

Rexford Industrial Realty, Inc.
Form 10-Q
August 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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: 001-36008

Rexford Industrial Realty, Inc.
(Exact name of registrant as specified in its charter)

MARYLAND 46-2024407
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

11620 Wilshire Boulevard, Suite 1000, 90025
Los Angeles, California
(Address of principal executive offices) (Zip Code)

(310) 966-1680
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock outstanding at August 3, 2016 was 66,028,189.

REXFORD INDUSTRIAL REALTY, INC.
 QUARTERLY REPORT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REXFORD INDUSTRIAL REALTY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands – except share and per share data)

	June 30, 2016	December 31, 2015
ASSETS		
Land	\$605,694	\$492,704
Buildings and improvements	745,968	650,075
Tenant improvements	33,873	28,977
Furniture, fixtures, and equipment	175	188
Construction in progress	23,714	16,822
Total real estate held for investment	1,409,424	1,188,766
Accumulated depreciation	(117,590)	(103,623)
Investments in real estate, net	1,291,834	1,085,143
Cash and cash equivalents	29,177	5,201
Restricted cash	17,979	—
Rents and other receivables, net	3,010	3,040
Deferred rent receivable, net	9,585	7,827
Deferred leasing costs, net	6,531	5,331
Deferred loan costs, net	1,146	1,445
Acquired lease intangible assets, net	37,789	30,383
Acquired indefinite-lived intangible	5,271	5,271
Other assets	5,589	5,523
Acquisition related deposits	400	—
Investment in unconsolidated real estate entities	4,203	4,087
Total Assets	\$1,412,514	\$1,153,251
LIABILITIES & EQUITY		
Liabilities		
Notes payable	\$500,608	\$418,154
Interest rate swap liability	7,551	3,144
Accounts payable, accrued expenses and other liabilities	10,877	12,631
Dividends payable	9,212	7,806
Acquired lease intangible liabilities, net	4,346	3,387
Tenant security deposits	13,769	11,539
Prepaid rents	3,367	2,846
Total Liabilities	549,730	459,507
Equity		
Rexford Industrial Realty, Inc. stockholders' equity		
Common Stock, \$0.01 par value 490,000,000 authorized and 66,035,732 and 55,598,684 outstanding as of June 30, 2016 and December 31, 2015, respectively	657	553
Additional paid in capital	897,991	722,722
Cumulative distributions in excess of earnings	(50,733)	(48,103)
Accumulated other comprehensive loss	(7,328)	(3,033)

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Total stockholders' equity	840,587	672,139
Noncontrolling interests	22,197	21,605
Total Equity	862,784	693,744
Total Liabilities and Equity	\$1,412,514	\$ 1,153,251

The accompanying notes are an integral part of these consolidated financial statements.

REXFORD INDUSTRIAL REALTY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands – except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
RENTAL REVENUES				
Rental income	\$26,119	\$ 19,275	\$49,618	\$ 37,832
Tenant reimbursements	4,119	2,844	7,677	5,028
Other income	259	162	572	352
TOTAL RENTAL REVENUES	30,497	22,281	57,867	43,212
Management, leasing and development services	111	161	245	293
Interest income	—	280	—	557
TOTAL REVENUES	30,608	22,722	58,112	44,062
OPERATING EXPENSES				
Property expenses	7,959	5,874	15,502	11,645
General and administrative	4,521	3,740	8,123	7,286
Depreciation and amortization	12,610	10,490	23,824	20,374
TOTAL OPERATING EXPENSES	25,090	20,104	47,449	39,305
OTHER EXPENSES				
Acquisition expenses	635	847	1,110	1,080
Interest expense	3,716	1,658	6,970	3,484
TOTAL OTHER EXPENSES	4,351	2,505	8,080	4,564
TOTAL EXPENSES	29,441	22,609	55,529	43,869
Equity in income from unconsolidated real estate entities	62	12	123	13
Gain on extinguishment of debt	—	71	—	71
Gains on sale of real estate	11,563	—	11,563	—
NET INCOME	12,792	196	14,269	277
Less: net income attributable to noncontrolling interest	(418)	(8)	(470)	(12)
NET INCOME ATTRIBUTABLE TO REXFORD INDUSTRIAL REALTY, INC.	12,374	188	13,799	265
Less: earnings allocated to participating securities	(75)	(49)	(153)	(99)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$12,299	\$ 139	\$13,646	\$ 166
Net income available to common stockholders per share - basic and diluted	\$0.19	\$ —	\$0.23	\$ —
Weighted average shares of common stock outstanding - basic	64,063,337	64,963,093	59,666,468	52,835,132
Weighted average shares of common stock outstanding - diluted	64,304,713	64,963,093	59,860,835	52,835,132
Dividends declared per common share	\$0.135	\$ 0.120	\$0.270	\$ 0.240

The accompanying notes are an integral part of these consolidated financial statements.

REXFORD INDUSTRIAL REALTY, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited and in thousands)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$12,792	\$196	\$14,269	\$277
Other comprehensive (loss) income: cash flow hedge adjustment	(2,650)	319	(4,407)	(1,558)
Comprehensive income (loss)	10,142	515	9,862	(1,281)
Comprehensive (income) loss attributable to noncontrolling interests	(368)	(27)	(358)	30
Comprehensive income (loss) attributable to common stockholders	\$9,774	\$488	\$9,504	\$(1,251)

The accompanying notes are an integral part of these consolidated financial statements.

REXFORD INDUSTRIAL REALTY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited and in thousands – except share data)

	Number of Shares	Common Stock	Additional Paid-in Capital	Cumulative Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2016	55,598,684	\$ 553	\$ 722,722	\$(48,103)	\$(3,033)	\$ 672,139	\$ 21,605	\$ 693,744
Issuance of common stock	10,350,000	103	182,574	—	—	182,677	—	182,677
Offering costs	—	—	(8,352)	—	—	(8,352)	—	(8,352)
Share-based compensation	71,650	1	964	—	—	965	996	1,961
Repurchase of common shares	(11,681)	—	(204)	—	—	(204)	—	(204)
Conversion of units to common stock	27,079	—	287	—	—	287	(287)	—
Acquisition of real estate portfolio	—	—	—	—	—	—	125	125
Dividends	—	—	—	(16,429)	—	(16,429)	—	(16,429)
Distributions	—	—	—	—	—	—	(600)	(600)
Net income	—	—	—	13,799	—	13,799	470	14,269
Other comprehensive loss	—	—	—	—	(4,295)	(4,295)	(112)	(4,407)
Balance at June 30, 2016	66,035,732	\$ 657	\$ 897,991	\$(50,733)	\$(7,328)	\$ 840,587	\$ 22,197	\$ 862,784

	Number of Shares	Common Stock	Additional Paid-in Capital	Cumulative Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2015	43,702,442	\$ 434	\$ 542,318	\$(21,673)	\$(1,331)	\$ 519,748	\$ 26,129	\$ 545,877
Issuance of common stock	11,500,000	115	183,885	—	—	184,000	—	184,000
Offering costs	—	—	(8,027)	—	—	(8,027)	—	(8,027)
Share-based compensation	115,307	—	863	—	—	863	—	863
Repurchase of common shares	(4,225)	—	(67)	—	—	(67)	—	(67)
Conversion of units to common stock	145,771	1	1,611	—	—	1,612	(1,612)	—
Dividends	—	—	—	(13,294)	—	(13,294)	—	(13,294)
Distributions	—	—	—	—	—	—	(555)	(555)
Net income	—	—	—	265	—	265	12	277
	—	—	—	—	(1,516)	(1,516)	(42)	(1,558)

Other comprehensive
loss

Balance at June 30, 2015	55,459,295	\$ 550	\$ 720,583	\$(34,702)	\$(2,847)	\$ 683,584	\$ 23,932	\$ 707,516
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The accompanying notes are an integral part of these consolidated financial statements.

REXFORD INDUSTRIAL REALTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$14,269	\$ 277
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in income from unconsolidated real estate entities	(123)	(13)
Depreciation and amortization	23,824	20,374
Amortization of above (below) market lease intangibles, net	56	85
Accretion of discount on notes receivable	—	(140)
Gain on extinguishment of debt	—	(71)
Gain on sale of real estate	(11,563)	—
Amortization of loan costs	485	418
Accretion of premium on notes payable	(118)	(125)
Equity based compensation expense	1,887	815
Straight-line rent	(2,017)	(977)
Change in working capital components:		
Rents and other receivables	40	(398)
Deferred leasing costs	(2,245)	(1,654)
Other assets	(48)	(737)
Accounts payable, accrued expenses and other liabilities	(1,119)	(1,270)
Tenant security deposits	1,171	441
Prepaid rents	(144)	799
Net cash provided by operating activities	24,355	17,824
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of investments in real estate	(228,131)	(105,471)
Capital expenditures	(15,305)	(9,573)
Acquisition related deposits	(400)	710
Principal repayments of notes receivable	—	140
Proceeds from sale of real estate	20,435	—
Proceeds from sale of real estate placed in qualified intermediary account	(17,979)	—
Net cash used in investing activities	(241,380)	(114,194)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	182,677	184,000
Offering costs	(8,238)	(7,917)
Proceeds from notes payable	263,000	60,500
Repayment of notes payable	(178,690)	(126,262)
Deferred loan costs	(1,924)	(64)
Dividends paid to common stockholders	(15,020)	(11,883)
Distributions paid to common unitholders	(600)	(555)
Repurchase of common shares	(204)	(67)
Net cash provided by financing activities	241,001	97,752
Increase in cash and cash equivalents	23,976	1,382
Cash and cash equivalents, beginning of period	5,201	8,606
Cash and cash equivalents, end of period	\$29,177	\$9,988
Supplemental disclosure of cash flow information:		

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Cash paid for interest (net of capitalized interest of \$882 and \$196 for the six months ended June 30, 2016 and 2015, respectively)	\$6,404	\$3,197
Supplemental disclosure of noncash investing and financing transactions:		
Assumption of loan in connection with acquisition of real estate including loan premium	\$—	\$5,874
Capital expenditure accruals	\$1,278	\$1,492
Accrual of dividends	\$9,212	\$6,655
Accrual of offering costs	\$114	\$110

The accompanying notes are an integral part of these consolidated financial statements.

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REXFORD INDUSTRIAL REALTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization

Rexford Industrial Realty, Inc. is a self-administered and self-managed full-service real estate investment trust (“REIT”) focused on owning and operating industrial properties in Southern California infill markets. We were formed as a Maryland corporation on January 18, 2013, and Rexford Industrial Realty, L.P. (the “Operating Partnership”), of which we are the sole general partner, was formed as a Maryland limited partnership on January 18, 2013. Through our controlling interest in our Operating Partnership and its subsidiaries, we own, manage, lease, acquire and develop industrial real estate located in Southern California infill markets, and from time to time, acquire or provide mortgage debt secured by industrial property. As of June 30, 2016, our consolidated portfolio consisted of 130 properties with approximately 13.6 million rentable square feet. We also own a 15% interest in a joint venture that owns one property with approximately 0.5 million rentable square feet, which we also manage. In addition, we currently manage an additional 19 properties with approximately 1.2 million rentable square feet.

The terms “us,” “we,” “our,” and the “Company” as used in these financial statements refer to Rexford Industrial Realty, Inc. and its subsidiaries (including our Operating Partnership).

