
Section 1: 8-K (8-K)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported): **March 26, 2019**

EQUITY COMMONWEALTH

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation)

1-9317

(Commission File Number)

04-6558834

(IRS Employer Identification No.)

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

(Address of Principal Executive Offices)

60606

(Zip Code)

(312) 646-2800

(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.01 Completion of Acquisition or Disposition of Assets.

On March 26, 2019, Equity Commonwealth, a Maryland real estate investment trust (the "Company"), by and through its primary operating subsidiary, EQC Operating Trust (the "Operating Trust"), and another subsidiary (collectively, "Sellers"), closed on the previously announced sale of 100% of the equity interests in the fee simple owner of 1735 Market Street in Philadelphia, Pennsylvania, to certain affiliates of Silverstein/Arden 1735 Market Holdco LP for a gross sale price of \$451.6 million. Proceeds after credits for capital costs, contractual lease costs, and rent abatements were \$435.4 million.

1735 Market Street is an approximately 1.3 million square foot, Class A, office property located in the Market West submarket of Philadelphia, Pennsylvania.

Item 7.01 Regulation FD Disclosure.

In addition to the required pro forma financial information presented below pursuant to Item 9.01, we have included calculations of the net operating income and cash basis net operating income for 1735 Market Street, as well as reconciliations of such numbers to operating income, in Exhibit 99.2 to this Current Report on Form 8-K, which are incorporated herein solely for purposes of this Item 7.01 disclosure.

The information in this Item 7.01 disclosure, including Exhibit 99.2, is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section. In addition, the information in this Item 7.01 disclosure, including Exhibit 99.2, shall not be incorporated by reference into the filings of the Company under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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

Item 9.01 Financial Statements and Exhibits.

(b) Pro forma financial information

The pro forma financial information of the Company as adjusted to give effect to the sale of 1735 Market Street is presented in the unaudited pro forma condensed consolidated financial statements filed as Exhibit 99.1 to this Current Report on Form 8-K and incorporated herein by reference.

(d) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
99.1	<u>Unaudited Pro Forma Condensed Consolidated Financial Statements</u>
99.2	<u>Calculation of 1735 Market Street Net Operating Income (NOI) and 1735 Market Street Cash Basis NOI</u>

SIGNATURES

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

EQUITY COMMONWEALTH

By: /s/ Orrin S. Shifrin

Name: Orrin S. Shifrin

Title: Executive Vice President, General Counsel and Secretary

Date: March 27, 2019

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Section 2: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1

Unaudited Pro Forma Condensed Consolidated Financial Statements

On January 29, 2019, Equity Commonwealth, a Maryland real estate investment trust (the “Company”), by and through its primary operating subsidiary, EQC Operating Trust (the “Operating Trust”), and another subsidiary (collectively, “Sellers”), entered into a sale agreement (the “Sale Agreement”) with Silverstein/Arden 1735 Market Holdco LP (“Purchaser”), pursuant to which Sellers agreed to convey to Purchaser or its assignees 100% of the equity interests in the fee simple owner of 1735 Market Street in Philadelphia, Pennsylvania, for a gross sale price of \$451.6 million (the “Transaction”). The Transaction closed on March 26, 2019. Proceeds after credits for capital costs, contractual lease costs, and rent abatements were \$435.4 million.

The accompanying Pro Forma Condensed Consolidated Balance Sheet as of December 31, 2018 presents Equity Commonwealth's historical amounts, adjusted for the effects of the Transaction, as if 1735 Market Street had been disposed of on December 31, 2018. The accompanying Pro Forma Condensed Consolidated Balance Sheet is unaudited and is not necessarily indicative of what Equity Commonwealth's actual financial position would have been had the Transaction actually occurred on December 31, 2018, nor does it purport to represent Equity Commonwealth's future financial position.

The accompanying Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2018 presents Equity Commonwealth's historical amounts, adjusted for the effects of the Transaction, as if 1735 Market Street had been disposed of on January 1, 2018. The accompanying Pro Forma Condensed Consolidated Statement of Operations is unaudited and is not necessarily indicative of what Equity Commonwealth's actual results of operations would have been had the Transaction actually occurred on January 1, 2018, nor does it purport to represent Equity Commonwealth's future results of operations.

