Cousins Properties Incorporated held by non-affiliates was \$3,996,942,489 based on the closing sales price as reported on the New York Stock Exchange. As of January 31, 2019, 420,366,403 shares of common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's proxy statement for the annual stockholders meeting to be held on April 23, 2019 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

PART I

Item 1. <u>Business</u>	<u>2</u>
Item 1A. <u>Risk Factors</u>	<u>3</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>12</u>
Item 2. <u>Properties</u>	<u>13</u>
Item 3. <u>Legal Proceedings</u>	<u>17</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>17</u>
Item X. <u>Executive Officers of the Registrant</u>	<u>18</u>

PART II

Item 5. <u>Market for Registrant’s Common Stock and Related Stockholder Matters</u>	<u>19</u>
Item 6. <u>Selected Financial Data</u>	<u>20</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 7A. <u>Quantitative and Qualitative Disclosure about Market Risk</u>	<u>34</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>35</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>35</u>
Item 9A. <u>Controls and Procedures</u>	<u>35</u>
Item 9B. <u>Other Information</u>	<u>38</u>

PART III

Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>39</u>
Item 11. <u>Executive Compensation</u>	<u>39</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>39</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>39</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>39</u>

PART IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>40</u>
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<u>SIGNATURES</u>	<u>44</u>
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Table of Contents

FORWARD-LOOKING STATEMENTS

Certain matters contained in this report are “forward-looking statements” within the meaning of the federal securities laws and are subject to uncertainties and risks, as itemized herein. These forward-looking statements include information about possible or assumed future results of the business and our financial condition, liquidity, results of operations, plans, and objectives. They also include, among other things, statements regarding subjects that are forward-looking by their nature, such as:

- our business and financial strategy;
- future debt financings;
- future acquisitions and dispositions of operating assets;
- future acquisitions and dispositions of land, including ground leases;
- future development and redevelopment opportunities, including fee development opportunities;
- future issuances and repurchases of common stock;
- projected operating results;
- market and industry trends;
- entry into new markets;
- future distributions;
- projected capital expenditures;
- future changes in interest rates; and

all statements that address operating performance, events, or developments that we expect or anticipate will occur in the future — including statements relating to creating value for stockholders.

Any forward-looking statements are based upon management's beliefs, assumptions, and expectations of our future performance, taking into account information that is currently available. These beliefs, assumptions, and expectations may change as a result of possible events or factors, not all of which are known. If a change occurs, our business, financial condition, liquidity, and results of operations may vary materially from those expressed in forward-looking statements. Actual results may vary from forward-looking statements due to, but not limited to, the following:

- the availability and terms of capital;
- the ability to refinance or repay indebtedness as it matures;
- the failure of purchase, sale, or other contracts to ultimately close;
- the failure to achieve anticipated benefits from acquisitions, investments, or dispositions;
- the potential dilutive effect of common stock or operating partnership unit issuances;
- the availability of buyers and pricing with respect to the disposition of assets;
- changes in national and local economic conditions, the real estate industry, and the commercial real estate markets in which we operate (including supply and demand changes), particularly in Atlanta, Charlotte, Austin, Phoenix, and Tampa where we have high concentrations of our lease revenue;
- changes to our strategy with regard to land and other non-core holdings that require impairment losses to be recognized;
- leasing risks, including the ability to obtain new tenants or renew expiring tenants, the ability to lease newly developed and/or recently acquired space, the failure of a tenant to occupy leased space, and the risk of declining leasing rates;
- changes in the needs of our tenants brought about by the desire for co-working arrangements, trends toward utilizing less office space per employee, and the effect of telecommuting;
- the adverse change in the financial condition of one or more of our major tenants;
- volatility in interest rates and insurance rates;
- competition from other developers or investors;
- the risks associated with real estate developments (such as zoning approval, receipt of required permits, construction delays, cost overruns, and leasing risk);
- cyber security breaches;

- changes in senior management and the loss of key personnel;
- the potential liability for uninsured losses, condemnation, or environmental issues;
- the potential liability for a failure to meet regulatory requirements;
- the financial condition and liquidity of, or disputes with, joint venture partners;
- any failure to comply with debt covenants under credit agreements;
- any failure to continue to qualify for taxation as a real estate investment trust and meet regulatory requirements;
- potential changes to state, local, or federal regulations applicable to our business;
- material changes in the rates, or the ability to pay, dividends on common shares or other securities;
- potential changes to the tax laws impacting REITs and real estate in general; and
- those additional risks and factors discussed in reports filed with the Securities and Exchange Commission by the Company.

The words “believes,” “expects,” “anticipates,” “estimates,” “plans,” “may,” “intend,” “will,” or similar expressions are intended to identify forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in any forward-looking statements are reasonable, we can give no assurance that such plans, intentions, or expectations will be achieved. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information, or otherwise, except as required under U.S. federal securities laws.

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Table of Contents

PART I

Item 1. Business

Corporate Profile

Cousins Properties Incorporated (the “Registrant” or “Cousins”) is a Georgia corporation, which has elected to be taxed as a real estate investment trust (“REIT”). Cousins conducts substantially all of its business through Cousins Properties LP (“CPLP”), a Delaware limited partnership. Cousins owns approximately 98% of CPLP, and CPLP is consolidated with Cousins for financial reporting purposes. CPLP also owns Cousins TRS Services LLC (“CTRS”), a taxable entity which owns and manages its own real estate portfolio and performs certain real estate related services for other parties. Cousins, CPLP, their subsidiaries, and CTRS combined are hereafter referred to as “we,” “us,” “our,” and the “Company.” Our common stock trades on the New York Stock Exchange under the symbol “CUZ.”

Our operations are conducted through a number of segments based on our method of internal reporting, which classifies operations by property type and geographical area.

Company Strategy

Our strategy is to create value for our stockholders through ownership of the premier urban office portfolio in the Sunbelt markets of the United States, with a particular focus on Georgia, Texas, North Carolina, Florida, and Arizona. This strategy is based on a disciplined approach to capital allocation that includes value-add acquisitions, selective development projects, and timely dispositions of non-core assets. This strategy is also based on a simple, flexible, and low-leveraged balance sheet that allows us to pursue investment opportunities at the most advantageous points in the cycle. To implement this strategy, we leverage our strong local operating platforms within each of our major markets.

2018 Activities

During 2018, we commenced two new development projects and completed two development projects. At year-end, we had four development projects in process; our share of the total expected costs of these projects totaled \$245.9 million. We also improved our balance sheet and liquidity by expanding and extending our unsecured credit facility (“Credit Facility”) and repaying one mortgage loan. The following is a summary of our significant 2018 activities:

Investment Activity

Commenced construction of 10000 Avalon, a 251,000 square foot office building in Atlanta, adjacent to our existing 8000 Avalon building. This project is being developed in a joint venture in which we hold a 90% interest, and the project is expected to be completed in 2020.

Commenced construction of 300 Colorado, a 358,000 square foot office building in downtown Austin. This project is being developed in a joint venture in which we hold a 50% interest, and the project is expected to be completed in 2021.

Completed the development and commenced operations of Spring & 8th (864 and 858 Spring Street), two office buildings totaling 765,000 square feet in Midtown Atlanta that comprise NCR's headquarters.

Continued development of Dimensional Place, a 282,000 square foot building in Charlotte that will become the East Coast headquarters of Dimensional Fund Advisors. This project is being developed in a 50-50 joint venture with Dimensional Fund Advisors and is expected to be completed in 2019.

Acquired interests in two tracts of land in Midtown Atlanta and a tract of land in Tempe for potential future office development projects. With the addition of these sites, we own or control sites that could accommodate development of up to 1.4 million square feet of new Class A office space.

Financing Activity

Closed a \$1 billion unsecured revolving credit facility that replaced the existing \$500 million facility.

Repaid the \$22.2 million mortgage note secured by The Pointe, a 253,000 square foot office building in Tampa.

Portfolio Activity

Leased or renewed 1.6 million square feet of office space.

Increased second generation net rent per square foot by 32.5% on a GAAP basis and 13.2% on a cash basis.

Increased same property net operating income by 2.1% on a GAAP basis and 4.7% on a cash basis.



## Table of Contents

### Environmental Matters

Our business operations are subject to various federal, state, and local environmental laws and regulations governing land, water, and wetlands resources. Among these are certain laws and regulations under which an owner or operator of real estate could become liable for the costs of removal or remediation of certain hazardous or toxic substances present on or in such property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to properly remediate such substances, may subject the owner to substantial liability and may adversely affect the owner's ability to develop the property or to borrow using such real estate as collateral.

We typically manage this potential liability through performance of Phase I Environmental Site Assessments and, as necessary, Phase II environmental sampling, on properties we acquire or develop. Even with these assessments and testings, no assurance can be given that environmental liabilities do not exist, that the reports revealed all environmental liabilities, or that no prior owner created any material environmental condition not known to us. In certain situations, we have also sought to avail ourselves of legal and regulatory protections offered by federal and state authorities to prospective purchasers of property. Where applicable studies have resulted in the determination that remediation was required by applicable law, the necessary remediation is typically incorporated into the acquisition or development activity of the relevant property. We are not aware of any environmental liability that we believe would have a material adverse effect on our business, assets, or results of operations.

Certain environmental laws impose liability on a previous owner of a property to the extent that hazardous or toxic substances were present during the prior ownership period. A transfer of the property does not necessarily relieve an owner of such liability. Thus, although we are not aware of any such situation, we may have such liabilities on properties previously sold. We believe that we and our properties are in compliance in all material respects with applicable federal, state, and local laws, ordinances, and regulations governing the environment. For additional information, see Item 1A. Risk Factors - "Environmental issues."

### Competition

We compete with other real estate owners with similar properties located in our markets and distinguish ourselves to tenants/buyers primarily on the basis of location, rental rates/sales prices, services provided, reputation, and the design and condition of the facilities. We also compete with other real estate companies, financial institutions, pension funds, partnerships, individual investors, and others when attempting to acquire and develop properties.

### Executive Offices; Employees

Our executive offices are located at 3344 Peachtree Road NE, Suite 1800, Atlanta, Georgia 30326-4802. On December 31, 2018, we employed 257 people.

### Available Information

We make available free of charge on the "Investor Relations" page of our website, [www.cousins.com](http://www.cousins.com), our reports on Forms 10-K, 10-Q, and 8-K, and all amendments thereto, as soon as reasonably practicable after the reports are filed with, or furnished to, the Securities and Exchange Commission (the "SEC").

Our Corporate Governance Guidelines, Director Independence Standards, Code of Business Conduct and Ethics, and the Charters of the Audit Committee, and the Compensation, Succession, Nominating and Governance Committee of the Board of Directors are also available on the "Investor Relations" page of our website. The information contained on our website is not incorporated herein by reference. Copies of these documents (without exhibits, when applicable) are also available free of charge upon request to us at 3344 Peachtree Road NE, Suite 1800, Atlanta, Georgia 30326-4802, Attention: Investor Relations or by telephone at (404) 407-1104 or by facsimile at (404) 407-1105. In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

### Item 1A. Risk Factors

Set forth below are the risks we believe investors should consider carefully in evaluating an investment in the securities of Cousins Properties Incorporated.

#### General Risks of Owning and Operating Real Estate

Our ownership of commercial real estate involves a number of risks, the effects of which could adversely affect our business.