Basis of Presentation

As of June 30, 2016, and December 31, 2015, and for the three and six months ended June 30, 2016 and 2015, the financial statements presented are the consolidated financial statements of Rexford Industrial Realty, Inc. and its subsidiaries, including our Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. The accompanying unaudited financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The interim financial statements should be read in conjunction with the combined and consolidated financial statements in our 2015 Annual Report on Form 10-K and the notes thereto. Any references to the number of properties and square footage are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

We consolidate all entities that are wholly owned and those in which we own less than 100% but control, as well as any variable interest entities in which we are the primary beneficiary. We evaluate our ability to control an entity and whether the entity is a variable interest entity and we are the primary beneficiary through consideration of the substantive terms of the arrangement to identify which enterprise has the power to direct the activities of a variable interest entity that most significantly impacts the entity’s economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Investments in entities in which we do not control but over which we have the ability to exercise significant influence over operating and financial policies are presented under the equity method. Investments in entities that we do not control and over which we do not exercise significant influence are carried at the lower of cost or fair value, as appropriate. Our ability to correctly assess our influence and/or control over an entity affects the presentation of these investments in our consolidated financial statements.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include all cash and liquid investments with an initial maturity of three months or less. The carrying amount approximates fair value due to the short term maturity of these investments.

Restricted Cash

Restricted cash represents the cash proceeds from property sales that are being held by qualified intermediaries for purposes of facilitating tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code (“1031 Exchange”). As of June 30, 2016, the net proceeds from the sale of our properties located at 1840 Dana Street and 12910 East Mulberry Street (see Note 3) are included in restricted cash.

Investments in Real Estate

Acquisitions

When we acquire operating properties with the intention to hold the investment for the long-term, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component. The components typically include land, building and improvements, tenant improvements, intangible assets related to above and below market leases, intangible assets related to in-place leases, debt and other assumed assets and liabilities. Because of the timing or complexity of completing certain fair value adjustments, the initial purchase price allocation may be incomplete at the end of a reporting period, in which case we may record provisional purchase price allocation amounts based on information available at the acquisition date. Subsequent adjustments to provisional amounts are recognized during the measurement period, which cannot exceed one year from the date of acquisition. We allocate the purchase price to the fair value of the tangible assets of a property by valuing the property as if it were vacant. This “as-if vacant” value is estimated using an income, or discounted cash flow, approach that relies upon Level 3 inputs, which are unobservable inputs based on the Company’s assumptions about the assumptions a market participant would use. These Level 3 inputs include discount rates, capitalization rates, market rents and comparable sales data for similar properties. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. In determining the “as-if-vacant” value for acquisitions completed during the six months ended June 30, 2016, we used discount rates ranging from 6.75% to 8.00% and capitalization rates ranging from 5.50% to 6.25%.

In determining the fair value of intangible lease assets or liabilities, we also consider Level 3 inputs. Acquired above- and below-market leases are valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases, if applicable. The estimated fair value of acquired in-place at-market tenant leases are the costs that would have been incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the value associated with leasing commissions, legal and other costs, as well as the estimated period necessary to lease such property that would be incurred to lease the property to its occupancy level at the time of its acquisition. In determining the fair value for acquisitions completed during the six months ended June 30, 2016, we used an estimated average lease-up period ranging from six to twelve months. Acquisition costs associated with business combinations are expensed in the period they are incurred.

The difference between the fair value and the face value of debt assumed in connection with an acquisition is recorded as a premium or discount and amortized to “interest expense” over the life of the debt assumed. The valuation of assumed liabilities is based on our estimate of the current market rates for similar liabilities in effect at the acquisition date.

For acquisitions that do not meet the accounting criteria to be accounted for as a business combination, we record to land and building the purchase price paid and capitalize the associated acquisition costs. We did not capitalize any acquisition costs during the three and six months ended June 30, 2016, as our acquisitions were accounted for as business combinations. However, we capitalized acquisition costs of \$0.3 million and \$0.3 million during the three and six months ended June 30, 2015, respectively. See Note 3.

Capitalization of Costs

We capitalize direct costs incurred in developing, renovating, rehabilitating and improving real estate assets as part of the investment basis. This includes certain general and administrative costs, including payroll, bonus and non-cash equity compensation of the personnel performing development, renovations and rehabilitation if such costs are identifiable to a specific activity to get the real estate asset ready for its intended use. During the development and construction periods of a project, we also capitalize interest, real estate taxes and insurance costs. We cease capitalization of costs upon substantial completion of the project, but no later than one year from cessation of major construction activity. If some portions of a project are substantially complete and ready for use and other portions have not yet reached that stage, we cease capitalizing costs on the completed portion of the project but continue to capitalize for the incomplete portion of the project. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred.

We capitalized interest costs of \$0.4 million and \$0.2 million during the three months ended June 30, 2016 and 2015, respectively, and \$0.9 million and \$0.2 million during the six months ended June 30, 2016 and 2015, respectively. We capitalized real estate taxes and insurance costs aggregating \$0.2 million and \$0.2 million during the three months ended June 30, 2016 and 2015, respectively, and \$0.4 million and \$0.4 million during the six months ended June 30, 2016 and 2015, respectively. We capitalized compensation costs for employees who provide construction services of \$0.3 million and \$0.2 million during the three months ended June 30, 2016 and 2015, respectively, and \$0.5 million and \$0.4 million during the six months ended June 30, 2016 and 2015, respectively.

Depreciation and Amortization

Real estate, including land, building and land improvements, tenant improvements, furniture, fixtures and equipment and intangible lease assets and liabilities are stated at historical cost less accumulated depreciation and amortization, unless circumstances indicate that the cost cannot be recovered, in which case, the carrying value of the property is reduced to estimated fair value as discussed below in our policy with regards to impairment of long-lived assets. We estimate the depreciable portion of our real estate assets and related useful lives in order to record depreciation expense.

The values allocated to buildings, site improvements, in-place lease intangibles and tenant improvements are depreciated on a straight-line basis using an estimated remaining life of 10-30 years for buildings, 5-20 years for site improvements, and the shorter of the estimated useful life or respective lease term for in-place lease intangibles and tenant improvements.

As discussed above in—Investments in Real Estate—Acquisitions, in connection with property acquisitions, we may acquire leases with rental rates above or below the market rental rates. Such differences are recorded as an acquired lease intangible asset or liability and amortized to “rental income” over the remaining term of the related leases.

Our estimate of the useful life of our assets is evaluated upon acquisition and when circumstances indicate a change in the useful life, which requires significant judgment regarding the economic obsolescence of tangible and intangible assets.

Deferred Leasing Costs

We capitalize costs directly related to the successful origination of a lease. These costs include leasing commissions paid to third parties for new leases or lease renewals, as well as an allocation of compensation costs, including payroll, bonus and non-cash equity compensation of employees who spend time on lease origination activities. In determining the amount of compensation costs to be capitalized for these employees, allocations are made based on estimates of the actual amount of time spent working on successful leases in comparison to time spent on unsuccessful origination efforts. We capitalized compensation costs for these employees of \$0.1 million and \$0.1 million during the three months ended June 30, 2016 and 2015, respectively, and \$0.2 million and \$0.2 million during the six months ended June 30, 2016 and 2015, respectively.

Impairment of Long-Lived Assets

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of ASC Topic 360: Property, Plant, and Equipment, we assess the carrying values of our respective long-lived assets, including goodwill, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable.

Recoverability of real estate assets is measured by comparison of the carrying amount of the asset to the estimated future undiscounted cash flows. In order to review real estate assets for recoverability, we consider current market conditions as

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well as our intent with respect to holding or disposing of the asset. The intent with regards to the underlying assets might change as market conditions and other factors change. Fair value is determined through various valuation techniques; including discounted cash flow models, applying a capitalization rate to estimated net operating income of a property, quoted market values and third party appraisals, where considered necessary. The use of projected future cash flows is based on assumptions that are consistent with estimates of future expectations and the strategic plan used to manage our underlying business. If our analysis indicates that the carrying value of the real estate asset is not recoverable on an undiscounted cash flow basis, we will recognize an impairment charge for the amount by which the carrying value exceeds the current estimated fair value of the real estate property.

Assumptions and estimates used in the recoverability analyses for future cash flows, discount rates and capitalization rates are complex and subjective. Changes in economic and operating conditions or our intent with respect to our investment that occur subsequent to our impairment analyses could impact these assumptions and result in future impairment of our real estate properties.

Investment in Unconsolidated Real Estate

Investments in unconsolidated real estate in which we have the ability to exercise significant influence (but not control) are accounted for under the equity method of investment. Under the equity method, we initially record our investment at cost, and subsequently adjust for equity in earnings or losses and cash contributions and distributions. Any difference between the carrying amount of these investments on the balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in income (loss) from unconsolidated real estate over the life of the related asset. Under the equity method of accounting, our net equity investment is reflected within the consolidated balance sheets, and our share of net income or loss from the joint venture is included within the consolidated statements of operations. See Note 11.

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") commencing with our initial taxable year ended December 31, 2013. To qualify as a REIT, we are required (among other things) to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the Code relating to matters such as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we are generally not subject to corporate-level income tax on the earnings distributed currently to our stockholders. If we fail to qualify as a REIT in any taxable year, and were unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

In addition, we are subject to taxation by various state and local jurisdictions, including those in which we transact business or reside. Our non-taxable REIT subsidiaries, including our Operating Partnership, are either partnerships or disregarded entities for federal income tax purposes. Under applicable federal and state income tax rules, the allocated share of net income or loss from disregarded entities and flow-through entities such as partnerships is reportable in the income tax returns of the respective equity holders. Accordingly, no income tax provision is included in the accompanying consolidated financial statements for the three and six months ended June 30, 2016 and 2015.

We periodically evaluate our tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of June 30, 2016, and December 31, 2015, we have not established a liability for uncertain tax positions.

Derivative Instruments and Hedging Activities

FASB ASC Topic 815: Derivatives and Hedging ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, and whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. See Note 7.

Revenue Recognition

We recognize revenue from rent, tenant reimbursements and other revenue sources once all of the following criteria are met: persuasive evidence of an arrangement exists, the delivery has occurred or services rendered, the fee is fixed and determinable and collectability is reasonably assured. Minimum annual rental revenues are recognized in rental revenues on a straight-line basis over the term of the related lease. Rental revenue recognition commences when the tenant takes possession or controls the physical use of the leased space.

Estimated reimbursements from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, we perform final reconciliations on a lease-by-lease basis and bill or credit each tenant for any cumulative annual adjustments. Lease termination fees, which are included in rental income in the accompanying consolidated statements of operations, are recognized when the related lease is canceled and we have no continuing obligation to provide services to such former tenant.

Revenues from management, leasing and development services are recognized when the related services have been provided and earned.

The recognition of gains on sales of real estate requires us to measure the timing of a sale against various criteria related to the terms of the transaction, as well as any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, profit-sharing or leasing method. If the sales criteria have been met, we further analyze whether profit recognition is appropriate using the full accrual method. If the criteria to recognize profit using the full accrual method have not been met, we defer the gain and recognize it when the criteria are met or use the installment or cost recovery method as appropriate under the circumstances.

