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Equity Commonwealth Reports First Quarter 2024 Results

5/1/2024

CHICAGO--(BUSINESS WIRE)-- Equity Commonwealth (NYSE: EQC) today reported financial results for the quarter ended March 31, 2024.

Financial results for the quarter ended March 31, 2024

Net income attributable to common shareholders was \$23.4 million, or \$0.22 per diluted share, for the quarter ended March 31, 2024. This compares to net income attributable to common shareholders of \$20.7 million, or \$0.19 per diluted share, for the quarter ended March 31, 2023. The increase in net income was primarily due to an increase in interest income from higher average interest rates and a decrease in income tax expense.

Funds from Operations, or FFO, as defined by the National Association of Real Estate Investment Trusts, for the quarter ended March 31, 2024, were \$27.8 million, or \$0.26 per diluted share. This compares to FFO for the quarter ended March 31, 2023 of \$25.1 million, or \$0.22 per diluted share. The following items impacted FFO for the quarter ended March 31, 2024, compared to the corresponding 2023 period:

- \$0.01 per diluted share increase in interest and other income, net; and
- \$0.01 per diluted share decrease in income tax expense.

Normalized FFO was \$27.6 million, or \$0.25 per diluted share, for the quarter ended March 31, 2024. This compares to Normalized FFO for the quarter ended March 31, 2023 of \$25.3 million, or \$0.23 per diluted share. The following items impacted Normalized FFO for the quarter ended March 31, 2024, compared to the corresponding 2023 period:

- \$0.01 per diluted share increase in interest and other income, net; and
- \$0.01 per diluted share decrease in income tax 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, 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, 2024, the company's cash and cash equivalents balance was \$2.2 billion.

Same property results for the quarter ended March 31, 2024

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 75.4% leased as of March 31, 2024, compared to 81.2% as of December 31, 2023, and 81.6% as of March 31, 2023.
- The same property portfolio commenced occupancy was 74.6% as of March 31, 2024, compared to 80.0% as of December 31, 2023, and 77.0% as of March 31, 2023.
- Same property NOI increased 4.3% when compared to the same period in 2023, primarily due to a decrease in pre-leasing demolition costs and an increase in lease termination fees, partially offset by a decrease in average commenced occupancy.
- Same property cash NOI decreased 6.9% when compared to the same period in 2023, primarily due to a decrease in average commenced occupancy, partially offset by a decrease in pre-leasing demolition costs.
- The company entered into leases for approximately 18,000 square feet, including renewal leases for approximately 15,000 square feet and new leases for approximately 3,000 square feet.
- The GAAP rental rate on new and renewal leases was 0.5% lower compared to the prior GAAP rental rate for the same space.
- The cash rental rate on new and renewal leases was 2.8% lower compared to the prior cash rental rate for the same space.

The definitions and reconciliations of same property NOI and same property cash NOI to net income, 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, 2023 through March 31, 2024.

Business update

Since taking responsibility for the company in 2014, the EQC team has remained focused in its efforts and executed a disciplined strategy. We have:

- Completed \$7.6 billion of dispositions, including the sale of 164 properties totaling 44 million square feet and three land parcels,
- Distributed \$1.8 billion, or \$14.75 per Common Share, to our common shareholders,
- Repurchased \$652 million of our Common Shares at a weighted average, dividend adjusted price of \$17.63 per share,
- Repaid debt and preferred equity of \$3.3 billion, and
- Generated a cash balance of \$2.2 billion, or \$19.95 per share.

Throughout this time, one of our guiding principles has been to be responsive to evolving market conditions. For the first six years, following this principle was relatively straightforward – valuations were at or near all-time highs, and we concluded that it was in shareholders' best interests to sell assets. We sold \$7.6 billion of assets between 2015 and early 2020. When the Covid-19 pandemic hit, office values plummeted. We have also evaluated numerous investment opportunities, seeking to acquire a business with strong fundamentals and a compelling risk-reward profile that would create long-term value for our shareholders. To date, we have not found such an opportunity.