## Table of Contents

General economic and market risks. In a general economic decline or recessionary climate, our commercial real estate assets may not generate sufficient cash to pay expenses, service debt, or cover maintenance costs, and, as a result, our results of operations and cash flows may be adversely affected. Factors that may adversely affect the economic performance and value of our properties include, among other things:

- changes in the national, regional, and local economic climate;
- local real estate conditions such as an oversupply of rentable space caused by increased development of new properties or a reduction in demand for rentable space caused by a change in the wants and needs of our tenants or economic conditions making our locations undesirable;
- the attractiveness of our properties to tenants or buyers;
- competition from other available properties;
- changes in market rental rates and related concessions granted to tenants including, but not limited to, free rent, and tenant improvement allowances;
- uninsured losses as a result of casualty events;
- the need to periodically repair, renovate, and re-lease properties; and
- changes in federal and state income tax laws as they affect real estate companies and real estate investors.

Uncertain economic conditions may adversely impact current tenants in our various markets and, accordingly, could affect their ability to pay rents owed to us pursuant to their leases. In periods of economic uncertainty, tenants are more likely to downsize and/or to declare bankruptcy; and, pursuant to various bankruptcy laws, leases may be rejected and thereby terminated. Furthermore, our ability to sell or lease our properties at favorable rates, or at all, may be negatively impacted by general or local economic conditions.

Our ability to collect rent from tenants may affect our ability to pay for adequate maintenance, insurance, and other operating costs (including real estate taxes). Also, the expense of owning and operating a property is not necessarily reduced when circumstances such as market factors cause a reduction in income from the property. If a property is mortgaged and we are unable to meet the mortgage payments, the lender could foreclose on the mortgage and take title to the property. In addition, interest rates, financing availability, law changes, and governmental regulations (including those governing usage, zoning, and taxes) may adversely affect our financial condition.

Impairment risks. We regularly review our real estate assets for impairment; and based on these reviews, we may record impairment losses that have an adverse effect on our results of operations. Negative or uncertain market and economic conditions, as well as market volatility, increase the likelihood of incurring impairment losses. If we decide to sell a real estate asset rather than holding it for long term investment or if we reduce our estimates of future cash flows on a real estate asset, the risk of impairment increases. The magnitude and frequency with which these charges occur could materially and adversely affect our business, financial condition, and results of operations.

Leasing risk. Our properties were 94.9% leased at December 31, 2018. Our operating revenues are dependent upon entering into leases with, and collecting rents from, our tenants. Tenants whose leases are expiring may want to decrease the space they lease and/or may be unwilling to continue their lease. When leases expire or are terminated, replacement tenants may not be available upon acceptable terms and market rental rates may be lower than the previous contractual rental rates. Also, our tenants may approach us for additional concessions in order to remain open and operating. The granting of these concessions may adversely affect our results of operations and cash flows to the extent that they result in reduced rental rates, additional capital improvements, or allowances paid to, or on behalf of, the tenants.

Tenant and property concentration risk. As of December 31, 2018, our top 20 tenants represented 36% of our annualized base rental revenues with no single tenant accounting for more than 8% of our annualized base rental revenues. The inability of any of our significant tenants to pay rent or a decision by a significant tenant to vacate their premises prior to, or at the conclusion of, their lease term could have a significant negative impact on our results of operations or financial condition if a suitable replacement tenant is not secured in a timely manner. These events could have a significant adverse impact on our results of operations or financial condition.

For the three months ended December 31, 2018, 41.5% of our net operating income for properties owned was derived from the metropolitan Atlanta area, 18.5% was derived from the metropolitan Charlotte area, and 18.1% was derived from the metropolitan Austin area. Any adverse economic conditions impacting Atlanta, Charlotte, or Austin could

adversely affect our overall results of operations and financial condition.

Uninsured losses and condemnation costs. Accidents, earthquakes, terrorism incidents, and other losses at our properties could adversely affect our operating results. Casualties may occur that significantly damage an operating property, and insurance

4

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Table of Contents

proceeds may be less than the total loss incurred by us. Although we, or our joint venture partners where applicable, maintain casualty insurance under policies we believe to be adequate and appropriate, including rent loss insurance on operating properties, some types of losses, such as those related to the termination of longer-term leases and other contracts, generally are not insured. Certain types of insurance may not be available or may be available on terms that could result in large uninsured losses, and insurers may not pay a claim as required under a policy. Property ownership also involves potential liability to third parties for such matters as personal injuries occurring on the property. Such losses may not be fully insured. In addition to uninsured losses, various government authorities may condemn all or parts of operating properties. Such condemnations could adversely affect the viability of such projects.

**Environmental issues.** Environmental issues that arise at our properties could have an adverse effect on our financial condition and results of operations. Federal, state, and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at a property. If determined to be liable, the owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination, or perform such investigation and clean-up itself. Although certain legal protections may be available to prospective purchasers of property, these laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the regulated substances. Even if more than one person may have been responsible for the release of regulated substances at the property, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from regulated substances emanating from that site. We are not currently aware of any environmental liabilities at locations that we believe could have a material adverse effect on our business, assets, financial condition, or results of operations. Unidentified environmental liabilities could arise, however, and could have an adverse effect on our financial condition and results of operations.

**Joint venture structure risks.** We hold ownership interests in a number of joint ventures with varying structures and may in the future invest in real estate through such structures. Our venture partners may have rights to take actions over which we have no control, or the right to withhold approval of actions that we propose, either of which could adversely affect our interests in the related joint ventures, and in some cases, our overall financial condition and results of operations. These structures involve participation by other parties whose interests and rights may not be the same as ours. For example, a venture partner may have economic and/or other business interests or goals which are incompatible with our business interests or goals and that venture partner may be in a position to take action contrary to our interests. In addition, such venture partners may default on their obligations, which could have an adverse impact on the financial condition and operations of the joint venture. Such defaults may result in our fulfilling their obligations that may, in some cases, require us to contribute additional capital to the ventures. Furthermore, the success of a project may be dependent upon the expertise, business judgment, diligence, and effectiveness of our venture partners in matters that are outside our control. Thus, the involvement of venture partners could adversely impact the development, operation, ownership, financing, or disposition of the underlying properties.

**Liquidity risk.** Real estate investments are relatively illiquid and can be difficult to sell and convert to cash quickly. As a result, our ability to sell one or more of our properties, whether in response to any changes in economic or other conditions or in response to a change in strategy, may be limited. In the event we want to sell a property, we may not be able to do so in the desired time period, the sales price of the property may not meet our expectations or requirements, or we may be required to record an impairment loss on the property as a result.

**Compliance or failure to comply with the Americans with Disabilities Act or other federal, state, and local regulatory requirements could result in substantial costs.**

The Americans with Disabilities Act generally requires that certain buildings, including office buildings, be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If, under the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely impact our earnings and cash flows, thereby impacting our ability to service debt and make distributions to our stockholders.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire, health, and life safety requirements. If we fail to comply with these requirements, we could incur fines or other monetary damages. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

#### Financing Risks

At certain times, interest rates and other market conditions for obtaining capital are unfavorable, and, as a result, we may be unable to raise the capital needed to invest in acquisition or development opportunities, maintain our properties,

Table of Contents

or otherwise satisfy our commitments on a timely basis, or we may be forced to raise capital at a higher cost or under restrictive terms, which could adversely affect returns on our investments, our cash flows, and results of operations. We generally finance our acquisition and development projects through one or more of the following: our Credit Facility, unsecured debt, non-recourse mortgages, construction loans, the sale of assets, joint venture equity, the issuance of common stock, issuance of preferred stock, and the issuance of units of CPLP. Each of these sources may be constrained from time to time because of market conditions, and the related cost of raising this capital may be unfavorable at any given point in time. These sources of capital, and the risks associated with each, include the following:

**Credit Facility.** Terms and conditions available in the marketplace for unsecured credit facilities vary over time. We can provide no assurance that the amount we need from our Credit Facility will be available at any given time, or at all, or that the rates and fees charged by the lenders will be reasonable. We incur interest under our Credit Facility at a variable rate. Variable rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect our cash flow and results of operations. Our Credit Facility contains customary restrictions, requirements and other limitations on our ability to incur indebtedness, including restrictions on unsecured debt outstanding, restrictions on secured recourse debt outstanding, and requirements to maintain a minimum fixed charge coverage ratio. Our continued ability to borrow under our Credit Facility is subject to compliance with these covenants.

**Unsecured Debt.** Terms and conditions available in the marketplace for unsecured debt vary over time. The availability of unsecured debt may vary based on the capital markets and capital market activity. Unsecured debt generally contains restrictive covenants that may place limitations on our ability to conduct our business similar to those placed upon us by our Credit Facility.

**Non-recourse mortgages.** The availability of non-recourse mortgages is dependent upon various conditions, including the willingness of mortgage lenders to lend at any given point in time. Interest rates and loan-to-value ratios may also be volatile, and we may from time to time elect not to proceed with mortgage financing due to unfavorable terms offered by lenders. If a property is mortgaged to secure payment of indebtedness and we are unable to make the mortgage payments, the lender may foreclose. Further, at the time a mortgage matures, the property may be worth less than the mortgage amount and, as a result, we may determine not to refinance the mortgage and permit foreclosure, potentially generating defaults on other debt.

**Asset sales.** Real estate markets tend to experience market cycles. Because of such cycles, the potential terms and conditions of sales, including prices, may be unfavorable for extended periods of time. In addition, our status as a REIT can limit our ability to sell properties, which may affect our ability to liquidate an investment. As a result, our ability to raise capital through asset sales could be limited. In addition, mortgage financing on an asset may prohibit prepayment and/or impose a prepayment penalty upon the sale of that property, which may decrease the proceeds from a sale or make the sale impractical.

**Construction loans.** Construction loans generally relate to specific assets under construction and fund costs above an initial equity amount deemed acceptable by the lender. Terms and conditions of construction loans vary, but they generally carry a term of two to five years, charge interest at variable rates, require the lender to be satisfied with the nature and amount of construction costs prior to funding, and require the lender to be satisfied with the level of pre-leasing prior to funding. Construction loans can require a portion of the loan to be recourse to us. In addition, construction loans generally require a completion guarantee by the borrower and may require a limited payment guarantee from the Company which may be disproportionate to any guaranty required from a joint venture partner. There may be times when construction loans are not available, or are only available upon unfavorable terms, which could have an adverse effect on our ability to fund development projects or on our ability to achieve the returns we expect.

**Joint ventures.** Joint ventures, including partnerships or limited liability companies, tend to be complex arrangements, and there are only a limited number of parties willing to undertake such investment structures. There is no guarantee that we will be able to undertake these ventures at the times we need capital and at favorable terms.

**Common stock.** Common stock issuances may have a dilutive effect on our earnings per share and funds from operations per share. The actual amount of dilution, if any, from any future offering of common stock will be based

on numerous factors, particularly the use of proceeds and any return generated from these proceeds. The per share trading price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market in connection with an offering, or as a result of the perception or expectation that such sales

6

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Table of Contents

could occur. We can also provide no assurance that conditions will be favorable for future issuances of common stock when we need capital.

**Preferred Stock.** The availability of preferred stock at favorable terms and conditions is dependent upon a number of factors including the general condition of the economy, the overall interest rate environment, the condition of the capital markets and the demand for this product by potential holders of the securities. We can provide no assurance that conditions will be favorable for future issuances of preferred stock when we need the capital, which could have an adverse effect on our ability to fund acquisition and development activities.