Valuation of Receivables

We are subject to tenant defaults and bankruptcies that could affect the collection of outstanding receivables. In order to mitigate these risks, we perform credit reviews and analyses on prospective tenants before significant leases are executed and on existing tenants before properties are acquired. We specifically analyze aged receivables, customer credit-worthiness, historical bad debts and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. As a result of our periodic analysis, we maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. This estimate requires significant judgment related to the lessees' ability to fulfill their obligations under the leases. We believe our allowance for doubtful accounts is adequate for our outstanding receivables for the periods presented. If a tenant is insolvent or files for bankruptcy protection and fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the net outstanding balances, which include amounts recognized as straight-line revenue not realizable until future periods. We recorded a provision for doubtful accounts of \$0.4 million and \$0.4 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.8 million and \$0.8 million for the six months ended June 30, 2016 and 2015, respectively, as a reduction to rental revenues in our consolidated statements of operations. We had a \$2.8 million and \$2.0 million reserve for allowance for doubtful accounts as of June 30, 2016 and December 31, 2015, respectively.

Equity Based Compensation

We account for equity based compensation in accordance with ASC Topic 718 Compensation - Stock Compensation. Total compensation cost for all share-based awards is based on the estimated fair market value on the grant date. For share-based awards that vest based solely on a service condition, we recognize compensation cost on a straight-line basis over the total requisite service period for the entire award. For share-based awards that vest based on a market or performance condition, we recognize compensation cost on a straight-line basis over the requisite service period of each separately vesting tranche. See Note 12.

Equity Offering Costs

Underwriting commissions and offering costs have been reflected as a reduction of additional paid-in capital.

Earnings Per Share

We calculate earnings per share ("EPS") in accordance with ASC 260 - Earnings Per Share ("ASC 260"). Under ASC 260, nonvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and, therefore, are included in computing basic EPS pursuant to the two-class method. The two-class method determines EPS for each class of common stock and participating securities according to dividends declared (or accumulated) and their respective participation rights in undistributed earnings.

Basic EPS is calculated by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period.

Diluted EPS is calculated by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding determined for the basic EPS computation plus the effect of any dilutive securities. We include unvested shares of restricted stock and unvested LTIP units in the computation of diluted EPS by using the more dilutive of the two-class method or treasury stock method. We include unvested performance units as contingently issuable shares in the computation of diluted EPS once the market criteria are met, assuming that the end of the reporting period is the end of the contingency period. Any anti-dilutive securities are excluded from the diluted EPS calculation. See Note 13.

Segment Reporting

Management views the Company as a single reportable segment based on its method of internal reporting in addition to its allocation of capital and resources.

Recently Issued Accounting Pronouncements

Changes to GAAP are established by the FASB in the form of ASUs to the FASB's Accounting Standards Codification. We consider the applicability and impact of all ASUs.

On March 30, 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), to amend and simplify several aspects of the accounting for share-based payment award transactions, including: (i) income tax consequences, (ii) classification of awards as equity or liabilities and (iii) classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption is permitted. We are currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting is largely unchanged under ASU 2016-02. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and early adoption is permitted. We are currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 establishes principles for reporting the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity’s contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public entities, ASU 2014-09 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2016. Early application is not permitted. In July 2015, the FASB deferred the implementation date by one year, which would make this ASU effective for annual reporting periods beginning after December 15, 2017. ASU 2014-09 notes that lease contracts with customers are a scope exception, and accordingly, we do not expect the adoption to have a material impact on our consolidated financial statements or notes to our consolidated financial statements.

Adoption of New Accounting Pronouncements

Effective January 1, 2016, we adopted ASU 2015-02, Amendments to the Consolidation Analysis (“ASU 2015-02”), which changes the way an entity evaluates whether they should consolidate certain legal entities. Specifically, ASU 2015-02 (i) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities, (ii) eliminates the presumption that a general partner should consolidate a limited partnership and (iii) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships.

Under the provisions of ASU 2015-02, we concluded that (1) our Operating Partnership is a VIE of the Company because the holders of limited partnership interests do not have substantive kick-out or participating rights and (2) the Company is the primary beneficiary of the VIE, which requires us to consolidate the Operating Partnership. However, as we already consolidate our Operating Partnership under prior consolidation guidance, the adoption of ASU 2015-02 did not have an effect on our consolidated financial statements. Additionally, the assets and liabilities of the Company and the Operating Partnership are substantially the same, as the Company does not have any significant assets other than its investment in the Operating Partnership.

On September 25, 2015, the FASB issued ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. ASU 2015-16 also requires that an acquirer present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective prospectively for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, with early adoption permitted. We early-adopted ASU 2015-16, beginning with the quarter ended September 30, 2015. The adoption of ASU 2015-16 did not have a material impact on our consolidated financial statements.

On April 7, 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a reduction from the carrying value of the debt liability. This offset against the debt liability is treated similarly to a debt discount, which effectively reduces the proceeds of a borrowing. For line of credit arrangements, however, entities may present debt issuance costs as an asset and amortize the cost over the term of the line of credit arrangement. ASU 2015-03 is effective for annual and interim periods beginning on or after December 15, 2015, with early adoption permitted on a retrospective basis. We early-adopted ASU 2015-03, beginning with the quarter ended March 31, 2015. The adoption of ASU 2015-03 did not have a material impact on our consolidated financial statements. See Note 5.

3. Investments in Real Estate

REIT Portfolio Acquisition

On April 11, 2016, we entered into a stock purchase agreement (the “Stock Purchase Agreement”) to acquire a private real estate investment trust that owns a portfolio of nine industrial properties totaling approximately 1.5 million rentable square feet (the “REIT Portfolio”) from a third-party seller in exchange for approximately 191.0 million in cash, exclusive of closing costs and credits (the “REIT Portfolio Acquisition”).

On April 15, 2016, pursuant to the Stock Purchase Agreement, we consummated the transaction. As part of the REIT Portfolio Acquisition, we acquired 100% of the private REIT’s common stock and 575 of 700 issued and outstanding shares of the private REIT’S 12.5% cumulative non-voting preferred stock (the “preferred stock”). The remaining 125 shares of the preferred stock are held by unaffiliated third parties and will remain outstanding in order to help us comply with federal income tax regulations applicable to REITs. These shares of preferred stock may be redeemed by us at any time, subject to procedural requirements, for an aggregate price of \$125,000 plus any dividends thereon that have accrued but have not been repaid at the time of such redemption.

Acquisition Summary

The following table sets forth the wholly-owned industrial properties we acquired during the six months ended June 30, 2016:

Property	Submarket	Date of Acquisition	Rentable Square Feet	Number of Buildings	Contractual Purchase Price (in thousands)
8525 Camino Santa Fe ⁽¹⁾	San Diego - Central	3/15/2016	59,399	1	\$ 8,450
28454 Livingston Avenue ⁽¹⁾	Los Angeles - San Fernando Valley	3/29/2016	134,287	1	16,000
REIT Portfolio ⁽²⁾	Various ⁽²⁾	4/15/2016	1,530,814	9	191,000
10750-10826 Lower Azusa Road ⁽³⁾	Los Angeles - San Gabriel Valley	5/3/2016	79,050	4	7,660
525 Park Avenue ⁽⁴⁾	Los Angeles - San Fernando Valley	6/30/2016	63,403	1	7,550
Total 2016 Wholly-Owned Property Acquisitions			1,866,953	16	\$ 230,660

(1) This acquisition was funded with available cash on hand and borrowings under our unsecured revolving credit facility.

The REIT Portfolio Acquisition was funded with available cash on hand, proceeds from a \$100.0 million term loan borrowing and proceeds from an equity offering of 10.35 million shares of our common stock. See Notes 5 and 12

(2) for additional information. The REIT Portfolio consists of nine properties located in four of our core submarkets, including Orange County, Los Angeles - San Gabriel Valley, Inland Empire West and Central San Diego.

(3) This acquisition was funded with \$2.5 million from a 1031 Exchange and available cash on hand.

(4) This acquisition was funded with available cash on hand.

The following table summarizes the fair value of amounts recognized for each major class of asset and liability for the acquisitions noted in the table above, as of the date of acquisition (in thousands):

	REIT Portfolio	Other 2016 Acquisitions	Total 2016 Acquisitions
Assets:			
Land	\$ 101,530	\$ 17,392	\$ 118,922
Buildings and improvements	74,586	20,014	94,600
Tenant improvements	2,875	471	3,346
Acquired lease intangible assets ⁽¹⁾	12,103	2,456	14,559
Other acquired assets ⁽²⁾	222	105	327
Total assets acquired	191,316	40,438	231,754
Liabilities:			
Acquired lease intangible liabilities ⁽³⁾	934	835	1,769
Other assumed liabilities ⁽²⁾	1,519	210	1,729
Total liabilities assumed	2,453	1,045	3,498
Net assets acquired	\$ 188,863	\$ 39,393	\$ 228,256

For the REIT Portfolio, acquired lease intangible assets consist of \$11.1 million of in-place lease intangibles with a weighted average amortization period of 5.0 years and \$1.0 million of above-market lease intangibles with a weighted average amortization period of 7.6 years. For the other 2016 acquisitions, represents in-place lease intangibles with a weighted average amortization period of 4.3 years.

(1) Includes other working capital assets acquired (prepaid expenses, other receivables and other assets) and liabilities assumed (tenant security deposits, prepaid rent and other payables), respectively, at the time of acquisition.

(2) Represents below-market lease intangibles with a weighted average amortization period of 4.8 years and 5.3 years for the REIT Portfolio and the other 2016 acquisitions, respectively.

The following table sets forth the unaudited results of operations on a combined basis for the three and six months ended June 30, 2016, for the properties acquired during the six months ended June 30, 2016, included in the consolidated statements of operations from the date of acquisition (in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Total revenues	\$ 3,629	\$ 3,664
Net income	\$ 1,317	\$ 1,344

The following table sets forth unaudited pro-forma financial information (in thousands) as if the closing of our acquisitions during the six months ended June 30, 2016, had occurred on January 1, 2015. These unaudited pro-forma results have been prepared for comparative purposes only and include certain adjustments, such as (i) increased rental revenues for the amortization of the net amount of above- and -below-market rents acquired in the acquisition, (ii) increased depreciation and amortization expenses as a result of tangible and intangible assets acquired in the acquisitions and (iii) increased interest expense for borrowings associated with these acquisitions. These unaudited pro-forma results do not purport to be indicative of what operating results would have been had the acquisitions actually occurred on January 1, 2015, and may not be indicative of future operating results.

