



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

Equity Commonwealth Reports First Quarter 2022 Results

5/4/2022

CHICAGO--(BUSINESS WIRE)-- Equity Commonwealth (NYSE: EQC) today reported financial results for the quarter ended March 31, 2022.

Financial results for the quarter ended March 31, 2022

Net loss attributable to common shareholders was \$0.7 million, or \$0.01 per diluted share, for the quarter ended March 31, 2022. This compares to net loss attributable to common shareholders of \$12.0 million, or \$0.10 per diluted share, for the quarter ended March 31, 2021. The decline in net loss was primarily due to a decrease in general and administrative expense due to lower severance, the collection of a previously reserved receivable and a real estate tax refund at a sold property.

Funds from Operations, or FFO, as defined by the National Association of Real Estate Investment Trusts, for the quarter ended March 31, 2022, were \$3.7 million, or \$0.03 per diluted share. This compares to FFO for the quarter ended March 31, 2021 of \$(7.7) million, or \$(0.06) per diluted share. The following items impacted FFO for the quarter ended March 31, 2022, compared to the corresponding 2021 period:

- \$0.07 per diluted share decrease in general and administrative expense;
- \$0.02 per diluted share increase in same property NOI; and
- \$0.01 per diluted share increase in NOI from properties sold.

Normalized FFO was \$3.7 million, or \$0.03 per diluted share, for the quarter ended March 31, 2022. This compares to Normalized FFO for the quarter ended March 31, 2021 of \$(0.9) million, or \$(0.01) per diluted share. The following items impacted Normalized FFO for the quarter ended March 31, 2022, compared to the corresponding 2021 period:

- \$0.02 per diluted share increase in same property cash NOI and lease termination fees;
- \$0.01 per diluted share increase in NOI from properties sold; and
- \$0.01 per diluted share decrease in general and administrative expense, excluding 2021 executive severance expense.

Normalized FFO begins with FFO and eliminates certain items that, by their nature, are not comparable from period to period, non-cash items, and items that obscure the company's operating performance. Definitions of FFO, Normalized FFO and reconciliations to net income (loss), determined in accordance with U.S. generally accepted accounting principles, or GAAP, are included at the end of this press release.

As of March 31, 2022, the company's cash and cash equivalents balance was \$2.7 billion.

Same property results for the quarter ended March 31, 2022

The company's same property portfolio at the end of the quarter consisted of 4 properties totaling 1.5 million square feet. Operating results were as follows:

- The same property portfolio was 83.3% leased as of March 31, 2022, compared to 82.3% as of December 31, 2021, and 85.6% as of March 31, 2021.
- The same property portfolio commenced occupancy was 79.5% as of March 31, 2022, compared to 79.2% as of December 31, 2021, and 82.2% as of March 31, 2021.
- Same property NOI increased 29.0% when compared to the same period in 2021, primarily due to the collection of \$1.9 million of a previously reserved receivable in the quarter ended March 31, 2022.
- Same property cash NOI increased 30.0% when compared to the same period in 2021 primarily due to the collection of the previously reserved receivable described above.
- Excluding the collection of the previously reserved receivable, same property NOI and same property cash NOI increased 5.4% and 5.5%, respectively, when compared to the same period in 2021.
- The company entered into leases for approximately 40,000 square feet, including renewal leases for approximately 30,000 square feet and new leases for approximately 10,000 square feet in the quarter ended March 31, 2022.
- The GAAP rental rate on new and renewal leases was 5.0% higher compared to the prior GAAP rental rate for the same space when compared to the same period in 2021.
- The cash rental rate on new and renewal leases was 2.8% higher compared to the prior cash rental rate for the same space when compared to the same period in 2021.

The definitions and reconciliations of same property NOI and same property cash NOI to net income (loss), determined in accordance with GAAP, are included at the end of this press release. The same property portfolio at the end of the quarter included properties continuously owned from January 1, 2021 through March 31, 2022.

Significant events during the quarter ended March 31, 2022

- On March 15, 2022, the Board of Trustees authorized the repurchase, through June 30, 2023, of an additional \$150 million of its outstanding common shares under the company's existing share repurchase program.
- During the quarter ended March 31, 2022, the company repurchased 2,851,030 of its common shares at a weighted average price of \$25.83 per share, for a total investment of \$73.6 million.

Subsequent Events

- Subsequent to quarter-end, as of May 3, 2022, the company repurchased 156,400 of its common shares at a weighted average price of \$25.98 per share for a total investment of \$4.1 million. The company has \$198.2 million of remaining authorization available under its share repurchase program, as of May 3, 2022.
- The company currently has two properties totaling 0.6 million square feet in the sale process.

Earnings Conference Call & Supplemental Operating and Financial Information

Equity Commonwealth will host a conference call to discuss first quarter results on Thursday, May 5, 2022, at 9:00 A.M. CT. The conference call will be available via live audio webcast on the Investor Relations section of the company's website (www.eqcre.com). A replay of the audio webcast will also be available following the call.

A copy of EQC's First Quarter 2022 Supplemental Operating and Financial Information is available in the Investor

Relations section of EQC's website at www.eqcre.com.