**Operating partnership units.** The issuance of units of CPLP in connection with property, portfolio, or business acquisitions could be dilutive to our earnings per share and could have an adverse effect on the per share trading price of our common stock.

As a result of any additional indebtedness incurred to consummate investment activities, we may experience a potential material adverse effect on our financial condition and results of operations.

As of December 31, 2018, we had \$1.1 billion of outstanding indebtedness. The incurrence of additional indebtedness could have adverse consequences on our business, such as:

- requiring us to use a substantial portion of our cash flow from operations to service our indebtedness, which would reduce the available cash flow to fund working capital, capital expenditures, development projects, and other general corporate purposes and reduce cash for distributions;
- limiting our ability to obtain additional financing to fund our working capital needs, acquisitions, capital expenditures, or other debt service requirements or for other purposes;
- increasing our exposure to floating interest rates;
- limiting our ability to compete with other companies who have less leverage, as we may be less capable of responding to adverse economic and industry conditions;
- restricting us from making strategic acquisitions, developing properties, or capitalizing on business opportunities;
- restricting the way in which we conduct our business due to financial and operating covenants in the agreements governing our existing and future indebtedness;
- exposing us to potential events of default (if not cured or waived) under covenants contained in our debt instruments;
- increasing our vulnerability to a downturn in general economic conditions; and
- limiting our ability to react to changing market conditions in our industry.

The impact of any of these potential adverse consequences could have a material adverse effect on our results of operations, financial condition, and liquidity.

Covenants contained in our Credit Facility, senior unsecured notes, term loans and mortgages could restrict our operational flexibility, which could adversely affect our results of operations.

Our Credit Facility, senior unsecured notes, and our unsecured term loan impose financial and operating restrictions on us. These restrictions may be modified from time to time, but restrictions of this type include limitations on our ability to incur debt, as well as limitations on the amount of our secured debt, unsecured debt, and on the amount of joint venture activity in which we may engage. These covenants may limit our flexibility in making business decisions. If we fail to comply with these covenants, our ability to borrow may be impaired, which could potentially make it more difficult to fund our capital and operating needs. Our failure to comply with such covenants could cause a default, and we may then be required to repay our outstanding debt with capital from other sources. Under those circumstances, other sources of capital may not be available to us or may be available only on unattractive terms, which could materially and adversely affect our financial condition and results of operations. In addition, the cross default provisions on the Credit Facility, senior unsecured notes, and term loan may affect business decisions on other debt.

Some of our mortgages contain customary negative covenants, including limitations on our ability, without the lender's prior consent, to further mortgage that specific property, to enter into new leases, to modify existing leases, or to sell the property. Compliance with these covenants and requirements could harm our operational flexibility and financial condition.





## Table of Contents

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our securities.

Total debt as a percentage of either total asset value or total market capitalization and total debt as a multiple of annualized EBITDA is often used by analysts to gauge the financial health of equity REITs such as us. If our degree of leverage is viewed unfavorably by lenders or potential joint venture partners, it could affect our ability to obtain additional financing. In general, our degree of leverage could also make us more vulnerable to a downturn in business or the economy. In addition, increases in our debt to market capitalization ratio, which is in part a function of our stock price, or to other measures of asset value used by financial analysts may have an adverse effect on the market price of common stock.

### Real Estate Acquisition and Development Risks

We face risks associated with operating property acquisitions.

Operating property acquisitions contain inherent risks. These risks may include:

- difficulty in leasing vacant space or renewing existing tenants with the acquired property;
- the costs and timing of repositioning or redeveloping acquisitions;
- the acquisitions may fail to meet internal projections or otherwise fail to perform as expected;
- the acquisitions may be in markets that are unfamiliar to us and could present unforeseen business challenges;
- the timing of acquisitions may not match the timing of dispositions, leading to periods of time where projects' proceeds are not invested as profitably as we desire or where we increase short-term borrowings until sales proceeds become available;
- the inability to obtain financing for acquisitions on favorable terms or at all;
- the inability to successfully integrate the operations, maintain consistent standards, controls, policies and procedures, or realize the anticipated benefits of acquisitions within the anticipated time frames or at all;
- the inability to effectively monitor and manage our expanded portfolio of properties, retain key employees or attract highly qualified new employees;
- the possible decline in value of the acquired asset;
- the diversion of our management's attention away from other business concerns; and
- the exposure to any undisclosed or unknown issues, expenses, or potential liabilities relating to acquisitions.

In addition, we may acquire properties subject to liabilities with no or limited recourse against the prior owners or other third parties. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle or contest it, which might not be fully covered by owner's title insurance policies or other insurance policies.

Any of these risks could cause a failure to realize the intended benefits of our acquisitions and could have a material adverse effect on our financial condition, results of operations, and the market price of our common stock.

We face risks associated with the development of real estate.

Development activities contain certain inherent risks. Although we seek to minimize risks from development through various management controls and procedures, development risks cannot be eliminated. Some of the key factors affecting development of property are as follows:

**Abandoned predevelopment costs.** The development process inherently requires that a large number of opportunities be pursued with only a few actually being developed. We may incur significant costs for predevelopment activity for projects that are later abandoned, which would directly affect our results of operations. For projects that are later abandoned, we must expense certain costs, such as salaries, that would have otherwise been capitalized. We have procedures and controls in place that are intended to minimize this risk, but it is likely that we will incur predevelopment expense on abandoned projects on an ongoing basis.

**Project costs.** Construction and leasing of a project involves a variety of costs that cannot always be identified at the beginning of a project. Costs may arise that have not been anticipated or actual costs may exceed estimated costs.

These additional costs can be significant and could adversely impact our return on a project and the expected results of operations upon completion of the project. Also, construction costs vary over time based upon many factors, including the cost of labor and building materials. We attempt to mitigate the risk of unanticipated increases in construction costs on our development projects through guaranteed maximum price contracts and pre-ordering



## Table of Contents

of certain materials, but we may be adversely affected by increased construction costs on our current and future projects.

**Construction delays.** Real estate development carries the risk that a project could be delayed due to a number of issues that may arise including, but not limited to, weather and other forces of nature, availability of materials, availability of skilled labor, and the financial health of general contractors or sub-contractors. Construction delays could cause adverse financial impacts to us which could include higher interest and other carrying costs than originally budgeted, monetary penalties from tenants pursuant to their leases, and higher construction costs. Delays could also result in a violation of terms of construction loans that could increase fees, interest, or trigger additional recourse of a construction loan to us.

**Leasing risk.** The success of a commercial real estate development project is heavily dependent upon entering into leases with acceptable terms within a predefined lease-up period. Although our policy is to generally achieve certain pre-leasing goals (which vary by market, product type, and circumstances) before committing to a project, it is expected that sometimes not all the space in a project will be leased at the time we commit to the project. If the additional space is not leased on schedule and upon the expected terms and conditions, our returns, future earnings, and results of operations from the project could be adversely impacted. Whether or not tenants are willing to enter into leases on the terms and conditions we project and on the timetable we expect will depend upon a number of factors, many of which are outside our control. These factors may include:

- general business conditions in the local or broader economy or in the prospective tenants' industries;
- supply and demand conditions for space in the marketplace; and
- level of competition in the marketplace.

**Reputation risks.** We have historically developed and managed a significant portion of our real estate portfolio and believe that we have built a positive reputation for quality and service with our lenders, joint venture partners, and tenants. If we developed under-performing properties, suffered sustained losses on our investments, defaulted on a significant level of loans or experienced significant foreclosure or deed in lieu of foreclosure of our properties, our reputation could be damaged. Damage to our reputation could make it more difficult to successfully develop properties in the future and to continue to grow and expand our relationships with our lenders, joint venture partners and tenants, which could adversely affect our business, financial condition, and results of operations.

**Governmental approvals.** All necessary zoning, land-use, building, occupancy, and other required governmental permits and authorization may not be obtained, may only be obtained subject to onerous conditions or may not be obtained on a timely basis resulting in possible delays, decreased profitability, and increased management time and attention.

**Competition.** We compete for tenants in our Sunbelt markets by highlighting our locations, rental rates, services, reputation, and the design and condition of our facilities. As the competition for tenants is intense, we may be required to provide rent abatements, incur charges for tenant improvements and other concessions, or we may not be able to lease vacant space in a timely manner.

### General Business Risks

Due to recent changes, our executive management team has limited experience working together in their new roles and may not be able to manage our business effectively and execute our strategy.

Recently, we have experienced a number of changes in our executive team, including in our Chief Executive Officer and our Executive Vice President, Operations positions. Our success is dependent on the experience and skills of our management team and our management team's ability to implement a successful strategy and to work effectively together and with the Board of Directors. If our management team is not successful, our ability to manage our business and execute our business strategy would be adversely affected.

Our restated and amended articles of incorporation contain limitations on ownership of our stock, which may prevent a change in control that might otherwise be in the best interests of our stockholders.

Our restated and amended articles of incorporation impose limitations on the ownership of our stock. In general, except for certain individuals who owned stock at the time of adoption of these limitations, and except for persons or organizations that are granted waivers by our Board of Directors, no individual or entity may own more than 3.9% of the value of our outstanding stock. We provide waivers to this limitation on a case by case basis, which could result in

increased voting control by a shareholder.

9

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## Table of Contents

The ownership limitation may have the effect of delaying, inhibiting, or preventing a transaction or a change in control that might involve a premium price for our stock or otherwise be in the best interest of our stockholders. The market price of our common stock may fluctuate.

The market prices of shares of our common stock have been, and may continue to be, subject to fluctuation due to many events and factors such as those described in this report including:

- actual or anticipated variations in our operating results, funds from operations, or liquidity;
  - the general reputation of real estate as an attractive investment in comparison to other equity securities and/or the reputation of the product types of our assets compared to other sectors of the real estate industry;
  - material changes in any significant tenant industry concentration;
  - the general stock and bond market conditions, including changes in interest rates or fixed income securities;
  - changes in tax laws;
  - changes to our dividend policy;
  - changes in market valuations of our properties;
  - adverse market reaction to the amount of our outstanding debt at any time, the amount of our maturing debt, and our ability to refinance such debt on favorable terms;
  - any failure to comply with existing debt covenants;
  - any foreclosure or deed in lieu of foreclosure of our properties;
  - additions or departures of key executives and other employees;
  - actions by institutional stockholders;
  - uncertainties in world financial markets;
  - the realization of any of the other risk factors described in this report; and
- general market and economic conditions, in particular, market and economic conditions of Atlanta, Charlotte, Austin, Phoenix, and Tampa.

Many of the factors listed above are beyond our control. Those factors may cause market prices of shares of our common stock to decline, regardless of our financial performance, condition, and prospects. The market price of shares of our common stock may fall significantly in the future, and it may be difficult for our stockholders to resell our common stock at prices they find attractive.

If our future operating performance does not meet the projections of our analysts or investors, our stock price could decline.

Securities analysts publish quarterly and annual projections of our financial performance. These projections are developed independently based on their own analyses, and we undertake no obligation to monitor, and take no responsibility for, such projections. Such estimates are inherently subject to uncertainty and should not be relied upon as being indicative of the performance that we anticipate for any applicable period. Our actual revenues, net income, and funds from operations may differ materially from what is projected by securities analysts. If our actual results do not meet analysts' guidance, our stock price could decline significantly.