	Three Months		Six Months Ended	
	Ended June 30, 2016	2015	2016	2015
Total revenues	\$31,399	\$25,800	\$62,580	\$50,273
Net income (loss) attributable to common shareholders	\$12,653	\$(546)	\$14,730	\$(1,154)
Net income attributable to common stockholders per share - basic	\$0.20	\$(0.01)	\$0.25	\$(0.02)
Net income attributable to common stockholders per share - diluted	\$0.20	\$(0.01)	\$0.25	\$(0.02)

Dispositions

The following table summarizes the properties we disposed of during the six months ended June 30, 2016:

Property	Submarket	Date of Disposition	Rentable Square Feet	Contractual Sales Price (in thousands)	Gain Recorded (in thousands)
6010 North Paramount Boulevard	Los Angeles - South Bay	5/2/2016	16,534	\$ 2,480	\$ 944
1840 Dana Street	Los Angeles - San Fernando Valley	5/25/2016	13,497	\$ 4,250	\$ 1,445
12910 East Mulberry Drive	Los Angeles - Mid-Counties	6/7/2016	153,080	\$ 15,000	\$ 9,174
Total			183,111	\$ 21,730	\$ 11,563

4. Intangible Assets

The following table summarizes our acquired lease intangible assets, including the value of in-place leases and above-market tenant leases, and our acquired lease intangible liabilities, including below-market tenant leases and above-market ground leases (in thousands):

	June 30, 2016	December 31, 2015
Acquired Lease Intangible Assets:		
In-place lease intangibles	\$62,591	\$ 49,265
Accumulated amortization	(31,150)	(25,107)
In-place lease intangibles, net	31,441	24,158
Above-market tenant leases	9,999	9,062
Accumulated amortization	(3,651)	(2,837)
Above-market tenant leases, net	6,348	6,225
Acquired lease intangible assets, net	\$37,789	\$ 30,383
Acquired Lease Intangible Liabilities:		
Below-market tenant leases	(6,678)	(5,227)
Accumulated accretion	2,529	2,053
Below-market tenant leases, net	(4,149)	(3,174)
Above-market ground lease	(290)	(290)
Accumulated accretion	93	77
Above-market ground lease, net	(197)	(213)
Acquired lease intangible liabilities, net	\$(4,346)	\$ (3,387)

The following table summarizes the amortization related to our acquired lease intangible assets and liabilities for the reported periods noted below (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
In-place lease intangibles ⁽¹⁾	\$3,402	\$3,120	\$6,288	\$6,339
Net above (below)-market tenant leases ⁽²⁾	\$67	\$54	\$72	\$101
Above-market ground lease ⁽³⁾	\$(8)	\$(8)	\$(16)	\$(16)

- (1) The amortization of in-place lease intangibles is recorded to depreciation and amortization expense in the consolidated statements of operations for the periods presented.
- (2) The amortization of net above (below)-market tenant leases is recorded as a decrease to rental revenues in the consolidated statements of operations for the periods presented.
- (3) The accretion of the above-market ground lease is recorded as a decrease to property expenses in the consolidated statements of operations for the periods presented.

5. Notes Payable

The following table summarizes the balance of our indebtedness as of June 30, 2016, and December 31, 2015 (in thousands):

	June 30,	December
	2016	31, 2015
Principal amount	\$503,009	\$418,698
Less: unamortized discount and deferred loan costs ⁽¹⁾	(2,401)	(544)
Carrying value	\$500,608	\$418,154

Unamortized discount and deferred loan costs exclude net debt issuance costs related to establishing our unsecured (1) credit facility. These costs are presented in the line item "Deferred loan costs, net" in the consolidated balance sheets.

The following table summarizes the components and significant terms of our indebtedness as of June 30, 2016, and December 31, 2015 (dollars in thousands):

	June 30, 2016		December 31, 2015		Contractual Maturity Date	Stated Interest Rate ⁽¹⁾	Effective Interest Rate ⁽²⁾	
	Principal Amount	Unamortized Discount and Deferred Loan Costs	Principal Amount	Unamortized Discount and Deferred Loan Costs				
Secured Debt								
Term Loan ⁽³⁾	\$60,000	\$ (243)	\$60,000	\$ (283)	8/1/2019	⁽⁴⁾ LIBOR + 1.90%	3.95 %	
Gilbert/La Palma	2,977	(149)	3,044	(153)	3/1/2031	5.125 % ⁽⁵⁾	5.38 %	
12907 Imperial Highway	5,242	242	5,299	303	4/1/2018	5.95 % ⁽⁶⁾	3.61 %	
1065 Walnut Street	9,790	242	9,855	292	2/1/2019	⁽⁷⁾ 4.55 % ⁽⁸⁾	3.54 %	
Unsecured Debt								
\$100M Term Loan Facility	100,000	—	100,000	—	6/11/2019	LIBOR + 1.35% ⁽⁹⁾	3.25 % ⁽¹⁰⁾	
Revolving Credit Facility	—	—	140,500	—	6/11/2018	⁽⁴⁾ LIBOR + 1.40% ⁽⁹⁾⁽¹¹⁾	1.87 %	
\$225M Term Loan Facility	225,000	(1,821)	—	—	1/14/2023	LIBOR + 1.60% ⁽⁹⁾	2.19 %	
Guaranteed Senior Notes	100,000	(672)	100,000	(703)	8/6/2025	4.29 %	4.36 %	
Total	\$503,009	\$ (2,401)	\$418,698	\$ (544)				

(1) Reflects the contractual interest rate under the terms of the loan, as of June 30, 2016.

Reflects the effective interest rate as of June 30, 2016, which includes the effect of the amortization of

(2) discounts/premiums and deferred loan costs and the effect of interest rate swaps that are effective as of June 30, 2016.

This term loan is secured by six properties. Beginning August 15, 2016, monthly payments of interest and principal (3) are based on a 30-year amortization table. As of June 30, 2016, the interest rate on the \$60.0 million variable-rate term loan has been effectively fixed through the use of two interest rate swaps. See Note 7 for details.

(4) One additional one-year extension available at the borrower's option.

(5) Monthly payments of interest and principal are based on a 20-year amortization table.

(6) Monthly payments of interest and principal are based on a 30-year amortization table, with a balloon payment at maturity.

(7) One additional five-year extension available at the borrower's option.

(8) Monthly payments of interest and principal are based on a 25-year amortization table, with a balloon payment at maturity.

The LIBOR margin will range from 1.25% to 1.85% for the \$100.0 million term loan facility, 1.30% to 1.90% for (9) the revolving credit facility and 1.50% to 2.25% for the \$225.0 million term loan facility depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value, which is measured on a quarterly basis.

(10) As of June 30, 2016, the interest on the \$100.0 million term loan facility has been effectively fixed through the use of two interest rate swaps. See Note 7 for details.

(11) The facility additionally bears interest at 0.30% or 0.20% of the daily undrawn amount of the unsecured revolving credit facility, if the balance is under \$100.0 million or over \$100.0 million, respectively.

The following table summarizes the contractual debt maturities and scheduled amortization payments, excluding debt discounts/premiums and deferred loan costs, as of June 30, 2016, and does not consider extension options available to us as noted in the table above (in thousands):

July 1, 2016 - December 31, 2016	\$207
2017	430
2018	5,380
2019	169,533
2020	166
Thereafter	327,293
Total	\$503,009

\$225 Million Term Loan Facility

On January 14, 2016, we entered into a credit agreement for a senior unsecured term loan facility (the “\$225 Million Term Loan Facility”) that initially permits aggregate borrowings of up to \$125.0 million, the total of which we borrowed the same day at closing. Under the terms of the credit agreement, we are permitted to add one or more incremental term loans in an aggregate amount not to exceed \$100.0 million (the “Accordion”), subject to the satisfaction of specified conditions. On April 15, 2016, we exercised the Accordion in full, thereby increasing the aggregate amount outstanding under the \$225 Million Term Loan Facility to \$225.0 million. The maturity date of the \$225 Million Term Loan Facility is January 14, 2023.

Interest on the \$225 Million Term Loan Facility accrues based upon, at our option, either (i) LIBOR plus the applicable Eurodollar rate margin or (ii) the applicable base rate which is the greater of (a) the federal funds rate plus 0.50%, (b) the administrative agent’s prime rate or (c) the thirty-day LIBOR plus 1.00%, plus the applicable base rate margin. Until we obtain an investment grade rating by two or more of Standard & Poor’s, Moody’s Investor Services and Fitch Ratings, and elect to use the alternative rates based on our debt rating, the applicable Eurodollar rate margin will range from 1.50% to 2.25% per annum, and the applicable base rate margin will range from 0.50% to 1.25% per annum, depending on our Leverage Ratio (as defined in the credit agreement).

We have the option to voluntarily prepay any amounts borrowed under the \$225 Million Term Loan Facility in whole or in part at any time, subject to certain notice requirements. To the extent that we prepay all or any portion of a loan on or prior to January 14, 2018, we will pay a prepayment premium equal to (i) if such prepayment occurs prior to January 14, 2017, 2.00% of the principal amount so prepaid and (ii) if such prepayment occurs on or after January 14, 2017, but prior to January 14, 2018, 1.00% of the principal amount so prepaid. Amounts borrowed under the \$225 Million Term Loan Facility and repaid or prepaid may not be reborrowed.

The \$225 Million Term Loan Facility contains usual and customary events of default including defaults in the payment of principal, interest or fees, defaults in compliance with the covenants set forth in the credit agreement and other loan documentation, cross-defaults to certain other indebtedness, and bankruptcy and other insolvency defaults. If an event of default occurs and is continuing under the \$225 Million Term Loan Facility, all outstanding principal amounts, together with all accrued unpaid interest and other amounts owing in respect thereof, may be declared immediately due and payable.

Unsecured Credit Facility

We have a senior unsecured revolving credit facility with a borrowing capacity of \$200.0 million (the “Revolver”) and a senior unsecured term loan facility (the “\$100 Million Term Loan Facility”) with a borrowing capacity of \$100.0 million (together the “Credit Facility”). The Revolver is scheduled to mature on June 11, 2018, with one 12-month extension option available, subject to certain conditions, and the \$100 Million Term Loan Facility is scheduled to mature on June 11, 2019. The aggregate principal amount of the Credit Facility may be increased to a total of up to \$600.0 million, which may be comprised of additional revolving commitments under the Revolver or an increase to the \$100 Million Term Loan Facility, or any combination of the foregoing, subject to the satisfaction of specified conditions and the identification of lenders willing to make available such additional amounts.

Interest on the Credit Facility accrues, at our option, at either (i) LIBOR plus the applicable LIBOR margin or (ii) the applicable base rate which is the greater of (a) the federal funds rate plus 0.50%, (b) the administrative agent's prime rate or (c)

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the thirty-day LIBOR plus 1.00%, plus the applicable base rate margin. Until we attain an investment grade rating by two or more of Standard & Poor's, Moody's Investor Services and Fitch Ratings, and elect to use the alternative rates based on our debt rating, the applicable LIBOR margin will range from 1.30% to 1.90% for the Revolver and 1.25% to 1.85% for the \$100 Million Term Loan Facility, depending on our Leverage Ratio (as defined in the credit agreement). In February 2015, the Revolver and the \$100 Million Term Loan Facility were assigned an investment grade rating of BBB- by Fitch Ratings. Additionally, there is a quarterly facility fee that is paid on the undrawn portion of the Revolver in an amount equal to 0.20% or 0.30% depending on the undrawn amount of the Revolver. The Credit Facility is guaranteed by the Company and by substantially all of the current and future subsidiaries of the Operating Partnership that own an unencumbered property. The Credit Facility is not secured by the Company's properties or by equity interests in the subsidiaries that hold such properties.

The Revolver and the \$100 Million Term Loan Facility may be voluntarily prepaid in whole or in part at any time without premium or penalty. Amounts borrowed under the \$100 Million Term Loan Facility and repaid or prepaid may not be re-borrowed.