Today, we are continuing our efforts to maximize shareholder value. We remain focused on opportunities in our pipeline where we can create long-term value for our shareholders, while concurrently taking steps to facilitate the potential wind down of our business. Before the end of this year, we expect to either announce a transaction or move forward with a plan to wind down our business.

Earnings conference call & supplemental operating and financial information

Equity Commonwealth will host a conference call to discuss first quarter results on Thursday, May 2, 2024, 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 2024 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, 2024	December 31, 2023
ASSETS		
Real estate properties:		
Land	\$ 44,060	\$ 44,060
Buildings and improvements	371,550	367,827
	<u>415,610</u>	<u>411,887</u>
Accumulated depreciation	(180,266)	(180,535)
	<u>235,344</u>	<u>231,352</u>
Cash and cash equivalents	2,170,834	2,160,535
Rents receivable	16,593	15,737
Other assets, net	16,915	17,417
Total assets	\$ 2,439,686	\$ 2,425,041
LIABILITIES AND EQUITY		
Accounts payable, accrued expenses and other	\$ 20,833	\$ 27,298
Rent collected in advance	2,166	1,990
Distributions payable	3,359	5,640
Total liabilities	\$ 26,358	\$ 34,928
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; 107,223,284 and 106,847,438 shares issued and outstanding, respectively	1,072	1,068
Additional paid in capital	3,935,501	3,935,873
Cumulative net income	3,952,384	3,926,979
Cumulative common distributions	(4,864,195)	(4,864,440)
Cumulative preferred distributions	(735,673)	(733,676)
Total shareholders' equity	<u>2,408,352</u>	<u>2,385,067</u>
Noncontrolling interest	4,976	5,046
Total equity	\$ 2,413,328	\$ 2,390,113
Total liabilities and equity	\$ 2,439,686	\$ 2,425,041

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

	Three Months Ended	
	March 31,	
	2024	2023
Revenues:		
Rental revenue	\$ 13,893	\$ 14,226
Other revenue (1)	1,297	1,350
Total revenues	\$ 15,190	\$ 15,576
Expenses:		
Operating expenses	\$ 6,534	\$ 7,256
Depreciation and amortization	4,357	4,310
General and administrative	8,323	8,555
Total expenses	\$ 19,214	\$ 20,121
Interest and other income, net	29,512	28,376
Income before income taxes	25,488	23,831
Income tax expense	(30)	(1,080)
Net income	\$ 25,458	\$ 22,751
Net income attributable to noncontrolling interest	(53)	(66)
Net income attributable to Equity Commonwealth	\$ 25,405	\$ 22,685
Preferred distributions	(1,997)	(1,997)
Net income attributable to Equity Commonwealth common shareholders	\$ 23,408	\$ 20,688

Weighted average common shares outstanding — basic (2)	107,216	109,720
	<u>108,224</u>	<u>111,300</u>
Weighted average common shares outstanding — diluted (2)(3)		
Earnings per common share attributable to Equity Commonwealth common shareholders:		
Basic	\$ 0.22	\$ 0.19
Diluted	<u>\$ 0.22</u>	<u>\$ 0.19</u>

- (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, 2024 and 2023 includes 129 and 113 unvested, earned RSUs, respectively.
- (3) As of March 31, 2024, we had 4,915 series D preferred shares outstanding. The series D preferred shares were convertible into 4,032 common shares as of March 31, 2024 and 2023. The series D preferred shares are anti-dilutive for GAAP EPS for all periods presented.