We face risks associated with security breaches through cyber attacks, cyber intrusions, or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches or disruptions, whether through cyber attacks or cyber intrusions over the internet, malware, computer viruses, attachments to emails, persons inside our organization, persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems) and, in some cases, may be critical to the operations of certain of our tenants. While, to date, we have not had a significant cyber breach or attack that had a material impact on our business or results of operations, there can be no assurance that our efforts to maintain the security and integrity of these types of IT networks and related systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. A security breach or other significant disruption involving our IT networks and related systems could

adversely impact our financial condition, results of operations, cash flows, liquidity, and the market price of our common stock.

10

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## Table of Contents

Further, one or more of our tenants could experience a cyber incident which could impact their operations and ability to perform under the terms of their lease with us. While we maintain insurance coverage that may, subject to policy terms and conditions including deductibles, cover specific aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. As cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and to investigate and remediate any information security vulnerabilities.

### Federal Income Tax Risks

Any failure to continue to qualify as a REIT for federal income tax purposes could have a material adverse impact on us and our stockholders.

We intend to continue to operate in a manner to qualify as a REIT for federal income tax purposes. Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code (the “Code”), for which there are only limited judicial or administrative interpretations. Certain facts and circumstances not entirely within our control may affect our ability to qualify as a REIT. In addition, we can provide no assurance that legislation, new regulations, administrative interpretations, or court decisions will not adversely affect our qualification as a REIT or the federal income tax consequences of our REIT status.

If we were to fail to qualify as a REIT, we would not be allowed a deduction for distributions to stockholders in computing our taxable income. In this case, we would be subject to federal income tax on our taxable income at regular corporate rates. Unless entitled to relief under certain Code provisions, we also would be disqualified from operating as a REIT for the four taxable years following the year during which qualification was lost. As a result, we would be subject to federal and state income taxes which could adversely affect our results of operations and distributions to stockholders. Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax, or other considerations may cause us to revoke the REIT election. In order to qualify as a REIT, under current law, we generally are required each taxable year to distribute to our stockholders at least 90% of our net taxable income (excluding any net capital gain). To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our other taxable income, we are subject to tax on the undistributed amounts at regular corporate rates. In addition, we are subject to a 4% nondeductible excise tax to the extent that distributions paid by us during the calendar year are less than the sum of the following:

85% of our ordinary income;

95% of our net capital gain income for that year; and

100% of our undistributed taxable income (including any net capital gains) from prior years.

We generally intend to make distributions to our stockholders to comply with the 90% distribution requirement to avoid corporate-level tax on undistributed taxable income and to avoid the nondeductible excise tax. Distributions could be made in cash, stock or in a combination of cash and stock. Differences in timing between taxable income and cash available for distribution could require us to borrow funds to meet the 90% distribution requirement, to avoid corporate-level tax on undistributed taxable income, and to avoid the nondeductible excise tax.

Certain property transfers may be characterized as prohibited transactions.

From time to time, we may transfer or otherwise dispose of some of our properties. Under the Code, any gains resulting from transfers or dispositions, from other than a taxable REIT subsidiary, that are deemed to be prohibited transactions would be subject to a 100% tax on any gain associated with the transaction. Prohibited transactions generally include sales of assets that constitute inventory or other property held for sale to customers in the ordinary course of business. Since we acquire properties primarily for investment purposes, we do not believe that our occasional transfers or disposals of property are deemed to be prohibited transactions. However, whether or not a transfer or sale of property qualifies as a prohibited transaction depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. While we believe that the Internal Revenue Service would not prevail in any such dispute, if the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, we would be required to pay a tax equal to 100% of any gain allocable to us from the prohibited transaction. In addition, income from a prohibited transaction might adversely affect our ability to satisfy



the income tests for qualification as a REIT for federal income tax purposes.

Table of Contents

We may face risks in connection with Section 1031 exchanges.

If a transaction's gain that is intended to qualify as a Section 1031 deferral is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax-deferred basis.

Recent changes to the U.S. tax laws could have an adverse impact on our business operations, financial condition, and earnings.

In recent years, numerous legislative, judicial, and administrative changes have been made in the provisions of federal and state income tax laws applicable to investments similar to an investment in our shares. In particular, the comprehensive tax reform legislation enacted in December 2017 and commonly known as the Tax Cuts and Jobs Act, or TCJA, makes many significant changes to the U.S. federal income tax laws that will profoundly impact the taxation of individuals and corporations (including both regular C corporations and 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 are adverse or potentially adverse compared to prior law. Although the IRS has issued guidance with respect to certain of the new provisions, there are numerous interpretive issues that will require further guidance. It is highly 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. Additional changes to tax laws are likely to continue to occur in the future, and we cannot assure investors that any such changes will not adversely affect the taxation of our stockholders. Any such changes could have an adverse effect on an investment in shares or on the market value or the resale potential of our properties. Investors are urged to consult with their own tax advisor with respect to the impact of recent legislation on ownership of shares and the status of legislative, regulatory, or administrative developments and proposals, and their potential effect on ownership of shares.

**Disclosure Controls and Internal Control over Financial Reporting Risks**

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements, or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives at all times. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in our stock price, or otherwise materially adversely affect our business, reputation, results of operations, financial condition, or liquidity.

**Item 1B. Unresolved Staff Comments**

Not applicable.

Table of Contents

## Item 2. Properties

The following table sets forth certain information related to operating properties in which we have an ownership interest. Except as noted, all information presented is as of December 31, 2018:

## Operating Properties

Office Properties	Rentable Square Feet	Financial Statement Presentation	Company's Ownership Interest	End of Period Leased	Weighted Average Occupancy (1)	% of Total Net Operating Income (2)	Company's Share Property Level Debt (\$000) (3)	Annualized Rents (4)
Spring & 8th (5)	765,000	Consolidated	100%	100.0%	100.0%	8.8%	\$—	
Northpark (5)	1,539,000	Consolidated	100%	95.1%	86.6%	7.9%	—	
Promenade	777,000	Consolidated	100%	89.4%	91.7%	4.6%	99,015	
Buckhead Plaza (5)	671,000	Consolidated	100%	82.0%	85.2%	4.5%	—	
Terminus (5)	1,226,000	Unconsolidated	50%	90.8%	87.2%	3.9%	99,366	
3344 Peachtree	484,000	Consolidated	100%	95.9%	91.7%	3.7%	—	
3350 Peachtree	413,000	Consolidated	100%	94.4%	85.4%	2.2%	—	
8000 Avalon	229,000	Consolidated	90%	100.0%	79.9%	1.9%	—	
3348 Peachtree	258,000	Consolidated	100%	92.5%	86.9%	1.8%	—	
Emory University Hospital Midtown Medical Office Tower	358,000	Unconsolidated	50%	99.1%	98.2%	1.2%	34,761	
Meridian Mark Plaza	160,000	Consolidated	100%	100.0%	100.0%	1.0%	23,483	
ATLANTA	6,880,000			93.4%	89.3%	41.5%	256,625	
Hearst Tower	966,000	Consolidated	100%	98.5%	98.9%	7.8%	—	
Fifth Third Center	692,000	Consolidated	100%	99.8%	97.7%	5.7%	142,981	
NASCAR Plaza	394,000	Consolidated	100%	95.3%	97.2%	2.9%	—	
Gateway Village (5)	1,061,000	Unconsolidated	50%	99.4%	99.4%	2.1%	—	
CHARLOTTE	3,113,000			98.5%	98.4%	18.5%	142,981	
One Eleven Congress	519,000	Consolidated	100%	90.3%	86.6%	4.9%	—	
San Jacinto Center	395,000	Consolidated	100%	92.4%	92.9%	4.5%	—	
Colorado Tower	373,000	Consolidated	100%	100.0%	100.0%	4.0%	118,689	
816 Congress	435,000	Consolidated	100%	98.3%	95.6%	3.5%	81,196	
Research Park V	173,000	Consolidated	100%	97.1%	97.1%	1.2%	—	
AUSTIN	1,895,000			95.1%	93.6%	18.1%	199,885	
Hayden Ferry (5)	789,000	Consolidated	100%	94.9%	91.1%	7.5%	—	
Tempe Gateway	264,000	Consolidated	100%	96.8%	94.4%	2.4%	—	
111 West Rio	225,000	Consolidated	100%	100.0%	100.0%	1.6%	—	
PHOENIX	1,278,000			96.2%	93.4%	11.5%	—	
	1,224,000	Consolidated	100%	98.2%	94.5%	7.4%	—	

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Corporate Center							
(5)							
The Pointe	253,000	Consolidated	100%	97.1%	94.0%	1.5%	—
Harborview Plaza	205,000	Consolidated	100%	64.1%	61.9%	0.2%	—
TAMPA	1,682,000			93.9%	90.5%	9.1%	—
Carolina Square	158,000	Unconsolidated	50%	79.4%	73.8%	0.5%	12,599
Office (6)							
CHAPEL HILL	158,000			79.4%	73.8%	0.5%	12,599
TOTAL OFFICE	15,006,000			94.9%	92.1%	99.2%	\$612,090 \$453,289
PROPERTIES							
Other Properties							
Carolina Square							
Apartments (246	266,000	Unconsolidated	50%	100.0%	96.7%	0.7%	21,211
Units) (6)							
Carolina Square	44,000	Unconsolidated	50%	81.5%	68.9%	0.1%	3,509
Retail (6)							
TOTAL OTHER	310,000			97.4%	92.7%	0.8%	\$24,720 \$3,808
PROPERTIES							
TOTAL	15,316,000			94.9%	92.1%	100.0%	\$636,810 \$457,097
PROPERTIES							

See footnotes on the following page

Table of Contents

- (1) Weighted average occupancy represents an average of the square footage occupied during the year.
- (2) The Company's share of net operating income for the three months ended December 31, 2018.
- (3) The Company's share of property specific mortgage debt, net of unamortized loan costs, as of December 31, 2018. The Company's share of annualized rent represents the sum of the annualized rent including tenant's share of estimated operating expenses, if applicable, each tenant is paying as of the end of the reporting period. If a tenant is
- (4) not paying rent due to a free rent concession, annualized rent is calculated based on the annualized contractual rent the tenant will pay in the first period it is required to pay rent. Included in this amount is \$18.8 million of annualized base rent for tenants in a free rent period.
- (5) Contains multiple buildings that are grouped together for reporting purposes.
- (6) The Company's share of Carolina Square debt has been allocated to office, retail, and apartments based on their relative square footages.

Office Lease Expirations (1)

As of December 31, 2018, our leases expire as follows:

Year of Expiration	Square Feet Expiring	% of Leased Space	Annual Contractual Rents (in thousands) (2)	% of Annual Contractual Rents	Annual Contractual Rent/Sq. Ft.
2019	713,100	5.6 %	\$ 23,166	4.5 %	\$ 32.49
2020	850,082	6.6 %	34,662	6.6 %	40.77
2021	1,313,734	10.3 %	49,359	9.4 %	37.57
2022	1,385,003	10.8 %	54,089	10.3 %	39.05
2023	1,180,130	9.2 %	48,703	9.3 %	41.27
2024	1,023,805	8.0 %	41,742	8.0 %	40.77
2025	1,434,011	11.2 %	60,270	11.5 %	42.03
2026	1,301,548	10.2 %	47,875	9.2 %	36.78
2027	728,584	5.7 %	30,822	5.9 %	42.30
2028 & Thereafter	2,861,633	22.4 %	132,334	25.3 %	46.24
Total	12,791,630	100.0 %	\$ 523,022	100.0 %	\$ 40.89

- (1) Company's share.
- (2) Annual Contractual Rents are the estimated rents in the year of expiration. It includes the minimum base rent

and an estimate of operating expenses, if applicable, as defined in the respective leases.