The Credit Facility contains usual and customary events of default including defaults in the payment of principal, interest or fees, defaults in compliance with the covenants set forth in the Credit Facility and other loan documentation, cross-defaults to certain other indebtedness, and bankruptcy and other insolvency defaults. If an event of default occurs and is continuing under the Credit Facility, the unpaid principal amount of all outstanding loans, together with all accrued unpaid interest and other amounts owing in respect thereof, may be declared immediately due and payable.

On June 30, 2016, we did not have any borrowings outstanding under our Revolver, leaving \$200.0 million available for additional borrowings.

Debt Covenants

The \$225 Million Term Loan Facility and the Credit Facility both include a series of financial and other covenants that we must comply with, including the following covenants which are tested on a quarterly basis:

- ♣ Maintaining a ratio of total indebtedness to total asset value of not more than 60%;
- ♣ Maintaining a ratio of secured debt to total asset value of not more than 45%;
- ♣ Maintaining a ratio of total secured recourse debt to total asset value of not more than 15%;
- Maintaining a minimum tangible net worth of at least the sum of (i) \$283,622,250, and (ii) an amount equal to at least 75% of the net equity proceeds received by the Company after March 31, 2014;
- ♣ Maintaining a ratio of adjusted EBITDA to fixed charges of at least 1.50 to 1.0;
- Maintaining a ratio of total unsecured debt to total unencumbered asset value of not more than 60%;
- and
- ♣ Maintaining a ratio of unencumbered NOI to unsecured interest expense of at least 1.75 to 1.0.

Additionally, the \$225 Million Term Loan Facility and the Credit Facility provide that our distributions may not exceed the greater of (i) 95.0% of our funds from operations or (ii) the amount required for us to qualify and maintain our status as a REIT and avoid the payment of federal or state income or excise tax in any 12-month period.

Our \$100.0 million unsecured guaranteed senior notes (the "Notes") contain a series of financial and other covenants with which we must comply. The financial covenants, which are tested on a quarterly basis, are the same as those that we must comply with under the \$225 Million Term Loan Facility and the Credit Facility, as detailed above. Subject to the terms of the Notes, upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, make-whole payment amount, or interest under the Notes, (ii) a default in the payment of certain of our other indebtedness, (iii) a default in compliance with the covenants set forth in the Notes agreement, and (iv) bankruptcy and other insolvency defaults, the principal and accrued and unpaid interest and the make-whole payment amount on the outstanding Notes will become due and payable at the option of the purchasers.

Our \$60.0 million term loan contains a financial covenant that is tested on a quarterly basis, which requires us to maintain a minimum Debt Service Coverage Ratio (as defined in the term loan agreement) of at least 1.10 to 1.00.

We were in compliance with all of our required quarterly debt covenants as of June 30, 2016.

6. Operating Leases

We lease space to tenants primarily under non-cancelable operating leases that generally contain provisions for a base rent plus reimbursement for certain operating expenses. Operating expense reimbursements are reflected in the consolidated statements of operations as tenant reimbursements.

Future minimum base rent under operating leases as of June 30, 2016 is summarized as follows (in thousands):

Twelve months ended June 30,	
2017	\$97,197
2018	79,184
2019	64,921
2020	51,680
2021	37,151
Thereafter	73,330
Total	\$403,463

The future minimum base rent in the table above excludes tenant reimbursements, amortization of adjustments for deferred rent receivables and the amortization of above/below-market lease intangibles.

7. Interest Rate Contracts

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash payments principally related to our borrowings.

Derivative Instruments

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We do not use derivatives for trading or speculative purposes.

The effective portion of the change in fair value of derivatives designated and qualifying as cash flow hedges is initially recorded in accumulated other comprehensive income/(loss) ("AOCI") and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is immediately recognized in earnings.

On February 24, 2016, we entered into an interest rate swap transaction to manage our exposure to fluctuations in variable interest rate associated with the \$125.0 million initially borrowed under the \$225 Million Term Loan Facility. The interest rate swap has a notional amount of \$125.0 million with an effective date of February 14, 2018 and a maturity date of January 14, 2022. Under the terms of the interest rate swap, we are required to make certain monthly fixed rate payments on a notional amount of \$125.0 million while the counterparty is obligated to make certain monthly floating rate payments based on LIBOR to us referencing the same notional amount. The interest rate swap will effectively fix the annual interest rate payable on this notional amount of the Company's debt which may exist under the \$225 Million Term Loan Facility at 1.349% plus an applicable margin under the terms of the \$225 Million Term Loan Facility.

On May 12, 2016, we entered into a second interest rate swap transaction to manage our exposure to fluctuations in variable interest rate associated with the incremental \$100.0 million borrowed under the \$225 Million Term Loan

Facility. The interest rate swap has a notional amount of \$100.0 million with an effective date of August 14, 2018, and a maturity date of

January 14, 2022. Under the terms of the interest rate swap, we are required to make certain monthly fixed rate payments on a notional amount of \$100.0 million while the counterparty is obligated to make certain monthly floating rate payments based on LIBOR to us referencing the same notional amount. The interest rate swap will effectively fix the annual interest rate payable on this notional amount of the Company's debt which may exist under the \$225 Million Term Loan Facility at 1.406% plus an applicable margin under the terms of the \$225 Million Term Loan Facility. The following table sets forth a summary of our interest rate swaps at June 30, 2016 and December 31, 2015 (dollars in thousands):

Derivative Instrument	Effective Date	Maturity Date	Interest Strike Rate	Fair Value ⁽¹⁾		Current Notional Amount ⁽²⁾	
				June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Liabilities:							
Interest Rate Swap	1/15/2015	2/15/2019	1.826%	\$949	\$ 538	\$30,000	\$ 30,000
Interest Rate Swap	7/15/2015	2/15/2019	2.010%	\$1,059	\$ 698	\$30,000	\$ 30,000
Interest Rate Swap	8/14/2015	12/14/2018	1.790%	\$1,455	\$ 849	\$50,000	\$ 50,000
Interest Rate Swap	2/16/2016	12/14/2018	2.005%	\$1,717	\$ 1,059	\$50,000	\$ —
Interest Rate Swap	2/14/2018	1/14/2022	1.349%	\$1,394	\$ —	\$—	\$ —
Interest Rate Swap	8/14/2018	1/14/2022	1.406%	\$977	\$ —	\$—	\$ —

We record all derivative instruments on a gross basis in the consolidated balance sheets, and accordingly, there are no offsetting amounts that net assets against liabilities. As of June 30, 2016, and December 31, 2015, all of our derivatives were in a liability position, and as such, the fair value is included in the line item "Interest rate swap liability" in the accompanying consolidated balance sheets.

(2) Represents the notional amount of swaps that are effective as of the balance sheet date presented.

The following table sets forth the impact of our interest rate swaps on our consolidated statements of operations for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest Rate Swaps in Cash Flow Hedging Relationships:				
Amount of (loss) gain recognized in AOCI on derivatives (effective portion)	\$(3,243)	\$ 194	\$(5,501)	\$(1,788)
Amount of (loss) gain reclassified from AOCI into earnings under "Interest expense" (effective portion)	\$(593)	\$(125)	\$(1,094)	\$(230)
Amount of gain (loss) recognized in earnings under "Interest expense" (ineffective portion and amount excluded from effectiveness testing)	\$—	\$—	\$—	\$—

During the next twelve months, we estimate that an additional \$2.3 million will be reclassified from AOCI as an increase to interest expense.

Credit-risk-related Contingent Features

Certain of our agreements with our derivative counterparties contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender within a specified time period, then we could also be declared in default on its derivative obligations.

Certain of our agreements with our derivative counterparties contain provisions where if a merger or acquisition occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

As of June 30, 2016, the fair value of interest rate swaps in a net liability position, which excludes any adjustment for nonperformance risk related to these agreements, was \$7.6 million. As of June 30, 2016, we have not posted any collateral related to these agreements.

8. Fair Value Measurements

We have adopted FASB Accounting Standards Codification Topic 820: Fair Value Measurements and Disclosure (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Recurring Measurements – Interest Rate Swaps

Currently, we use interest rate swap agreements to manage our interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves.

To comply with the provisions of ASC 820, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. However, as of June 30, 2016, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, we have determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below sets forth the estimated fair value of our interest rate swaps as of June 30, 2016 and December 31, 2015, which we measure on a recurring basis by level within the fair value hierarchy (in thousands).

Liabilities	Total Fair Value	Fair Value Measurement Using		
		Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swaps at:				
June 30, 2016	\$ (7,551) \$	—\$	(7,551) \$	—
December 31, 2015	\$ (3,144) \$	—\$	(3,144) \$	—

Financial Instruments Disclosed at Fair Value

The carrying amounts of cash and cash equivalents, rents and other receivables, other assets, accounts payable, accrued expenses and other liabilities, and tenant security deposits approximate fair value because of their short-term nature.

The fair value of our notes payable was estimated by calculating the present value of principal and interest payments, using currently available market rates, adjusted with a credit spread, and assuming the loans are outstanding through contractual maturity date.

The table below sets forth the carrying value and the estimated fair value of our notes payable as of June 30, 2016, and December 31, 2015 (in thousands):

Liabilities	Total Fair Value	Fair Value Measurement Using			Carrying Value
		Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Notes Payable at:					
June 30, 2016	\$507,522 \$	—\$	—\$	507,522	\$500,608
December 31, 2015	\$416,497 \$	—\$	—\$	416,497	\$418,154

9. Related Party Transactions

Howard Schwimmer

We engage in transactions with Howard Schwimmer, our Co-Chief Executive Officer, earning management and leasing commissions from entities controlled individually by Mr. Schwimmer. Fees and commissions earned from these entities are included in “Management, leasing and development services” in the consolidated statements of operations. We recorded \$0.1 million and \$0.1 million for the three months ended June 30, 2016 and 2015,

respectively, and \$0.1 million and \$0.1 million for the six months ended June 30, 2016 and 2015, respectively, in management, leasing and development services revenue.

10. Commitments and Contingencies

Legal

From time to time, we are party to various lawsuits, claims and legal proceedings that arise in the ordinary course of business. Excluding ordinary routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

Environmental

We generally will perform environmental site assessments at properties we are considering acquiring. After the acquisition of such properties, we continue to monitor the properties for the presence of hazardous or toxic substances. From time to time, we acquire properties with known adverse environmental conditions. If at the time of acquisition, losses associated with environmental remediation obligations are probable and can be reasonably estimable, we record a liability.

On February 25, 2014, we acquired the property located at West 228th Street. Before purchasing the property during the due diligence phase, we engaged with a third party environmental consultant to perform various environmental site assessments to determine the presence of any environmental contaminants that might warrant remediation efforts. Based on their investigation, they determined that hazardous substances existed at the property and that additional assessment and remediation work would likely be required to satisfy regulatory requirements. The total remediation costs were estimated to be \$1.3 million, which includes remediation, processing and oversight costs.

To address the estimated costs associated with the environmental issues at the West 228th Street property, we entered into an Environmental Holdback Escrow Agreement (the "Holdback Agreement") with the former owner, whereby \$1.4 million was placed into an escrow account to be used to pay remediation costs. To fund the \$1.4 million, the escrow holder withheld \$1.3 million of the purchase price, which would have otherwise been paid to the seller at closing, and the Company funded an additional \$0.1 million. According to the Holdback Agreement, the seller has no liability or responsibility to pay for remediation costs in excess of \$1.3 million.