These Unaudited Condensed Pro Forma Consolidated Financial Statements should be read in conjunction with the Company's historical consolidated financial statements and notes thereto as of and for the year ended December 31, 2018, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 14, 2019.

Equity Commonwealth
Pro Forma Condensed Consolidated Balance Sheet
December 31, 2018
(Unaudited and in thousands)

	<u>Historical (1)</u>	<u>Transaction (2)</u>		<u>Pro Forma</u>
ASSETS				
Real estate properties:				
Land	\$ 135,142	\$ (24,747)		\$ 110,395
Buildings and improvements	1,004,500	(303,771)		700,729
	<u>1,139,642</u>	<u>(328,518)</u>		<u>811,124</u>
Accumulated depreciation	(375,968)	136,425		(239,543)
	<u>763,674</u>	<u>(192,093)</u>		<u>571,581</u>
Acquired real estate leases, net	275	—		275
Cash and cash equivalents	2,400,803	435,353	(2a)	2,824,866
		(11,290)	(2b)	
Marketable securities	249,602	—		249,602
Restricted cash	3,298	—		3,298
Rents receivable, net	51,089	(20,193)		30,896
Other assets, net	62,031	(22,727)		39,304
Total assets	<u>\$ 3,530,772</u>	<u>\$ 189,050</u>		<u>\$ 3,719,822</u>
LIABILITIES AND EQUITY				
Senior unsecured debt, net	\$ 248,473	\$ —		\$ 248,473
Mortgage notes payable, net	26,482	—		26,482
Accounts payable, accrued expenses and other	62,368	(1,765)		60,603
Rent collected in advance	9,451	(3,444)		6,007
Total liabilities	<u>346,774</u>	<u>(5,209)</u>		<u>341,565</u>
Shareholders' equity:				
Series D preferred shares	119,263	—		119,263
Common shares	1,216	—		1,216
Additional paid in capital	4,305,974	(73)	(2c)	4,305,901
Cumulative net income	2,870,974	194,259	(2d)	3,065,233
Cumulative other comprehensive loss	(342)	—		(342)
Cumulative common distributions	(3,420,548)	—		(3,420,548)
Cumulative preferred distributions	(693,736)	—		(693,736)
Total shareholders' equity	<u>3,182,801</u>	<u>194,186</u>		<u>3,376,987</u>
Noncontrolling interest	1,197	73	(2c)	1,270
Total equity	<u>3,183,998</u>	<u>194,259</u>		<u>3,378,257</u>
Total liabilities and equity	<u>\$ 3,530,772</u>	<u>\$ 189,050</u>		<u>\$ 3,719,822</u>

See accompanying notes.

Equity Commonwealth
Pro Forma Condensed Consolidated Statement of Operations
Year Ended December 31, 2018
(Unaudited and in thousands, except per share amounts)

	<u>Historical (3)</u>	<u>Transaction (4)</u>	<u>Pro Forma</u>
Revenues:			
Rental income	\$ 144,425	\$ (25,869)	\$ 118,556
Tenant reimbursements and other income	52,597	(12,510)	40,087
Total revenues	<u>197,022</u>	<u>(38,379)</u>	<u>158,643</u>
Expenses:			
Operating expenses	79,916	(17,086)	62,830
Depreciation and amortization	49,041	(12,826)	36,215
General and administrative	44,439	—	44,439
Loss on asset impairment	12,087	—	12,087
Total expenses	<u>185,483</u>	<u>(29,912)</u>	<u>155,571</u>
Operating income	11,539	(8,467)	3,072
Interest and other income, net	46,815	—	46,815
Interest expense	(26,585)	—	(26,585)
Loss on early extinguishment of debt	(7,122)	—	(7,122)
Gain on sale of properties, net	251,417	—	251,417
Income before income taxes	276,064	(8,467)	267,597
Income tax expense	(3,156)	—	(3,156)
Net income	272,908	(8,467)	264,441
Net income attributable to noncontrolling interest	(95)	3 (4a)	(92)
Net income attributable to Equity Commonwealth	272,813	(8,464)	264,349
Preferred distributions	(7,988)	—	(7,988)
Net income attributable to Equity Commonwealth common shareholders	<u>\$ 264,825</u>	<u>\$ (8,464)</u>	<u>\$ 256,361</u>
Weighted average common shares outstanding — basic	<u>122,314</u>		<u>122,314</u>
Weighted average common shares outstanding — diluted	<u>123,385</u>		<u>123,385</u>
Earnings per common share attributable to Equity Commonwealth common shareholders:			
Basic	<u>\$ 2.17</u>		<u>\$ 2.10</u>
Diluted	<u>\$ 2.15</u>		<u>\$ 2.08</u>