14

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Table of Contents

## Top 20 Office Tenants

As of December 31, 2018, our top 20 office tenants were as follows:

Tenant (1)	Number of Properties Occupied	Number of Markets Occupied	Company's Share of Square Footage	Company's Share of Annualized Rent (2)	Percentage of Company's Share of Annualized Rent	Weighted Average Remaining Lease Term (Years)
1 NCR Corporation	1	1	762,090	\$34,555,265	7.6%	15
2 Bank of America	4	2	1,128,098	31,007,332	6.8%	6
3 Wells Fargo Bank, N.A.	5	4	236,033	9,189,402	2.0%	4
4 Parsley Energy, L.P.	1	1	135,107	7,690,256	1.7%	6
5 ADP, LLC	1	1	225,000	7,194,252	1.6%	9
6 Regus Equity Business Centers, LLC	7	4	169,994	6,487,908	1.4%	3
7 Westrock Shared Services, LLC	1	1	205,185	6,460,200	1.4%	11
8 McGuirewoods LLP	3	3	197,282	6,377,275	1.4%	8
9 Blue Cross Blue Shield	1	1	198,834	5,493,871	1.2%	2
10 NASCAR Media Group, LLC	1	1	139,461	5,303,881	1.2%	2
11 OSI Restaurant Partners, LLC (dba Outback Steakhouse)	1	1	167,723	5,224,833	1.2%	6
12 Amazon	3	2	120,153	4,777,042	1.1%	5
13 Board of Regents of the University System of Georgia (dba Georgia State University)	1	1	135,124	4,728,709	1.0%	5
14 Hearst Communications, Inc.	1	1	137,724	4,341,060	1.0%	11
15 Amgen Inc.	1	1	132,633	4,299,830	0.9%	10
16 Smith, Gambrell & Russell, LLP	1	1	120,973	4,111,040	0.9%	2
17 SVB Financial Group (dba Silicon Valley Bank)	1	1	126,111	4,026,776	0.9%	5
18 Atlassian, Inc.	1	1	72,530	3,977,678	0.9%	3
19 K & L Gates LLP	1	1	110,914	3,963,988	0.9%	9
20 Symantec Corporation	1	1	113,364	3,947,455	0.9%	6
Total			4,634,333	\$163,158,053	36.0%	8

In some cases, the actual tenant

(1) may be an affiliate of the entity shown.

(2) Annualized Rent

represents the annualized rent including tenant's share of estimated operating expenses, if applicable, paid by the tenant as of the date of this report.

If the tenant is in a free rent period as of the date of this report,

**Annualized Rent**

represents the annualized contractual rent the tenant will pay in the first month it is required to pay rent.

This schedule includes tenants whose leases have commenced and/or who

Note: have taken occupancy. Leases that have been signed but have not commenced are excluded.





Table of Contents

## Tenant Industry Diversification (1)

As of December 31, 2018, our tenant industry diversification was as follows:

Industry	Percentage of Total Revenues
Financial	18.9 %
Technology	17.4 %
Professional Services	13.7 %
Legal	13.2 %
Consumer Goods & Services	8.4 %
Other	6.5 %
Health Care	4.8 %
Insurance	4.6 %
Marketing/Media/Creative	4.4 %
Real Estate	2.5 %
Energy	2.3 %
Construction/Design	1.8 %
Government	1.2 %
Non Profit	0.3 %
Total	100 %

(1) Management uses SIC codes when available along with judgment to determine tenant industry classification.

## Development Pipeline (1)

As of December 31, 2018, we had the following projects under development (\$ in thousands):

Project	Type	Market	Company's Ownership Interest	Actual or Projected Start Date	Number of Square Feet /Apartment Units	Estimated Project Cost (1) (2)	Company's Share of Estimated Project Cost (2)	Project Incurred to Date (2)	Company's Share of Project Cost Incurred to Date (2)	Percent Leased	Initial Occupancy (3) /Estimated Stabilization (4)
Dimensional Place (5)	Office	Charlotte	50 %	4Q16	282,000	\$92,000	\$46,000	\$91,625	\$45,812	94 %	1Q19/1Q19
120 West Trinity Office Retail Apartments	Mixed	Atlanta	20 %	1Q17		85,000	17,000	36,670	7,334		— % 1Q20/3Q20 — % 1Q20/3Q20 — % 4Q19/2Q20
300 Colorado (6)	Office	Austin	50 %	4Q18	358,000	193,000	96,500	49,470	24,735	87 %	1Q21/1Q22
10000 Avalon	Office	Atlanta	90 %	3Q18	251,000	96,000	86,400	23,497	21,148	40 %	1Q20/1Q21
Total (1)						\$466,000	\$245,900	\$201,262	\$99,029		

This schedule shows projects currently under active development through the substantial completion of construction. Amounts included in the estimated project cost column are the estimated costs of the project through stabilization. Significant estimation is required to derive these costs, and the final costs may differ from these estimates. The projected stabilization dates are also estimates and are subject to change as the project proceeds through the development process.

- (2) Estimated and incurred project costs include financing costs only on project-specific debt and excludes certain allocated capitalized costs required by GAAP that are not incurred in a joint venture.
- (3) Represents the quarter which the Company estimates the first tenant will take occupancy.
- (4) Stabilization is the earlier of the quarter within which the Company estimates it will achieve 90% economic occupancy or one year from initial occupancy.  
Dimensional Place is comprised of 266,000 square feet of office space and 16,000 square feet of retail space. The office component is 100% leased, and the retail component is not yet leased. The Company's share of project cost is capped under the joint venture documents at \$46 million. Any additional cost will be borne by the joint venture partner, as lessee, and will not change the economics of the joint venture.
- (5) 300 Colorado is comprised of 348,000 square feet of office space and 10,000 square feet of retail space. The office component is 86% leased, and the retail component is 100% leased.
- (6)

Table of Contents

## Land Holdings

As of December 31, 2018, we owned the following land holdings, either directly or indirectly, through joint ventures:

	Market	Type	Company's Ownership Interest	Total Developable Land (Acres)	Cost Basis of Land (\$ in thousands)
3rd and West Peachtree (1)	Atlanta	Commercial	100%	3.4	
901 West Peachtree (2)	Atlanta	Commercial	100%	0.8	
North Point	Atlanta	Commercial	100%	9.2	
The Avenue Forsyth-Adjacent Land	Atlanta	Commercial	100%	10.4	
Wildwood Office Park	Atlanta	Commercial	50%	14.0	
Victory Center	Dallas	Commercial	75%	3.0	
Corporate Center	Tampa	Commercial	100%	7.0	
100 Mill	Tempe	Commercial	90%	2.5	
Padre Island	Corpus Christi	Residential	50%	15.0	
Total				65.3	\$ 105,807
Company's Share				49.7	\$ 85,663

## (1)In

November 2018, the Company purchased a 3.15 acre land parcel at 3rd and West Peachtree St. in Midtown Atlanta. In January 2019, the Company added to the assemblage with the purchase of an adjacent .25 acre land parcel not included in

the above  
total.  
Includes  
two ground  
(2) leases with  
future  
obligations  
to purchase.

#### Other Investments

The Company owns a leasehold interest in the air rights over the approximately 365,000 square foot CNN Center parking facility in Atlanta, Georgia, adjoining the headquarters of Turner Broadcasting System, Inc. and Cable News Network. The air rights are developable for additional parking or for certain other uses. The Company's net carrying value of this interest is \$0.

#### Item 3. Legal Proceedings

We are subject to various legal proceedings, claims, and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters using the latest information available. We record a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, we accrue the best estimate within the range. If no amount within the range is a better estimate than any other amount, we accrue the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, we disclose the nature of the litigation and indicate that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, we disclose the nature and estimate of the possible loss of the litigation. We do not disclose information with respect to litigation where an unfavorable outcome is considered to be remote or where the estimated loss would not be material. Based on current expectations, such matters, both individually and in the aggregate, are not expected to have a material adverse effect on our liquidity, results of operations, business, or financial condition.

#### Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

## Item X. Executive Officers of the Registrant

The Executive Officers of the Registrant as of the date hereof are as follow:

Name	Age	Office Held
Lawrence L. Gellerstedt III	62	Executive Chairman of the Board
M. Colin Connolly	42	President, Chief Executive Officer, and Director
Gregg D. Adzema	53	Executive Vice President, Chief Financial Officer
Richard G. Hickson IV	44	Executive Vice President, Operations
John S. McColl	56	Executive Vice President
Pamela F. Roper	45	Executive Vice President, General Counsel and Corporate Secretary
John D. Harris, Jr.	59	Senior Vice President, Chief Accounting Officer, Treasurer and Assistant Secretary

## Family Relationships

There are no family relationships among the Executive Officers or Directors.

## Term of Office

The term of office for all officers expires at the annual stockholders' meeting. The Board retains the power to remove any officer at any time.

## Business Experience

Mr. Gellerstedt was appointed Executive Chairman of the Board effective January 2019. Prior to this appointment, Mr. Gellerstedt served as Chairman of the Board and Chief Executive Officer since July 2017. From July 2009 to July 2017, Mr. Gellerstedt served as President, Chief Executive Officer, and Director. From February 2009 to July 2009, Mr. Gellerstedt served as President and Chief Operating Officer. From May 2008 to February 2009, Mr. Gellerstedt served as Executive Vice President and Chief Development Officer.

Mr. Connolly was appointed Chief Executive Officer and President by the Company's Board of Directors effective January 2019. Prior to this appointment, Mr. Connolly served as President and Chief Operating Officer since July 2017. From July 2016 to July 2017, Mr. Connolly served as Executive Vice President and Chief Operating Officer. From December 2015 to July 2016, Mr. Connolly served as Executive Vice President and Chief Investment Officer. From May 2013 to December 2015, Mr. Connolly served as Senior Vice President and Chief Investment Officer.

Mr. Adzema was appointed Executive Vice President and Chief Financial Officer in November 2010.

Mr. Hickson was appointed Executive Vice President of Operations in October 2018. Mr. Hickson joined Cousins in September 2016 as Senior Vice President responsible for Asset Management. Prior to joining the Company, from May 2012 to September 2016, Mr. Hickson was self-employed in private investment.

Mr. McColl was appointed Executive Vice President in December 2011. From February 2010 to December 2011, Mr. McColl served as Executive Vice President-Development, Office Leasing and Asset Management. From May 1997 to February 2010, Mr. McColl served as Senior Vice President.

Ms. Roper was appointed Executive Vice President, General Counsel and Corporate Secretary in February 2017. From October 2012 to February 2017, Ms. Roper served as Senior Vice President, General Counsel and Corporate Secretary. From February 2008 to October 2012, Ms. Roper served as Senior Vice President, Associate General Counsel and Assistant Secretary.