As of June 30, 2016, and December 31, 2015, we have a \$1.2 million contingent liability recorded in our consolidated balance sheets included in the line item "Accounts payable and accrued expenses," reflecting the estimated remaining cost to remediate environmental liabilities at West 228th Street that existed prior to the acquisition date. As of June 30, 2016, and December 31, 2015, we also have a \$1.2 million corresponding indemnification asset recorded in our consolidated balance sheets included in the line item "Other assets," reflecting the estimated costs we expect the former owner to cover pursuant to the Holdback Agreement.

We expect that the resolution of the environmental matters relating to the above will not have a material impact on our consolidated financial condition, results of operations or cash flows. However, we cannot assure you that we have identified all environmental liabilities at our properties, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that such environmental liabilities arise. Furthermore, we cannot assure you that future changes to environmental laws or regulations and their application will not give rise to loss contingencies for future environmental remediation.

Rent Expense

As of June 30, 2016, we lease a parcel of land that is currently being sub-leased to a tenant for a parking lot. The ground lease is scheduled to expire on June 1, 2062.

The future minimum commitment under our ground lease and corporate and satellite office leases as of June 30, 2016, is as follows (in thousands):

	Office Leases	Ground Lease
July 1, 2016 through December 31, 2016	\$313	\$72
2017	635	144
2018	622	144
2019	337	144
2020	—	144
Thereafter	—	5,964
Total	\$1,907	\$6,612

Tenant and Construction Related

As of June 30, 2016, we had commitments of approximately \$6.6 million for tenant improvement and construction work under the terms of leases with certain of our tenants and contractual agreements with our construction vendors.

Concentrations of Credit Risk

We have deposited cash with financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. Although we have deposits at institutions in excess of federally insured limits as of June 30, 2016, we do not believe we are exposed to significant credit risk due to the financial position of the institutions in which those deposits are held.

As of June 30, 2016, all of our properties are located in the Southern California infill markets. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate.

As of June 30, 2016, our 10 largest tenants represented approximately 13.2% of our annualized base rent, which is based on the monthly contracted base rent from leases in effect as of June 30, 2016, multiplied by 12, excluding billboard and antenna revenue and rent abatements. During the three and six months ended June 30, 2016, no single tenant accounted for more than 1.9% of our annualized base rent.

11. Investment in Unconsolidated Real Estate Entities

We currently manage and hold a 15% equity interest in a joint venture (the “JV”) that indirectly owns one property located at 3233 Mission Oaks Boulevard in Camarillo, California. The property is a two-building industrial property containing 457,693 rentable square feet in the Ventura County submarket. We account for this investment under the equity method of accounting (i.e., at cost, increased or decreased by our share of earnings or losses, less distributions, plus contributions and other adjustments required by equity method accounting, such as basis differences from other-than-temporary impairments, if applicable).

The following tables present combined summarized financial information of our unconsolidated joint venture property. Amounts provided are the total amounts attributable to the JV and do not represent our proportionate share, unless otherwise noted (in thousands).

	June 30, 2016	December 31, 2015
Assets	\$24,579	\$24,280
Liabilities	(626)	(1,250)
Partners’/members’ equity	\$23,953	\$23,030
Company’s share of equity	\$3,593	\$3,455
Basis adjustment ⁽¹⁾	610	632
Carrying value of the Company’s investment in unconsolidated real estate	\$4,203	\$4,087

This amount represents the difference between our historical cost basis and the basis reflected at the joint venture (1)level, resulting from the contribution of our equity interest as part of the formation transactions that occurred on July 24, 2013.

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Revenues	\$656	\$685	\$1,288	\$1,348
Expenses	(191)	(574)	(365)	(1,196)
Net income	\$465	\$111	\$923	\$152

Fees and commissions earned from managing the JV are included in “Management, leasing and development services” in the consolidated statements of operations. We recorded \$18 thousand and \$47 thousand for the three months ended June 30, 2016 and 2015, respectively, and \$0.1 million and \$0.1 million for the six months ended June 30, 2016 and 2015, respectively, in management, leasing and development services revenue.

12. Equity

Common Stock

On April 15, 2016, we completed a public follow-on offering of 10,350,000 shares of our common stock, including the underwriters exercise in full of its option to purchase 1,350,000 shares of our common stock, at an offering price per share of \$17.65. The net proceeds of the follow-on offering were approximately \$174.4 million, after deducting the underwriting discount and offering costs totaling \$8.3 million. We contributed the net proceeds of the offering to our Operating Partnership in exchange for 10,350,000 common units of partnership interests in the Operating Partnership (“OP Units”).

On February 3, 2015, we completed a public follow-on offering of 11,500,000 shares of our common stock at a public offering price of \$16.00 per share. The net proceeds of the follow-on offering were \$176.3 million, after deducting the underwriting discount and offering costs totaling \$7.7 million. We contributed the net proceeds of the offering to our Operating Partnership in exchange for 11,500,000 OP Units.

On April 17, 2015, we established an at-the-market equity offering program (the “ATM Program”) through which we may sell from time to time up to an aggregate of \$125.0 million of our common stock through sales agents. During the six months ended June 30, 2016, we did not utilize the ATM Program, and as of June 30, 2016, we have issued a total of 500 shares

of common stock under the ATM Program. Future sales, if any, will depend on a variety of factors to be determined by us from time to time, including among others, market conditions, the trading price of our common stock, determinations by us of the appropriate sources of funding for us and potential uses of funding available to us.

Noncontrolling Interests

Noncontrolling interests in our Operating Partnership relate to interests in the Operating Partnership that are not owned by us. Noncontrolling interests consisted of 1,999,563 OP Units and represented approximately 2.9% of our Operating Partnership as of June 30, 2016. OP Units and shares of our common stock have essentially the same economic characteristics, as they share equally in the total net income or loss and distributions of our Operating Partnership. Investors who own OP Units have the right to cause our Operating Partnership to redeem any or all of their units in our Operating Partnership for an amount of cash per unit equal to the then current market value of one share of common stock, or, at our election, shares of our common stock on a one-for-one basis.

During the six months ended June 30, 2016, 27,079 OP Units were converted into an equivalent number of shares of common stock, resulting in the reclassification of \$0.3 million of noncontrolling interest to Rexford Industrial Realty, Inc.'s stockholders' equity.

As described in Note 3, as part of the REIT Portfolio Acquisition, we acquired 100% of the private REIT's common stock and 575 of 700 issued and outstanding shares of the private REIT'S 12.5% cumulative non-voting preferred stock. The remaining 125 shares of preferred stock (the "noncontrolling preferred stock") may be redeemed by us at any time, subject to procedural requirements, at a redemption price equal to \$1,000 per share, or an aggregate price of \$125,000, plus any dividends thereon that have accrued but have not been repaid at the time of such redemption (the "redemption price"). The noncontrolling preferred stock is entitled to a liquidation preference that is equal to the redemption price noted above. The noncontrolling preferred stock has been classified as noncontrolling interests in our consolidated balance sheets and has a balance equal to its liquidation preference.

2013 Incentive Award Plan

In July 2013, we established the Rexford Industrial Realty, Inc. and Rexford Industrial Realty, L.P. 2013 Incentive Award Plan (the "Plan"), pursuant to which we may make grants of stock options, restricted stock, dividend equivalents, stock payments, restricted stock units, performance shares, LTIP units of partnership interest in our Operating Partnership ("LTIP units"), performance units in our Operating Partnership ("Performance Units"), and other stock based and cash awards to our non-employee directors, employees and consultants. The aggregate number of shares of our common stock, LTIP units and Performance Units that may be issued or transferred pursuant to the Plan is 2,272,689 shares (of which 1,244,157 shares of common stock, LTIP Units and Performance Units remain available for issuance as of June 30, 2016).

Shares of our restricted common stock generally may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent or the administrator of the Plan, a domestic relations order, unless and until all restrictions applicable to such shares have lapsed. Such restrictions generally expire upon vesting. Shares of our restricted common stock are participating securities and have full voting rights and nonforfeitable rights to dividends.

LTIP units and Performance Units are each a class of limited partnership units in the Operating Partnership. Initially, LTIP units and performance units do not have full parity with OP Units with respect to liquidating distributions. However, upon the occurrence of certain events described in the Operating Partnership's partnership agreement, the LTIP units and Performance Units can over time achieve full parity with the common units for all purposes. If such parity is reached, vested LTIP units and Performance Units may be converted into an equal number of OP Units, and, upon conversion, enjoy all rights of OP Units. LTIP Units, whether vested or not, receive the same quarterly per-unit distributions as OP Units, which equal the per-share distributions on shares of our common stock. Performance Units that have not vested receive a quarterly per-unit distribution equal to 10% of the distributions paid on OP Units.

The following table sets forth our share-based award activity for the six months ended June 30, 2016:

	Unvested Awards		
	Restricted Common Stock	LTIP Units	Performance Units
Balance at January 1, 2016	333,441	166,669	315,998
Granted	92,216	—	—
Forfeited	(20,566)	—	—
Vested ⁽¹⁾	(48,842)	—	—
Balance at June 30, 2016	356,249	166,669	315,998

During the six months ended June 30, 2016, 11,681 shares of the Company's common stock were tendered in accordance with the terms of the Plan to satisfy minimum tax withholding requirements related to the shares of restricted common stock that have vested. We accept the return of shares at the current quoted closing share price of the Company's common stock on the NYSE to satisfy tax obligations.

The following table sets forth the vesting schedule of all unvested share-based awards outstanding as of June 30, 2016:

	Unvested Awards		
	Restricted Common Stock	LTIP Units	Performance Units ⁽¹⁾
July 1, 2016 - December 31, 2016	76,508	41,668	—
2017	165,045	41,666	—
2018	58,483	41,668	315,998
2019	37,178	41,667	—
2020	19,035	—	—
Total	356,249	166,669	315,998

Represents the maximum number of Performance Units that would be earned in the event that specified maximum total shareholder return ("TSR") goals are achieved over the three-year performance period from December 15, 2015 through December 14, 2018 (the "performance period"). The number of Performance Unit awards that ultimately vest will be based on both the Company's absolute TSR and TSR performance relative to a peer group over the performance period. The maximum number of Performance Units will be earned under the awards if the Company both (i) achieves 50% or higher absolute TSR, inclusive of all dividends paid, over the performance period and (ii) finishes in the 75th or greater percentile of the peer group for TSR over the performance period.

The following table sets forth the amounts expensed and capitalized for all share-based awards for the reported periods presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expensed share-based compensation ⁽¹⁾	\$954	\$466	\$1,887	\$815
Capitalized share-based compensation ⁽²⁾	41	30	74	49
Total share-based compensation	\$995	\$496	\$1,961	\$864

⁽¹⁾ Amounts expensed are included in "General and administrative" and "Property expenses" in the accompanying consolidated statements of operations.

⁽²⁾

Amounts capitalized, which relate to employees who provide construction and leasing services, and are included in “Building and improvements” and “Deferred leasing costs, net” in the consolidated balance sheets.

As of June 30, 2016, there was \$7.3 million of total unrecognized compensation expense related to all unvested share-based awards expected to vest, of which we estimate \$0.4 million will be capitalized for employees who provide leasing and construction services. As of June 30, 2016, this total unrecognized compensation expense is expected to be recognized over a weighted average remaining period of 28 months.