About Equity Commonwealth

Equity Commonwealth (NYSE: EQC) is a Chicago-based, internally managed and self-advised real estate investment trust (REIT) with commercial office properties in the United States. EQC's portfolio is comprised of four properties totaling 1.5 million square feet.

Regulation FD Disclosures

We 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.

Forward-Looking Statements

Some of the statements contained in this press release constitute forward-looking statements within the meaning of the federal securities laws. Any forward-looking statements contained in this press release are intended to be made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. You can identify forward-looking statements by the use of forward-looking terminology, including but not limited to, "may," "will," "should," "could," "would," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," or "potential" or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

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

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, amounts in thousands, except share data)

	March 31, 2022	December 31, 2021
ASSETS		
Real estate properties:		
Land	\$ 44,060	\$ 44,060
Buildings and improvements	362,464	362,042
	<u>406,524</u>	<u>406,102</u>
Accumulated depreciation	(159,755)	(156,439)
	<u>246,769</u>	<u>249,663</u>
Cash and cash equivalents	2,721,929	2,800,998
Rents receivable	15,644	15,549
Other assets, net	15,676	15,173
Total assets	\$3,000,018	\$3,081,383
LIABILITIES AND EQUITY		
Accounts payable, accrued expenses and other	\$ 15,505	\$ 19,762
Rent collected in advance	3,732	3,986
Distributions payable	514	2,365
Total liabilities	\$ 19,751	\$ 26,113
Shareholders' equity:		
Preferred shares of beneficial interest, \$0.01 par value: 50,000,000 shares authorized; Series D preferred shares; 6.50% cumulative convertible; 4,915,196 shares issued and outstanding, aggregate liquidation preference of \$122,880	\$ 119,263	\$ 119,263
Common shares of beneficial interest, \$0.01 par value: 350,000,000 shares authorized; 112,670,401 and 115,205,818 shares issued and outstanding, respectively	1,127	1,152
Additional paid in capital	4,053,256	4,128,656
Cumulative net income	3,799,854	3,798,552
Cumulative common distributions	(4,280,826)	(4,281,195)
Cumulative preferred distributions	(719,697)	(717,700)
Total shareholders' equity	<u>2,972,977</u>	<u>3,048,728</u>
Noncontrolling interest	7,290	6,542
Total equity	\$2,980,267	\$3,055,270
Total liabilities and equity	\$3,000,018	\$3,081,383

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2022	2021
Revenues:		
Rental revenue	\$ 15,840	\$ 14,169
Other revenue (1)	846	682
Total revenues	\$ 16,686	\$ 14,851
Expenses:		
Operating expenses	\$ 4,533	\$ 6,621
Depreciation and amortization	4,412	4,351
General and administrative	8,002	15,729
Total expenses	\$ 16,947	\$ 26,701
Interest and other income, net	1,574	1,843
Income (loss) before income taxes	1,313	(10,007)
Income tax expense	(8)	(31)
Net income (loss)	\$ 1,305	\$ (10,038)
Net (income) loss attributable to noncontrolling interest	(3)	20
Net income (loss) attributable to Equity Commonwealth	\$ 1,302	\$ (10,018)
Preferred distributions	(1,997)	(1,997)
Net loss attributable to Equity Commonwealth common shareholders	\$ (695)	\$ (12,015)
Weighted average common shares outstanding — basic (2)	113,740	122,002
Weighted average common shares outstanding — diluted(2)(3)	113,740	122,002
Earnings per common share attributable to Equity Commonwealth common shareholders:		
Basic	\$ (0.01)	\$ (0.10)
Diluted	\$ (0.01)	\$ (0.10)

- (1) Other revenue is primarily comprised of parking revenue that does not represent a component of a lease.
- (2) Weighted average common shares outstanding for the three months ended March 31, 2022 and 2021 includes 162 and 236 unvested, earned RSUs, respectively.
- (3) As of March 31, 2022, we had 4,915 series D preferred shares outstanding. The series D preferred shares were convertible into 3,237 common shares as of March 31, 2022 and 2021. The series D preferred shares are antidilutive for GAAP EPS for the three months ended March 31, 2022 and 2021.

CALCULATION OF FUNDS FROM OPERATIONS (FFO) AND NORMALIZED FFO
(Unaudited, amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2022	2021
Calculation of FFO		
Net income (loss)	\$ 1,305	\$ (10,038)
Real estate depreciation and amortization	4,373	4,301
FFO attributable to Equity Commonwealth	5,678	(5,737)
Preferred distributions	(1,997)	(1,997)
FFO attributable to EQC common shareholders and unitholders	\$ 3,681	\$ (7,734)
Calculation of Normalized FFO		
FFO attributable to EQC common shareholders and unitholders	\$ 3,681	\$ (7,734)
Straight-line rent adjustments	10	(307)
Executive severance expense	—	7,107
Normalized FFO attributable to EQC common shareholders and unitholders	\$ 3,691	\$ (934)
Weighted average common shares and units outstanding — basic (1)	114,008	122,245
Weighted average common shares and units outstanding — diluted (1)	114,468	122,245
FFO attributable to EQC common shareholders and unitholders per share and unit — basic and diluted	\$ 0.03	\$ (0.06)
Normalized FFO attributable to EQC common shareholders and unitholders per share and unit — basic and diluted	\$ 0.03	\$ (0.01)

(1) Our calculations of FFO and Normalized FFO attributable to EQC common shareholders **and unitholders** per share and unit - basic for the three months ended March 31, 2022 and 2021 include 268 and 243 LTIP/Operating Partnership Units, respectively, that are excluded from the calculation of basic earnings per common share attributable to EQC **common shareholders (only)**.