See accompanying notes.

Equity Commonwealth
Notes to Pro Forma Condensed Consolidated Balance Sheet
December 31, 2018
(Unaudited)

- (1) Historical Balances - Reflects the consolidated balance sheet of the Company as contained in its historical consolidated financial statements included in its Annual Report on Form 10-K as of and for the year ended December 31, 2018 previously filed with the SEC on February 14, 2019.
- (2) Transaction - Represents the de-recognition of carrying amounts at December 31, 2018 for the assets and the related accumulated depreciation and working capital assets and liabilities related to 1735 Market Street.
- a. Represents the net cash proceeds from the sale including settlement of net working capital.
 - b. Reflects the estimated transaction costs the Company will incur at or near closing in order to complete the disposition. The estimated transaction costs approximate 2.5% of the gross sales price and include transfer tax. These costs are not included in the pro forma condensed consolidated statement of operations for the year ended December 31, 2018 because they represent non-recurring charges that result directly from the transaction and will be included in the consolidated financial results of the Company within twelve months of the transaction.
 - c. Reflects the reallocation of total equity and Noncontrolling interest based on the Noncontrolling interest ownership of EQC Operating Trust.
 - d. Reflects the estimated gain on sale of 1735 Market Street, which is reduced by the estimated transaction costs discussed above. The estimated gain is not included in the pro forma condensed consolidated statement of operations for the year ended December 31, 2018 as it represents a non-recurring item that results directly from the transaction and will be included in the consolidated financial results of the Company within twelve months of the transaction.

Equity Commonwealth
Notes to Pro Forma Condensed Consolidated Statement of Operations
Year Ended December 31, 2018
(Unaudited)

- (3) Historical Balances - Reflects the consolidated statement of operations of the Company as contained in its historical consolidated financial statements included in its Annual Report on Form 10-K as of and for the year ended December 31, 2018 previously filed with the SEC on February 14, 2019.
- (4) Transaction - Represents the historical combined revenues and expenses of 1735 Market Street for the year ended December 31, 2018 as if the disposition had occurred on January 1, 2018.
- a. Reflects the allocation of results between the controlling interests and the noncontrolling interests based on the noncontrolling interests weighted average ownership of 0.04% of EQC Operating Trust for the year ended December 31, 2018.

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Section 3: EX-99.2 (EXHIBIT 99.2)

Exhibit 99.2

Calculation of 1735 Market Street Net Operating Income (NOI) and 1735 Market Street Cash Basis NOI
(amounts in thousands)

	Three Months Ended	Year Ended
	December 31, 2018	
Calculation of 1735 Market Street NOI and 1735 Market Street Cash Basis NOI:		
Rental income	\$ 6,946	\$ 25,869
Tenant reimbursements and other income	3,391	12,510
Operating expenses	(4,414)	(17,086)
1735 Market Street NOI	\$ 5,923	\$ 21,293
Straight line rent adjustments	(1,012)	(3,704)
1735 Market Street Cash Basis NOI	\$ 4,911	\$ 17,589

Reconciliation of 1735 Market Street NOI to 1735 Market Street GAAP Operating Income:

1735 Market Street Cash Basis NOI	\$ 4,911	\$ 17,589
Straight line rent adjustments	1,012	3,704
1735 Market Street NOI	\$ 5,923	\$ 21,293
Depreciation and amortization	(3,371)	(12,826)
1735 Market Street Operating Income	\$ 2,552	\$ 8,467

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