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

	Three Months Ended March 31,	
	2024	2023
Calculation of FFO		
Net income	\$ 25,458	\$ 22,751
Real estate depreciation and amortization	4,346	4,299
FFO attributable to Equity Commonwealth	29,804	27,050
Preferred distributions	(1,997)	(1,997)
FFO attributable to EQC common shareholders and unitholders	\$ 27,807	\$ 25,053
Calculation of Normalized FFO		
FFO attributable to EQC common shareholders and unitholders	\$ 27,807	\$ 25,053
Straight-line rent adjustments	(223)	279
Normalized FFO attributable to EQC common shareholders and unitholders	\$ 27,584	\$ 25,332
Weighted average common shares and units outstanding — basic (1)	107,439	110,044
Weighted average common shares and units outstanding — diluted (1)	108,447	111,624
FFO attributable to EQC common shareholders and unitholders per share and unit — basic	\$ 0.26	\$ 0.23
FFO attributable to EQC common shareholders and unitholders per share and unit — diluted	\$ 0.26	\$ 0.22
Normalized FFO attributable to EQC common shareholders and unitholders per share and unit — basic	\$ 0.26	\$ 0.23
Normalized FFO attributable to EQC common shareholders and unitholders per share and unit — diluted	\$ 0.25	\$ 0.23

- (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, 2024 and 2023 include 223 and 324 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				
	3/31/2024	12/31/2023	9/30/2023	6/30/2023	3/31/2023
Calculation of Same Property NOI and Same Property Cash Basis NOI:					
Rental revenue	\$ 13,893	\$ 13,824	\$ 13,928	\$ 13,358	\$ 14,226
Other revenue (1)	1,297	1,322	1,284	1,232	1,350
Operating expenses	(6,534)	(6,542)	(6,722)	(6,942)	(7,256)
NOI	\$ 8,656	\$ 8,604	\$ 8,490	\$ 7,648	\$ 8,320
Straight-line rent adjustments	(223)	(538)	(107)	273	279
Lease termination fees	(616)	(630)	(173)	(33)	(177)
Cash Basis NOI	\$ 7,817	\$ 7,436	\$ 8,210	\$ 7,888	\$ 8,422
Cash Basis NOI from non-same properties (2)	16	7	(5)	(4)	(4)
Same Property Cash Basis NOI	\$ 7,833	\$ 7,443	\$ 8,205	\$ 7,884	\$ 8,418
Non-cash rental income and lease termination fees from same properties	839	1,168	280	(240)	(102)
Same Property NOI	\$ 8,672	\$ 8,611	\$ 8,485	\$ 7,644	\$ 8,316
Reconciliation of Same Property NOI to GAAP Net Income:					
Same Property NOI	\$ 8,672	\$ 8,611	\$ 8,485	\$ 7,644	\$ 8,316
Non-cash rental income and lease termination fees from same properties	(839)	(1,168)	(280)	240	102
Same Property Cash Basis NOI	\$ 7,833	\$ 7,443	\$ 8,205	\$ 7,884	\$ 8,418
Cash Basis NOI from non-same properties (2)	(16)	(7)	5	4	4
Cash Basis NOI	\$ 7,817	\$ 7,436	\$ 8,210	\$ 7,888	\$ 8,422
Straight-line rent adjustments	223	538	107	(273)	(279)
Lease termination fees	616	630	173	33	177
NOI	\$ 8,656	\$ 8,604	\$ 8,490	\$ 7,648	\$ 8,320
Depreciation and amortization	(4,357)	(4,184)	(4,436)	(4,514)	(4,310)
General and administrative	(8,323)	(7,504)	(7,061)	(13,854)	(8,555)
Interest and other income, net	29,512	29,670	29,269	27,352	28,376
Income before income taxes	\$ 25,488	\$ 26,586	\$ 26,262	\$ 16,632	\$ 23,831
Income tax (expense) benefit	(30)	40	(30)	(796)	(1,080)
Net income	\$ 25,458	\$ 26,626	\$ 26,232	\$ 15,836	\$ 22,751

- (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 year-to-date same property versions of these measures include the results of properties continuously owned from January 1, 2023 through March 31, 2024. 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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