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

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

CALCULATION OF SAME PROPERTY NET OPERATING INCOME (NOI) AND SAME PROPERTY CASH BASIS NOI
(Unaudited, amounts in thousands)

	For the Three Months Ended				
	3/31/2022	12/31/2021	9/30/2021	6/30/2021	3/31/2021
Calculation of Same Property NOI and Same Property Cash Basis NOI:					
Rental revenue	\$ 15,840	\$ 13,503	\$ 13,141	\$ 14,114	\$ 14,169
Other revenue (1)	846	892	740	761	682
Operating expenses	(4,533)	(6,582)	(6,102)	(6,588)	(6,621)
NOI	\$ 12,153	\$ 7,813	\$ 7,779	\$ 8,287	\$ 8,230
Straight-line rent adjustments	10	(130)	(409)	(561)	(307)
Lease termination fees	(325)	(209)	(7)	—	—
Cash Basis NOI	\$ 11,838	\$ 7,474	\$ 7,363	\$ 7,726	\$ 7,923
Cash Basis NOI from non-same properties (2)	(1,699)	(111)	12	22	(124)
Same Property Cash Basis NOI	\$ 10,139	\$ 7,363	\$ 7,375	\$ 7,748	\$ 7,799
Non-cash rental income and lease termination fees from same properties	315	338	416	561	307
Same Property NOI	\$ 10,454	\$ 7,701	\$ 7,791	\$ 8,309	\$ 8,106
Reconciliation of Same Property NOI to GAAP Net Income (Loss):					
Same Property NOI	\$ 10,454	\$ 7,701	\$ 7,791	\$ 8,309	\$ 8,106
Non-cash rental income and lease termination fees from same properties	(315)	(338)	(416)	(561)	(307)
Same Property Cash Basis NOI	\$ 10,139	\$ 7,363	\$ 7,375	\$ 7,748	\$ 7,799
Cash Basis NOI from non-same properties (2)	1,699	111	(12)	(22)	124
Cash Basis NOI	\$ 11,838	\$ 7,474	\$ 7,363	\$ 7,726	\$ 7,923
Straight-line rent adjustments	(10)	130	409	561	307
Lease termination fees	325	209	7	—	—
NOI	\$ 12,153	\$ 7,813	\$ 7,779	\$ 8,287	\$ 8,230
Depreciation and amortization	(4,412)	(4,403)	(4,588)	(4,432)	(4,351)
General and administrative	(8,002)	(6,753)	(7,572)	(7,390)	(15,729)
Interest and other income, net	1,574	1,732	1,599	1,626	1,843
Income (loss) before income taxes	\$ 1,313	\$ (1,611)	\$ (2,782)	\$ (1,909)	\$ (10,007)
Income tax expense	(8)	(26)	(32)	(31)	(31)
Net income (loss)	\$ 1,305	\$ (1,637)	\$ (2,814)	\$ (1,940)	\$ (10,038)

- (1) Other revenue is primarily comprised of parking revenue that does not represent a component of a lease.
- (2) Cash Basis NOI from non-same properties for all periods presented includes the operations of disposed properties.

NOI is income from our real estate including lease termination fees received from tenants less our property operating expenses. NOI excludes amortization of capitalized tenant improvement costs and leasing commissions and corporate level expenses. Cash Basis NOI is NOI excluding the effects of straight-line rent adjustments, lease value amortization and lease termination fees. The same property versions of these measures include the results of properties continuously owned from January 1, 2021 through March 31, 2022. Properties classified as held for sale within our condensed consolidated balance sheets are excluded from the same property versions of these measures.

We consider these supplemental non-GAAP financial measures to be appropriate supplemental measures to net income (loss) because they may help to understand the operations of our properties. We use these measures internally to evaluate property level performance, and we believe that they provide useful information to investors regarding our results of operations because they reflect only those income and expense items that are incurred at the property level and may facilitate comparisons of our operating performance between periods and with other REITs. Cash Basis NOI is among the factors considered with respect to acquisition, disposition and financing decisions. These measures do not represent cash generated by operating activities in accordance with GAAP and should not be considered as an alternative to net income (loss), net income (loss) attributable to Equity Commonwealth common shareholders or cash flow from operating activities, determined in accordance with GAAP, or as indicators of our financial performance or liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of our needs. These measures should be considered in conjunction with net income (loss), net income (loss) attributable to EQC common shareholders and cash flow from operating activities as presented in our condensed consolidated statements of operations and condensed consolidated statements of cash flows. Other REITs and real estate companies may calculate these measures differently than we do.

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Bill Griffiths, (312) 646-2801
ir@eqcre.com

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