Mr. Harris was appointed Senior Vice President and Chief Accounting Officer in February 2005. In May 2005, Mr. Harris was appointed Assistant Secretary. In December 2014, Mr. Harris was appointed Treasurer.

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

## Market Information and Holders

Our common stock trades on the New York Stock Exchange (ticker symbol CUZ). On January 31, 2019, there were 1,787 stockholders of record of our common stock.

## Purchases of Equity Securities

There were no purchases of common stock by the Company during the fourth quarter of 2018.

## Performance Graph

The following graph compares the five-year cumulative total return of our common stock with the NYSE Composite Index, the FTSE NAREIT Equity Index, and the SNL US REIT Office Index. The graph assumes a \$100 investment in each of the indices on December 31, 2013 and the reinvestment of all dividends.

## COMPARISON OF CUMULATIVE TOTAL RETURN OF ONE OR MORE COMPANIES, PEER GROUPS, INDUSTRY INDICES AND/OR BROAD MARKETS

Index	Fiscal Year Ended					
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Cousins Properties Incorporated	100.00	113.80	97.01	124.56	140.11	122.30
NYSE Composite Index	100.00	106.75	102.38	114.61	136.07	123.89
FTSE NAREIT Equity Index	100.00	130.14	134.30	145.74	153.36	146.27
SNL US REIT Office Index	100.00	126.06	127.17	141.91	145.74	119.86

Table of Contents

## Item 6. Selected Financial Data

The following selected financial data sets forth consolidated financial and operating information on a historical basis. This data has been derived from our consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto.

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share amounts)				
Revenues:					
Rental property revenues	\$461,853	\$446,035	\$249,814	\$196,244	\$164,123
Fee income	10,089	8,632	8,347	7,297	12,519
Other	3,270	11,518	1,050	828	919
	475,212	466,185	259,211	204,369	177,561
Expenses:					
Rental property operating expenses	164,678	163,882	96,908	82,545	76,963
Reimbursed expenses	3,782	3,527	3,259	3,430	3,652
General and administrative expenses	22,040	27,523	25,592	16,918	19,784
Interest expense	39,430	33,524	26,650	22,735	20,983
Depreciation and amortization	181,382	196,745	97,948	71,625	62,258
Acquisition and merger costs	248	1,661	24,521	299	1,130
Other	556	1,796	5,888	1,181	3,729
	412,116	428,658	280,766	198,733	188,499
Gain (loss) on extinguishment of debt	8	2,258	(5,180)	—	—
Income (loss) from continuing operations before benefit for income taxes, income from unconsolidated joint ventures, and gain on sale of investment properties	63,104	39,785	(26,735)	5,636	(10,938)
Benefit for income taxes from operations	—	—	—	—	20
Income from unconsolidated joint ventures	12,224	47,115	10,562	8,302	11,268
Income (loss) from continuing operations before gain on sale of investment properties	75,328	86,900	(16,173)	13,938	350
Gain on sale of investment properties	5,437	133,059	77,114	80,394	12,536
Income from continuing operations	80,765	219,959	60,941	94,332	12,886
Income from discontinued operations:					
Income from discontinued operations	—	—	19,163	31,848	20,764
Gain (loss) on sale from discontinued operations	—	—	—	(551)	19,358
Income from discontinued operations	—	—	19,163	31,297	40,122
Net income	80,765	219,959	80,104	125,629	53,008
Net income attributable to noncontrolling interests	(1,601)	(3,684)	(995)	(111)	(1,004)
Net income attributable to controlling interests	79,164	216,275	79,109	125,518	52,004
Preferred share original issuance costs	—	—	—	—	(3,530)
Dividends to preferred stockholders	—	—	—	—	(2,955)
Net income available to common stockholders	\$79,164	\$216,275	\$79,109	\$125,518	\$45,519
Net income from continuing operations attributable to controlling interest per common share - basic and diluted					
	\$0.19	\$0.52	\$0.24	\$0.44	\$0.02
Net income per common share - basic and diluted					
	\$0.19	\$0.52	\$0.31	\$0.58	\$0.22
Dividends declared per common share	\$0.26	\$0.30	\$0.24	\$0.32	\$0.30
Total assets (at year-end)	\$4,146,296	\$4,204,619	\$4,171,607	\$2,595,320	\$2,664,295
Notes payable (at year-end)	\$1,062,570	\$1,093,228	\$1,380,920	\$718,810	\$789,309



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Stockholders' investment (at year-end)	\$2,765,865	\$2,771,973	\$2,455,557	\$1,683,415	\$1,673,458
Common shares outstanding (at year-end)	420,385	420,021	393,418	211,513	216,513

20

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## Table of Contents

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

The following discussion and analysis should be read in conjunction with the selected financial data and the consolidated financial statements and notes.

#### Overview of 2018 Performance and Company and Industry Trends

Our strategy is to create value for our stockholders through ownership of the premier urban office portfolio in the Sunbelt markets of the United States, with a particular focus on Georgia, Texas, North Carolina, Florida, and Arizona. This strategy is based on a disciplined approach to capital allocation including value-add acquisition of assets, selective development projects, and timely disposition of non-core assets. This strategy is also based on a simple, flexible and low-leveraged balance sheet that allows us to pursue acquisitions and development opportunities at the most advantageous points in the cycle. To implement this strategy, we leverage our strong local operating platforms within each of our markets.

#### 2018 Activity

During 2018, we continued to execute our development strategy, improve our balance sheet, and increase the overall occupancy of our portfolio with a strong leasing year. During the year, we commenced two new development projects and completed Spring & 8th, the 765,000 square foot two-phase development of NCR's headquarters in Atlanta. At year-end, we had four development projects in process; our share of the total expected costs of these projects totaled \$245.9 million. In addition, we acquired interests in three tracts of land bringing our land holdings to the point that we could build an additional 1.4 million square feet of new Class A office space within our markets. We also improved our balance sheet by extending and expanding our credit facility to \$1 billion, with an overall improvement in our spreads over the London Interbank Offered Rate ("LIBOR") as well as more favorable financial covenants. At year-end, we had cash balances (including restricted cash) of \$2.7 million, no amounts outstanding under our Credit Facility, and total consolidated debt of \$1.1 billion, consistent with that of the prior year.

In 2018, we leased or renewed 1.6 million square feet of office space. The weighted average net effective rent per square foot, representing base rent less operating expense reimbursements and leasing costs, for new or renewed non-amenity leases with terms greater than one year was \$23.35 per square foot. Cash basis net effective rent per square foot increased 13.2% on spaces that had been previously occupied in the past year. Cash basis net effective rent represents net rent at the end of the term paid by the prior tenant compared to the net rent at the beginning of the term paid by the current tenant. Our same property net operating income for the year increased by 2.1% on a GAAP basis and 4.7% on a cash basis. The same property percentage leased increased slightly from 94.1% at year-end 2017 to 94.5% at year-end 2018.

#### Market Conditions

We believe that the Sunbelt region, and in particular the five Sunbelt markets in which we operate, possess some of the most attractive economic and real estate fundamentals in the nation. Our markets are located in states that lead the nation in net migration as residents relocate from the Northeast, Midwest, and West Coast to our markets. This migration, when combined with historically low levels of new supply, has led to steady office absorption and positive rent growth, supporting healthy office fundamentals. We believe that we are well positioned to benefit from, and ultimately outperform in, the current real estate environment.

Our Atlanta portfolio totals 6.9 million square feet, representing 41.5% of our Net Operating Income for the fourth quarter of 2018 and was 93.4% leased at December 31, 2018. In addition, we had two projects under development in Atlanta at December 31, 2018, one office property and one mixed use property, in which we hold 90% and 20% interests, respectively. Job growth in Atlanta for the year ended December 31, 2018 was 2.3%, above the national average, and construction as a percentage of the total market square footage was 1.6% at year end. Our portfolio is well located primarily in the Midtown, Buckhead, and Central Perimeter submarkets with direct access to mass transit.

Our Charlotte portfolio totals 3.1 million square feet, representing 18.5% of our Net Operating Income for the fourth quarter of 2018 and was 98.5% leased at December 31, 2018. In addition, we have one project under development in the South End of Charlotte totaling 282,000 square feet that is 94% leased to a single office customer and is owned in a 50-50 joint venture. Job growth in Charlotte for the year ended December 31, 2018 was 2.3% and construction as a percentage of the total market square footage was 3.8%. Our portfolio is located in the Uptown submarket where rent growth has significantly surpassed the national average. The overall market has benefitted from Charlotte's strong

population growth, which has increased at three times the national rate over the past decade. Strong demand and favorable economics have spurred a high level of new development across the market, specifically in Uptown where approximately 2 million square feet is currently under construction.

21

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## Table of Contents

Our Austin portfolio totals 1.9 million square feet, representing 18.1% of our Net Operating Income for the fourth quarter of 2018 and was 95.1% leased at December 31, 2018. In addition, we have one project under development in Austin, owned in a 50-50 joint venture, totaling 358,000 square feet that is 87% leased to a single office customer. Job growth in Austin for the year ended December 31, 2018 was 3.0% and construction as a percentage of the total market square footage was 3.8%. Our portfolio is predominantly in the central business district where vacancy is 5.1% and new construction represents approximately 5% of inventory. We believe that our dominant presence in the downtown Austin submarket combined with strong job growth and low unemployment in Austin are favorable for our existing portfolio.

Our Phoenix portfolio totals 1.3 million square feet, representing 11.5% of our Net Operating Income for the fourth quarter of 2018 and was 96.2% leased at December 31, 2018. Job growth in Phoenix for the year ended December 31, 2018 was 3.8% and construction as a percentage of the total market square footage was 1.7%. Phoenix has experienced population growth at more than twice the national average, more than two-thirds of which was from new residents from outside the metropolitan area. Our portfolio is located in the Tempe submarkets, in close proximity to Arizona State University and its 80,000 students, where vacancy is relatively low at 7.1%, but construction as a percentage of inventory is the highest in the metro area.

Our Tampa portfolio totals 1.7 million square feet, representing 9.1% of Net Operating Income for the fourth quarter of 2018 and was 93.9% leased at December 31, 2018. Job growth in Tampa for the year ended December 31, 2018 was 2.2%, and construction as a percentage of the total market square footage was 0.9%. Metro-wide, the Tampa office market is experiencing low vacancy rates, and the Westshore submarket, where our portfolio is located, continues to command some of the highest rents in the metropolitan area, in part due to its central location and proximity to the Tampa airport.

### Critical Accounting Policies

Our financial statements are prepared in accordance with GAAP as outlined in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"), and the notes to consolidated financial statements include a summary of the significant accounting policies for the Company. The preparation of financial statements in accordance with GAAP requires the use of certain estimates, a change in which could materially affect revenues, expenses, assets, or liabilities. Some of our accounting policies are considered to be critical accounting policies, which are ones that are both important to the portrayal of our financial condition, results of operations, and cash flows, and ones that also require significant judgment or complex estimation processes. Our critical accounting policies are as follows:

#### Real Estate Assets

**Cost Capitalization.** We are involved in all stages of real estate ownership, including development. Prior to the point at which a project becomes probable of being developed (defined as more likely than not), we expense predevelopment costs. After we determine a project is probable, all subsequently incurred predevelopment costs, as well as interest and real estate taxes on qualifying assets and certain internal personnel and associated costs directly related to the project under development, are capitalized in accordance with accounting rules. If we abandon development of a project that had earlier been deemed probable, we charge all previously capitalized costs to expense. If this occurs, our predevelopment expenses could rise significantly. The determination of whether a project is probable requires judgment. If we determine that a project is probable, interest, general and administrative, and other expenses could be materially different than if we determine the project is not probable.