Changes in Accumulated Other Comprehensive Loss

The following table summarizes the changes in our accumulated other comprehensive loss balance for the six months ended June 30, 2016, which consists solely of adjustments related to our cash flow hedges (in thousands):

	Accumulated Other Comprehensive Loss
Balance at January 1, 2016	\$ (3,033)
Other comprehensive loss before reclassifications	(5,501)
Amounts reclassified from accumulated other comprehensive loss to interest expense	1,094
Net current period other comprehensive loss	(4,407)
Less other comprehensive loss attributable to noncontrolling interests	112
Other comprehensive loss attributable to common stockholders	(4,295)
Balance at June 30, 2016	\$ (7,328)

13. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net income	\$12,792	\$ 196	\$14,269	\$ 277
Less: Net income attributable to noncontrolling interests	(418)	(8)	(470)	(12)
Less: Net income attributable to participating securities	(75)	(49)	(153)	(99)
Net income attributable to common stockholders	\$12,299	\$ 139	\$13,646	\$ 166
Denominator:				
Weighted average shares of common stock outstanding – basic	64,063,337	64,963,093	59,666,468	62,835,132
Effect of dilutive securities - performance units	241,376	—	194,363	—
Weighted average shares of common stock outstanding – diluted	64,304,713	64,963,093	59,860,831	62,835,132
Earnings per share — Basic				
Net income attributable to common stockholders	\$0.19	\$ —	\$0.23	\$ —
Earnings per share — Diluted				
Net income attributable to common stockholders	\$0.19	\$ —	\$0.23	\$ —

Unvested share-based payment awards that contain non-forfeitable rights to dividends, whether paid or unpaid, are accounted for as participating securities. As such, unvested shares of restricted stock, unvested LTIP Units and unvested Performance Units are considered participating securities. Participating securities are included in the computation of basic EPS

pursuant to the two-class method. The two-class method determines EPS for each class of common stock and each participating security according to dividends declared (or accumulated) and their respective participation rights in undistributed earnings. Participating securities are also included in the computation of diluted EPS using the more dilutive of the two-class method or treasury stock method for unvested shares of restricted stock and LTIP Units, and by determining if certain conditions have been met at the reporting date for unvested Performance Units.

The effect of including unvested shares of restricted stock and unvested LTIP Units using the treasury stock method was excluded from our calculation of weighted average shares of common stock outstanding – diluted, as their inclusion would have been anti-dilutive.

Performance units, which are subject to vesting based on the Company outperforming certain absolute and relative TSR, are only included in the calculation of diluted EPS when any of the specific levels of TSR have been achieved as of the end of the applicable reporting period and their effect would have been dilutive. As of June 30, 2016, the Company's TSR performance relative to a peer group was above the 75th percentile, or maximum level, and the Company's absolute TSR was approximately 36%, which is between the threshold and target levels. The corresponding number of dilutive securities have been included in the computation of the weighted average diluted shares above.

In addition, as the effect of the conversion of OP Units into shares of our common stock is neither dilutive nor anti-dilutive, it has been excluded from our calculation of weighted average shares of common stock outstanding - diluted.

14. Subsequent Events

On July 1, 2016, we closed on a loan with an unrelated third party (the "Borrower"), in which we loaned \$6.0 million that bears interest at 10.0% per annum. The note is collateralized by a 64,965 rentable square foot industrial property located in Rancho Cucamonga, California and matures on June 30, 2017, with one additional six-month extension option available. The Borrower has the option to voluntarily prepay any amounts outstanding under the loan at any time, in whole or in part, subject to certain notice requirements, provided that the minimum interest payment due to the Company shall be six months of interest, notwithstanding the date of such prepayment.

As described in Note 11, as of June 30, 2016, we hold a 15% equity interest in the JV that indirectly owns the property located at 3233 Mission Oaks Boulevard in Ventura County. On July 6, 2016, we acquired the remaining 85% interest in the property from the JV for a gross purchase price of \$21.8 million. The acquisition was partially funded through a 1031 Exchange using the \$18.0 million of net cash proceeds from the sale of our properties located at 1840 Dana Street and 12910 East Mulberry Drive and available cash on hand.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and the related notes thereto that appear in Part I, Item 1 “Financial Statements” of this Quarterly Report on Form 10-Q. The terms “Company,” “we,” “us,” and “our” refer to Rexford Industrial Realty, Inc. and its consolidated subsidiaries except where the context otherwise requires.

Forward-Looking Statements

We make statements in this quarterly report that are forward-looking statements, which are usually identified by the use of words such as “anticipates,” “believes,” “expects,” “intends,” “may,” “might,” “plans,” “estimates,” “projects,” “seeks,” “result” and variations of such words or similar expressions. Our forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by our forward-looking statements are reasonable, we can give no assurance that our plans, intentions, expectations, strategies or prospects will be attained or achieved and you should not place undue reliance on these forward-looking statements. Furthermore, actual results may differ materially from those described in the forward-looking statements and may be affected by a variety of risks and factors including, without limitation:

- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;
- decreased rental rates or increasing vacancy rates;
- potential defaults on or non-renewal of leases by tenants;
- potential bankruptcy or insolvency of tenants;
- acquisition risks, including failure of such acquisitions to perform in accordance with expectations;
- the timing of acquisitions and dispositions;
- potential natural disasters such as earthquakes, wildfires or floods;
- the consequence of any future security alerts and/or terrorist attacks;
- national, international, regional and local economic conditions;
- the general level of interest rates;
- potential changes in the law or governmental regulations that affect us and interpretations of those laws and regulations, including changes in real estate and zoning or real estate investment trust (“REIT”) tax laws, and potential increases in real property tax rates;
- financing risks, including the risks that our cash flows from operations may be insufficient to meet required payments of principal and interest and we may be unable to refinance our existing debt upon maturity or obtain new financing on attractive terms or at all;
- lack of or insufficient amounts of insurance;
- our failure to complete acquisitions;
- our failure to successfully integrate acquired properties;
- our ability to qualify and maintain our qualification as a REIT;
- our ability to maintain our current investment grade rating by Fitch;
- litigation, including costs associated with prosecuting or defending pending or threatened claims and any adverse outcomes; and
- possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should

review carefully our financial statements and the notes thereto, as well as the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

Company Overview

Rexford Industrial Realty, Inc. is a self-administered and self-managed full-service REIT focused on owning and operating industrial properties in Southern California infill markets. We were formed as a Maryland corporation on January 18, 2013, and Rexford Industrial Realty, L.P. (the “Operating Partnership”), of which we are the sole general partner, was formed as a Maryland limited partnership on January 18, 2013. Through our controlling interest in our Operating Partnership and its subsidiaries, we own, manage, lease, acquire and develop industrial real estate located in Southern California infill markets, and from time to time, acquire or provide mortgage debt secured by industrial property. We are organized and conduct our operations to qualify as a REIT under the Internal Revenue Code of 1986, as amended, and generally are not subject to federal taxes on our income to the extent we distribute our income to our shareholders and maintain our qualification as a REIT.

As of June 30, 2016, our consolidated portfolio consisted of 130 properties with approximately 13.6 million rentable square feet. We also own a 15% interest in a joint venture (the “JV”) that indirectly owns one property located in Ventura County with approximately 0.5 million rentable square feet, which we also manage. In addition, we currently manage an additional 19 properties with approximately 1.2 million rentable square feet.

Our goal is to generate attractive risk-adjusted returns for our stockholders by providing superior access to industrial property investments and mortgage debt secured by industrial property in Southern California infill markets. Our target markets provide us with opportunities to acquire both stabilized properties generating favorable cash flow, as well as properties where we can enhance returns through value-add renovations and redevelopment. Scarcity of available space and high barriers limiting new construction all contribute to create superior long-term supply/demand fundamentals within our target infill Southern California industrial property markets. With our vertically integrated platform and extensive value-add investment and management capabilities, we believe we are in a position to take advantage of the opportunities in our markets to achieve our objectives.

2016 Year to Date Highlights

Acquisitions

In March 2016, we acquired two properties with a combined 193,686 rentable square feet, for a total gross purchase price of \$24.5 million.

In April 2016, we acquired a private REIT comprising a portfolio of nine industrial properties totaling approximately 4.53 million rentable square feet for a gross purchase price of \$191.0 million. The properties, which are 100% occupied by twelve tenants, are located in four of our core infill Southern California markets.

During the second quarter of 2016, we also acquired two additional properties located in Los Angeles with a combined 142,453 rentable square feet, for a total gross purchase price of \$15.2 million.

Dispositions

During the second quarter of 2016, we completed the sale of three of our properties with a combined 183,111 rentable square feet, for a total gross sales price of \$21.7 million. The net cash proceeds, which totaled \$20.4 million, were reinvested as part of two separate 1031 Exchange transactions.

Equity

In April 2016, we completed a public follow-on offering of 10,350,000 shares of our common stock, including the underwriters exercise in full of its option to purchase 1,350,000 shares of our common stock, at an offering price of \$17.65 per share, for net proceeds of approximately \$174.4 million after deducting the underwriting discount and offering costs.

Financing

In January 2016, we closed on a seven-year \$125 million unsecured term loan facility that will mature in January 2023. The term loan facility bears interest at LIBOR plus an applicable Eurodollar rate margin that will range from 1.50% to 2.25% per annum depending on our leverage ratio.

In February 2016, we executed a forward interest swap that will effectively fix the \$125 million unsecured term loan facility at 1.349% plus an applicable margin from February 14, 2018, to January 14, 2022.

In April 2016, we exercised the accordion that was available to us under the \$125 million unsecured term loan facility and established a new incremental term loan in an aggregate principal amount of \$100.0 million.

In May 2016, we executed a forward interest swap that will effectively fix the incremental \$100 million term loan at 1.406% plus an applicable margin from August 14, 2018, to January 14, 2022.

Factors That May Influence Future Results of Operations

Market Fundamentals

Our operating results depend upon the infill Southern California industrial real estate market.

The infill Southern California industrial real estate sector has continued to exhibit strong fundamentals. Available industrial supply continues to decrease in many of our submarkets, landlord concessions are reducing, and construction deliveries are falling short of demand. Even with concerns about global growth and the threat of rising interest rates, we are seeing a number of positive trends in some of our key markets that we expect will continue through the remainder of 2016.

In Los Angeles County, positive market trends continued into the second quarter of 2016 as market occupancy reached historic highs and asking rents increased quarter-over-quarter. We continue to see positive net absorption as construction deliveries continue to lag behind absorption, which we expect will cause further tightness in the market and drive upward pressure on leasing rates and occupancy.

In Orange County, vacancy continued to decline and rents continued their upward trend in the second quarter of 2016. We expect that the low availability of industrial product in this region will also cause leasing rates to continue to improve through the remainder of 2016.

In San Diego, the market fundamentals continued to be strong during the second quarter of 2016 as asking rates increased quarter over quarter. Overall vacancy in the market increased slightly, however this was due to the continued delivery of new construction which continues to be well absorbed as the market recorded another quarter of positive net absorption.

In Ventura County, there were significant improvements during the second quarter as vacancy decreased and asking rates increased quarter-over-quarter.