During the predevelopment period of a probable project and the period in which a project is under construction, we capitalize all direct and indirect costs associated with planning, developing, leasing, and constructing the project. Determination of what costs constitute direct and indirect project costs requires us, in some cases, to exercise judgment. If we determine certain costs to be direct or indirect project costs, amounts recorded in projects under development on the balance sheet and amounts recorded in general and administrative and other expenses on the statements of operations could be materially different than if we determine these costs are not directly or indirectly associated with the project.

Once a certain project is constructed and deemed substantially complete and ready for occupancy, carrying costs, such as real estate taxes, interest, internal personnel costs, and associated costs, are expensed as incurred. Determination of

when construction of a project is substantially complete and held available for occupancy requires judgment. We consider projects and/or project phases to be both substantially complete and held for occupancy at the earlier of the date on which the project or phase reached economic occupancy of 90% or one year after its initial occupancy. Our judgment of the date the project is substantially complete has a direct impact on our operating expenses and net income for the period.

Real Estate Property Acquisitions. Upon acquisition of an operating property, we record the acquired tangible and intangible assets and assumed liabilities at fair value at the acquisition date. Fair value is based on estimated cash flow projections that utilize available market information and discount and/or capitalization rates as appropriate. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic

## Table of Contents

conditions. The acquired assets and assumed liabilities for an acquired operating property generally include, but are not limited to: land, buildings, and identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, leasing costs, value of above-market and below-market leases, and value of acquired in-place leases.

The fair value of land is derived from comparable sales of land within the same submarket and/or region. The fair value of buildings, tenant improvements, and leasing costs are based upon current market replacement costs and other relevant market rate information.

The fair value of the above-market or below-market component of an acquired lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition over the remaining term of the lease. An identifiable intangible asset or liability is recorded if there is an above-market or below-market lease at an acquired property.

The fair value of acquired in-place leases is derived based on our assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. This fair value is based on a variety of considerations including, but not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases; (2) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period; and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. Factors considered in performing these analyses include an estimate of the carrying costs during the expected lease-up periods, such as real estate taxes, insurance, and other operating expenses, current market conditions, and costs to execute similar leases, such as leasing commissions, legal, and other related expenses.

The amounts recorded for above-market leases are included in other assets on the balance sheets, and the amounts for below-market leases are included in other liabilities on the balance sheets. These amounts are amortized on a straight-line basis as an adjustment to rental income over the remaining term of the applicable leases.

The amounts recorded for in-place leases are included in intangible assets on the balance sheets. These amounts are amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases.

The determination of the fair value of the acquired tangible and intangible assets and assumed liabilities of operating property acquisitions requires significant judgment about the numerous inputs discussed above. The use of different assumptions in these fair value calculations could significantly affect the reported amounts of the allocation of the acquisition related assets and liabilities and the related amortization and depreciation expense recorded for such assets and liabilities. In addition, since the values of above-market and below-market leases are amortized as either a reduction or increase to rental income, respectively, the judgments for these intangibles could have a significant impact on reported rental revenues and results of operations.

**Depreciation and Amortization.** We depreciate or amortize operating real estate assets over their estimated useful lives using the straight-line method of depreciation. We use judgment when estimating the useful life of real estate assets and when allocating certain indirect project costs to projects under development, which are amortized over the useful life of the property once it becomes operational. Historical data, comparable properties, and replacement costs are some of the factors considered in determining useful lives and cost allocations. The use of different assumptions for the estimated useful life of assets or cost allocations could significantly affect depreciation and amortization expense and the carrying amount of our real estate assets.

**Impairment.** We review our real estate assets on a property-by-property basis for impairment. This review includes our operating properties, properties under development, and land holdings.

The first step in this process is for us to determine whether an asset is considered to be held and used or held for sale, in accordance with accounting guidance. In order to be considered a real estate asset held for sale, we must, among other things, have the authority to commit to a plan to sell the asset in its current condition, have commenced the plan to sell the asset, and have determined that it is probable that the asset will sell within one year. If we determine that an asset is held for sale, we must record an impairment loss if the fair value less costs to sell is less than the carrying amount. All real estate assets not meeting the held for sale criteria are considered to be held and used.

In the impairment analysis for assets held and used, we must use judgment to determine whether there are indicators of impairment. For operating properties, these indicators could include a decline in a property's leasing percentage, a current period operating loss or negative cash flows combined with a history of losses at the property, a decline in lease rates for that property or others in the property's market, or an adverse change in the financial condition of significant tenants. For land holdings, indicators could include an overall decline in the market value of land in the region, a decline in development activity for the intended use of the land, or other adverse economic and market conditions. For projects under development, indicators could include material budget overruns without a corresponding funding source, significant delays in construction, occupancy, or

## Table of Contents

stabilization schedule, regulatory changes or economic trends that have a significant impact on the market, or an adverse change in the financial condition of a significant tenant.

If we determine that an asset that is held and used has indicators of impairment, we must determine whether the undiscounted cash flows associated with the asset exceed the carrying amount of the asset. If the undiscounted cash flows are less than the carrying amount of the asset, we must reduce the carrying amount of the asset to fair value. In calculating the undiscounted net cash flows of an asset, we must estimate a number of inputs. For operating properties, we must estimate future rental rates, expenditures for future leases, future operating expenses, and market capitalization rates for residual values, among other things. For land holdings, we must estimate future sales prices as well as operating income, carrying costs, and residual capitalization rates for land held for future development. For projects under development, we must estimate the cost to complete construction, time period of lease-up, future rental rates, expenditures for future leases, future operating expenses, market capitalization rates for residual values, and future sales price, among other things. In addition, if there are alternative strategies for the future use of the asset, we must assess the probability of each alternative strategy and perform a probability-weighted undiscounted cash flow analysis to assess the recoverability of the asset. We must use considerable judgment in determining the alternative strategies and in assessing the probability of each strategy selected.

In determining the fair value of an asset, we exercise judgment on a number of factors. We may determine fair value by using a discounted cash flow calculation or by utilizing comparable market information. We must determine an appropriate discount rate to apply to the cash flows in the discounted cash flow calculation. We must use judgment in analyzing comparable market information because no two real estate assets are identical in location and price. The estimates and judgments used in the impairment process are highly subjective and susceptible to frequent change. If we determine that an asset is held and used, the results of operations could be materially different than if we determine that an asset is held for sale. Different assumptions we use in the calculation of undiscounted net cash flows of a project, including the assumptions associated with alternative strategies and the probabilities associated with alternative strategies, could cause a material impairment loss to be recognized when no impairment is otherwise warranted. Our assumptions about the discount rate used in a discounted cash flow estimate of fair value and our judgment with respect to market information could materially affect the decision to record impairment losses or, if required, the amount of the impairment losses.

### Investment in Joint Ventures

We hold ownership interests in a number of joint ventures with varying structures. We evaluate all of our joint ventures and other variable interests to determine if the entity is a variable interest entity (“VIE”), as defined in accounting rules. If the venture is a VIE, and if we determine that we are the primary beneficiary, we consolidate the assets, liabilities, and results of operations of the VIE. Quarterly, we reassess our conclusions as to whether the entity is a VIE and whether consolidation is appropriate as required under the rules. For entities that are not determined to be VIEs, we evaluate whether or not we have control or significant influence over the joint venture to determine the appropriate consolidation and presentation. Generally, entities under our control are consolidated, and entities over which we can exert significant influence, but do not control, are not consolidated and are accounted for under the equity method of accounting.

We use judgment to determine whether an entity is a VIE, whether we are the primary beneficiary of the VIE, and whether we exercise control over the entity. If we determine that an entity is a VIE and we are the primary beneficiary or if we conclude that we exercise control over the entity, the balance sheets and statements of operations would be significantly different than if we concluded otherwise. In addition, VIEs require different disclosures in the notes to the financial statements than entities that are not VIEs. We may also change our conclusions and, thereby, change our balance sheets, statements of comprehensive income, and notes to the financial statements, based on facts and circumstances that arise after the original consolidation determination is made. These changes could include additional equity contributed to entities, changes in the allocation of cash flow to entity partners, and changes in the expected results within the entity.

We perform an impairment analysis of the recoverability of our investments in joint ventures on a quarterly basis. As part of this analysis, we first determine whether there are any indicators of impairment at any property held in a joint venture investment. If indicators of impairment are present for any of our investments in joint ventures, we calculate



the fair value of the investment. If the fair value of the investment is less than the carrying value of the investment, we must determine whether the impairment is temporary or other than temporary, as outlined in GAAP. If we assesses the impairment to be temporary, we do not record an impairment charge. If we conclude that the impairment is other than temporary, we record an impairment charge.

We use considerable judgment in the determination of whether there are indicators of impairment present and in the assumptions, estimations, and inputs used in calculating the fair value of the investment. These judgments are similar to those outlined above in the impairment of real estate assets. We also use judgment in making the determination as to whether the impairment is temporary or other than temporary by considering, among other things, the length of time that the impairment

## Table of Contents

has existed, the financial condition of the joint venture, and the ability and intent of the holder to retain the investment long enough for a recovery in market value. Our judgment as to the fair value of the investment or on the conclusion of the nature of the impairment could have a material impact on our financial condition, results of operations, and cash flows.

### Stock-based Compensation

We have several types of stock-based compensation plans. These plans are described in note 13, as are the accounting policies by type of award. Compensation cost for all stock-based awards requires measurement at estimated fair value on the grant date, and compensation cost is recognized over the service vesting period, which represents the requisite service period. For compensation plans that contain market performance measures, we must estimate the fair value of the awards on a quarterly basis and must adjust compensation expense accordingly. The fair values of these awards are estimated using complex pricing valuation models that require a number of estimates and assumptions. For awards that are based on our future earnings, we must estimate future earnings and adjust the estimated fair value of the awards accordingly.

We use considerable judgments in determining the fair value of these awards. Compensation expense associated with these awards could vary significantly based upon these estimates.

### Discussion of New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases," ("ASC 842"), which amends the existing standards for lease accounting by requiring lessees to record most leases on their balance sheets and making targeted changes to lessor accounting and reporting. The new standard will require lessees to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months and classify such leases as either finance or operating leases based on the principle of whether 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 (finance leases) or on a straight-line basis over the term of the lease (operating leases). Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance. In July 2018, the FASB amended the new leasing standard, providing lessors with a practical expedient to not separately classify and disclose non-lease components of revenue from the related lease components under certain conditions. The new standard also revises the treatment of indirect leasing costs and permits the capitalization and amortization only of direct leasing costs. In 2018, we capitalized \$3.8 million of indirect leasing costs.

Because we expect substantially all of our leases with tenants to qualify for the practical expedient, our accounting and reporting for leases as lessor is not expected to change materially. For those leases where we are lessee, specifically ground leases, the adoption of ASC 842 will require us to record a right of use asset and a lease liability on the consolidated balance sheet. Ground leases executed before the adoption of ASC 842 will continue to be accounted for as operating leases and will not result in a materially different ground lease expense. However, ground leases executed after the adoption of ASC 842 are expected to be accounted for as finance leases, which will result in ground lease expense being recorded using the effective interest method instead of the straight-line method over the term of the lease, which would result in higher ground lease expense in the earlier years of a ground lease when compared to the straight-line method. We expect to use the "modified retrospective" method upon adoption of ASC 842 on January 1, 2019 which permits application of the new standard on the adoption date as opposed to the earliest comparative period presented in our financial statements. We expect to record a right-of-use asset and a lease liability in the amount of approximately \$40 million upon the adoption of ASC 842.

### Results of Operations For The Three Years Ended December 31, 2018

#### General

Our financial results for the three years ended December 31, 2018 have been significantly affected by the merger with Parkway Properties, Inc. ("Parkway") (the "Merger") and the spin-off of the combined companies' Houston business to Parkway, Inc. ("New Parkway") (the "Spin-Off") (collectively, the "Parkway Transactions") that occurred in October 2016. Our financial results have also been affected by various dispositions during the periods. During 2016, we sold 100 North Point Center East and One Ninety One Peachtree (collectively, the "2016 Dispositions"). During 2017, we sold the American Cancer Society Center (the "ACS Center"), Bank of America Center, Citrus Center, and

One Orlando Centre (collectively, the "2017 Dispositions"). Accordingly, our historical financial statements may not be indicative of future operating results.

Net Operating Income

The following results include the performance of our Same Property portfolios. Our Same Property portfolios include office properties that have been fully operational in each of the comparable reporting periods. A fully operational property is one that has achieved 90% economic occupancy for each of the periods presented or has been substantially complete and owned

Table of Contents

by us for each of the periods presented. Same Property amounts for the 2018 versus 2017 comparison are from properties that were owned as of January 1, 2017 through December 31, 2018. Same Property amounts for the 2017 versus 2016 comparison are from properties that were owned as of January 1, 2016 through December 31, 2017. This information includes revenues and expenses of only consolidated properties.

We use Net Operating Income ("NOI"), a non-GAAP financial measure, to measure the operating performance of our properties. NOI is also widely used by industry analysts and investors to evaluate performance. NOI, which is rental property revenues less rental property operating expenses, excludes certain components from net income in order to provide results that are more closely related to a property's results of operations. Certain items, such as interest expense, while included in net income, do not affect the operating performance of a real estate asset and are often incurred at the corporate level as opposed to the property level. As a result, we use only those income and expense items that are incurred at the property level to evaluate a property's performance. Depreciation and amortization are also excluded from NOI. Same Property NOI allows analysts, investors, and management to analyze continuing operations and evaluate the growth trend of our portfolio.

NOI increased \$15.0 million between the 2018 and 2017 periods as follows (dollars in thousands):

	Year Ended December 31,				
	2018	2017	\$ Change	% Change	
<b>Rental Property Revenues</b>					
Same Property	\$419,236	\$403,434	\$15,802	3.9	%
Non-Same Property	42,617	42,601	16	—	%
	\$461,853	\$446,035	\$15,818	3.5	%
<b>Rental Property Operating Expenses</b>					
Same Property	\$154,420	\$145,087	\$9,333	6.4	%
Non-Same Property	10,258	18,795	(8,537)	(45.4)	%
	\$164,678	\$163,882	\$796	0.5	%
<b>Same Property NOI</b>	\$264,816	\$258,347	\$6,469	2.5	%
<b>Non-Same Property NOI</b>	32,359	23,806	8,553	35.9	%
<b>Total NOI</b>	\$297,175	\$282,153	\$15,022	5.3	%

The increase in Same Property revenues was primarily driven by increased occupancy at Northpark and Corporate Center. The increase in Same Property expenses was driven by the increased occupancy at Northpark and Corporate Center along with an increase in property taxes for our Atlanta and Phoenix properties. Non-Same Property NOI increased as a result of the lease-up of 8000 Avalon, which commenced operations in June 2017, the commencement of operations of 858 Spring Street (first phase of Spring & 8th) in January 2018 and the commencement of operations of 864 Spring Street (second and final phase of Spring & 8th) in October 2018. These increases in NOI were offset by decreases resulting from the 2017 Dispositions. Non-Same Property revenues did not change significantly between periods while Non-Same Property expenses decreased because we receive, and recognize, a higher percentage of operating expenses in revenue from the tenant at Spring & 8th than we did at our Orlando properties.

NOI increased \$129.2 million between the 2017 and 2016 periods as follows (dollars in thousands):

	Year Ended December 31,				
	2017	2016	\$ Change	% Change	
<b>Rental Property Revenues</b>					
Same Property	\$142,087	\$135,371	\$6,716	5.0	%
Non-Same Property	303,948	114,443	189,505	165.6	%
	\$446,035	\$249,814	\$196,221	78.5	%
<b>Rental Property Operating Expenses</b>					

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Same Property	\$52,174	\$49,284	\$2,890	5.9	%
Non-Same Property	111,708	47,624	64,084	134.6	%
	\$163,882	\$96,908	\$66,974	69.1	%
Same Property NOI	\$89,913	\$86,087	\$3,826	4.4	%
Non-Same Property NOI	192,240	66,819	125,421	187.7	%
Total NOI	\$282,153	\$152,906	\$129,247	84.5	%

26

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Table of Contents

The increase in Same Property NOI was primarily driven by increases in revenues as a result of higher occupancy at 816 Congress and Fifth Third Center, offset by a decrease in occupancy at Northpark. Same Property operating expense increased due to these higher occupancy levels. The increase in Non-Same Property NOI is primarily due to the Parkway Transactions offset by the 2016 and 2017 Dispositions.

**Other Income**

Other income decreased \$8.2 million between 2018 and 2017 and increased \$10.5 million between 2017 and 2016 primarily as a result of 2017 termination fees at 3350 Peachtree, NASCAR Plaza, Hayden Ferry, Fifth Third Center, and Northpark.

**General and Administrative Expenses**

General and administrative expenses decreased \$5.5 million (19.9%) between 2018 and 2017 primarily as a result of fluctuations in stock-based compensation expense due to the volatility in our stock price relative to office peers included in the SNL US Office REIT Index.

**Interest Expense**

Interest expense increased \$5.9 million (17.6%) between 2018 and 2017 primarily as a result of interest incurred on the senior notes that closed in 2017 and the as a result of higher interest incurred on the floating rate term loan due to an increase in LIBOR. These increases were partially offset by the repayment of five mortgage loans in 2017 and one mortgage loan in 2018. Interest expense increased \$6.9 million (25.8%) between 2017 and 2016 primarily as a result of the term loan that closed in late 2016 and the senior notes that closed in 2017. These increases were partially offset by the repayment of the five mortgage loans in 2017.

**Depreciation and Amortization**

Depreciation and amortization decreased \$15.4 million (7.8%) between 2018 and 2017 primarily due to the 2017 Dispositions. Depreciation and amortization increased \$98.8 million (100.9%) between 2017 and 2016 primarily due to the Parkway Transactions.

**Acquisition and Related Costs**

Included in acquisition and related costs in 2017 and 2016 are the costs associated with the Parkway Transactions. These costs included legal, accounting, and financial advisory fees as well as the cost of due diligence work and the costs of combining the operations of Parkway with the Company.

**Other Expense**

Other expense decreased \$4.1 million between 2017 and 2016 primarily as a result of an impairment loss recorded on residential land in 2016.

**Income from Unconsolidated Joint Ventures**

Income from unconsolidated joint ventures consisted of the following in 2018, 2017, and 2016 (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Net operating income	\$28,888	\$31,053	\$28,784
Other income	2,899	2,062	4,106
Depreciation and amortization	(13,078 )	(13,191 )	(13,905 )
Interest expense	(6,456 )	(7,859 )	(8,423 )
Net gain on sales	(29 )	35,050	—
Income from unconsolidated joint ventures	\$12,224	\$47,115	\$10,562

Net operating income decreased \$2.2 million (7.0%) between 2018 and 2017 primarily due to the sale of properties owned by EP I, LLC and EP II, LLC ("Emory Point I and II") in 2017 and the sale of our interest in Courvoisier Centre JV, LLC in 2017. These decreases were offset by the commencement of operations and lease-up of the properties owned by Carolina Square Holdings LP. Net gain on sales of \$35.1 million in 2017 resulted from gains on the sales of Emory Point I and II and of our interest in Courvoisier Centre JV, LLC, offset by a loss on the purchase of the remaining 25.4% interest in the 111 West Rio building and the related consolidation of the building immediately following the purchase.



## Table of Contents

Net operating income increased \$2.3 million (7.9%) between 2017 and 2016 primarily due to a change in the partnership structure at Gateway Village whereby we began receiving 50% of cash flows versus a preferred return, effective December 1, 2016, and the addition of Courvoisier Centre JV, LLC, which was acquired in the Merger. These increases were offset by the sale of properties owned by EP I, LLC and EP II, LLC (“Emory Point I and II”) in the second quarter of 2017 and the sale of our interest in Courvoisier Centre JV, LLC in the fourth quarter of 2017. Other income decreased \$2.0 million primarily due to lower termination fees in 2017, offset by a gain recognized on the sale of mineral rights at CL Realty, LLC. Net gain on sales of \$35.1 million in 2017 resulted from gains on the sales of Emory Point I and II and of our interest in Courvoisier Centre JV, LLC, offset by a loss on the purchase of the remaining 25.4% interest in the 111 West Rio building and the related consolidation of the building immediately following the purchase.

### Gain on Sale of Investment Properties

Included in the gain on sale of investment properties in 2018 are gains recognized on the sale of commercial land at our Northpoint project as well as the settlement of a liability related to the 2016 sale of a property for an amount less than what was accrued. Included in gain on sale of investment properties in 2017 are gains recognized on the 2017 Dispositions. The combined sales prices of the 2017 Dispositions represented a weighted average capitalization rate of 7.3%. Included in gain on sale of investment properties in 2016 are gains recognized on the 2016 Dispositions as well as the sale of commercial land in our Northpoint project. The combined sales prices of the 2016 Dispositions represented a weighted average capitalization rate of 6.7%.

### Discontinued Operations

Discontinued operations contains the operations of Post Oak Central and Greenway Plaza (the "Houston Properties"), two of our properties that were included in the Spin-Off. Because we decided to exit the Houston market in connection with the Parkway Transactions, the Spin-Off represented a strategic shift that had a significant impact on our operations. As such, these properties qualified for discontinued operations treatment.

### Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests includes the outside parties' share of the net income of CPLP as well as that of certain other consolidated entities.

### Funds from Operations

The table below shows Funds from Operations Available to Common Stockholders (“FFO”), a non-GAAP financial measure, and the related reconciliation to net income available to common stockholders for the Company. The Company calculates FFO in accordance with the National Association of Real Estate Investment Trusts’ (“NAREIT”) definition, which is net income available to common stockholders (computed in accordance with GAAP), excluding extraordinary items, cumulative effect of change in accounting principle and gains on sale or impairment losses on depreciable property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures to reflect FFO on the same basis.

FFO is used by industry analysts and investors as a supplemental measure of a REIT’s operating performance. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Our management evaluates operating performance in part based on FFO. Additionally, our management uses FFO, along with other measures, to assess performance in connection with evaluating and granting incentive compensation to our officers and other key employees.