Lastly, in the Inland Empire, new industrial product continues to be absorbed well in the market. In the Inland Empire West, which contains the infill markets in which we significantly operate, vacancy decreased during the second quarter and asking lease rates increased quarter-over-quarter. We generally do not focus on properties located within the Inland Empire East sub-market.

Acquisitions and Development of Properties

A key component of our growth strategy is to acquire properties through off-market and lightly marketed transactions that are often operating at below-market occupancy or below-market rent at the time of acquisition or that have near-term lease roll-over or that provide opportunities to add-value through functional or physical repositioning and improvements. Through various redevelopment, repositioning, and professional leasing and marketing strategies, we seek to increase the properties' functionality and attractiveness to prospective tenants and, over time, to stabilize the properties at occupancy rates that meet or exceed market rates.

A repositioning can consist of a range of improvements to a property. This may include a complete structural renovation of a property whereby we convert large underutilized spaces into a series of smaller and more functional spaces, or it may include the creation of additional square footage, the modernization of the property site, the elimination of functional obsolescence, the addition or enhancement of loading areas and truck access, or other accretive improvements. Because each repositioning effort is unique and determined based on the property, targeted tenants and overall trends in the general market and specific submarket, the timing and effect of the repositioning on our rental revenue and occupancy levels will vary, and as a result will affect the comparison of our results of operations from period to period with limited predictability.

As of June 30, 2016, seven of our properties were in various stages of redevelopment and repositioning and three of our properties were in the lease-up stage. The table below sets forth a summary of these 10 properties:

Property (Submarket)	Market	Total Rentable Square Feet	Vacant Rentable Square Feet Under Repositioning/Lease-up	Estimated Construction Period ⁽¹⁾		Occupancy at 6/30/16
				Start	Completion	
Current Repositioning:						
1601 Alton Pkwy. (OC Airport)	OC	124,000	74,667	4Q-2014	3Q-2016	39.8%
24105 Frampton Ave. (South Bay)	LA	49,841	49,841	2Q-2015	3Q-2016	—%
9615 Norwalk Blvd. (Mid-Counties)	LA	38,362	38,362	3Q-2015	2Q-2018	—%
12247 Lakeland Rd. (Mid-Counties)	LA	24,875	24,875	1Q-2016	3Q-2016	—%
679-691 S. Anderson St. (Central LA)	LA	47,490	47,490	1Q-2016	3Q-2016	—%
2535 Midway Drive (Central SD)	SD	373,744	373,744	4Q-2015	1Q-2018	—%
228th Street (South Bay) ⁽²⁾	LA	88,580	23,093	1Q-2016	3Q-2016	66.9%
Total		746,892	632,072			
Completed Repositioning/Lease-up Stage:						
2610 & 2701 S. Birch St. (OC Airport)	OC	98,230	83,703	2Q-2015	4Q-2015	14.8%
9401 De Soto Ave. (SF Valley)	LA	150,263	150,263	2Q-2015	1Q-2016	—%
15140 & 15148 Bledsoe St. (SF Valley)	LA	133,356	39,670	1Q-2015	2Q-2016	70.3%
Total		381,849	273,636			
Total Current Repositioning and Lease-up Stage:		1,128,741	905,708			

(1) The estimated construction completion period is subject to change as a result of a number of factors including but not limited to permit requirements, delays in construction, changes in scope, and other unforeseen circumstances.

(2) The property located at 228th Street includes eight buildings, of which three buildings aggregating 23,093 rentable square feet were under repositioning as of June 30, 2016.

Properties that are nonoperational as a result of repositioning or redevelopment activity may qualify for varying levels of interest, insurance and real estate tax capitalization during the development and construction period. An increase in our repositioning and development activities resulting from value-add acquisitions could cause an increase in the asset balances qualifying for interest and tax capitalization in future periods. We capitalized \$0.7 million and \$1.3 million of interest, insurance and real estate tax expense during the three and six months ended June 30, 2016, respectively.

Rental Revenues

Our operating results depend primarily upon generating rental revenue from the properties in our consolidated portfolio. The amount of rental revenue generated by these properties depends primarily on our ability to maintain or increase occupancy levels and lease rates at our properties, which will depend upon our ability to lease vacant space and re-lease expiring space at favorable rates.

Occupancy Rates

As of June 30, 2016, our consolidated portfolio was approximately 90.1% occupied. We believe the opportunity to increase occupancy at our properties will be a significant driver of future revenue growth. A considerable opportunity to drive this growth will be the results of our repositioning activity. As noted above, our operating results and statistics are affected by our repositioning efforts, which will vary from quarter to quarter.

As summarized in the table above, as of June 30, 2016, 10 of our properties with a combined 0.9 million vacant rentable square feet, were in various stages of redevelopment, repositioning or lease-up. Repositioning space and lease-up space at these 10 properties are concentrated in our Los Angeles, Orange County and San Diego markets, and represent 6.6% of our total consolidated portfolio square footage as of June 30, 2016. Including repositioning space and lease-up space at these 10 properties, our weighted average occupancy rate as of June 30, 2016, in Los Angeles, Orange County and San Diego was 90.6%, 91.8% and 79.9%, respectively. Excluding repositioning space and lease-up space at these 10 properties, our weighted average occupancy rate as of June 30, 2016, in these markets was 96.1%, 98.9% and 97.3%, respectively, and our overall consolidated portfolio occupancy excluding this space was 96.5%. We believe that a significant portion of our long-term future growth will come from the completion of these projects currently under repositioning as well as from the identification of new opportunities for redevelopment and repositioning, subject to market conditions.

Leasing Activity and Rental Rates

The following tables sets forth our leasing activity for new and renewal leases on a quarterly basis for the six months ended June 30, 2016:

Quarter	New Leases								
	Number of Leases	Rentable Square Feet	Weighted Average Lease Term (in years)	Effective Rent Per Square Foot ⁽¹⁾	GAAP Leasing Spreads ⁽²⁾⁽⁴⁾		Cash Leasing Spreads ⁽³⁾⁽⁴⁾		
Q1-2016	46	248,520	4.6	\$ 10.77	28.8	%	15.0	%	
Q2-2016	65	476,858	4.1	9.52	29.1	%	14.8	%	
Total/Weighted Average	111	725,378	4.3	\$ 9.95	29.0	%	14.9	%	

Quarter	Renewals									Expiring Leases	Retention %
	Number of Leases	Rentable Square Feet	Weighted Average Lease Term (in years)	Effective Rent Per Square Foot ⁽¹⁾	GAAP Leasing Spreads ⁽²⁾⁽⁵⁾		Cash Leasing Spreads ⁽³⁾⁽⁵⁾		Number of Leases	Rentable Square Feet	Rentable Square Feet
Q1-2016	80	712,771	3.0	\$ 9.01	11.7	%	4.4	%	130	1,071,075	66.5 %
Q2-2016	78	598,301	4.7	9.99	20.7	%	9.0	%	129	936,655	63.9 %
Total/Weighted Average	158	1,311,072	3.8	\$ 9.46	15.8	%	6.5	%	259	2,007,730	65.3 %

(1) Effective rent per square foot is the average base rent calculated in accordance with GAAP, over the term of the lease, expressed in dollars per square foot per year.

(2) Calculated as the change between GAAP rents for new or renewal leases and the expiring GAAP rents on the expiring leases for the same space.

(3) Calculated as the change between cash rents for new or renewal leases and the expiring cash rents on the expiring leases for the same space.

The GAAP and cash re-leasing spreads for new leases executed during the six months ended June 30, 2016 exclude 43 leases aggregating 369,870 rentable square feet for which space was vacant when the property was acquired or

(4) there was no comparable lease data. Comparable leases generally exclude: (i) space under repositioning, (ii) space that has been vacant for over one year, (iii) space with different lease structures (for example a change from a gross lease to a modified gross lease or a change in the leased square footage) or (iv) lease terms shorter than six months.

The GAAP and cash re-leasing rent spreads for renewal leases executed during the six months ended June 30, 2016 (5) exclude 25 leases aggregating 182,840 rentable square feet for which there was no comparable lease data due to either (i) space with different lease structures or (ii) lease terms shorter than six months.

Our leasing activity is impacted both by our redevelopment and repositioning efforts, as well as by market conditions. While we reposition a property, its space may become unavailable for leasing until completion of our repositioning efforts. During the six months ended June 30, 2016, we completed repositioning at two of our properties located at 9401 De Soto Avenue and 15140 & 15148 Bledsoe Street, and at the end of 2015, we completed repositioning at our property located at 2610 & 2701 S. Birch Street. As of June 30, 2016, these properties are in the lease-up stage. We also have five repositioning properties located at 24105 Frampton Avenue, 679-691 S. Anderson Street, 1601 Alton Parkway, 12247 Lakeland Road and 228th Street, with construction completion periods estimated for the third quarter of 2016, and an additional two repositioning properties with construction completion periods estimated for early 2018. We expect these properties to have positive impacts on our leasing activity and revenue generation as we complete our value-add repositioning plan and place these properties in service.

Scheduled Lease Expirations

Our ability to re-lease space subject to expiring leases is affected by economic and competitive conditions in our markets and by the relative desirability of our individual properties, which may impact our results. The following table sets forth a summary schedule of lease expirations for leases in place as of June 30, 2016, plus available space, for each of the 10 full and partial calendar years beginning with 2016 and thereafter:

Year of Lease Expiration	Number of Leases Expiring	Total Rentable Square Feet ⁽¹⁾	Percentage of Total Owned Square Feet	Annualized Base Rent ⁽²⁾	Percentage of Total Annualized Base Rent ⁽³⁾	Annualized Base Rent per Square Foot ⁽⁴⁾
Available	—	1,320,630	9.7 %	—	— %	—
MTM Tenants ⁽⁵⁾	98	155,044	1.1 %	\$ 2,578	2.4 %	\$ 16.63
Remainder of 2016	227	1,434,417	10.5 %	\$ 12,064	11.1 %	\$ 8.41
2017	382	2,330,082	17.1 %	\$ 20,591	18.9 %	\$ 8.84
2018	285	1,582,504	11.6 %	\$ 15,012	13.8 %	\$ 9.49
2019	150	1,619,727	11.9 %	\$ 13,831	12.7 %	\$ 8.54
2020	59	1,481,864	10.9 %	\$ 12,425	11.4 %	\$ 8.38
2021	63	1,908,303	14.0 %	\$ 16,290	15.0 %	\$ 8.54
2022	10	377,542	2.8 %	\$ 2,440	2.2 %	\$ 6.46
2023	9	251,599	1.8 %	\$ 2,952	2.7 %	\$ 11.73
2024	6	491,018	3.6 %	\$ 3,827	3.5 %	\$ 7.79
2025	4	260,467	1.9 %	\$ 2,477	2.3 %	\$ 9.51
Thereafter	6	427,623	3.1 %	\$ 4,413	4.0 %	\$ 10.32
Total Consolidated Portfolio	1,299	13,640,820	100.0 %	\$ 108,900	100.0 %	\$ 8.84

(1) Represents the contracted square footage upon expiration.

(2) Calculated as monthly contracted base rent (in thousands) per the terms of such lease, as of June 30, 2016, multiplied by 12. Excludes billboard and antenna revenue and rent abatements.

(3) Calculated as annualized base rent set forth in this table divided by annualized base rent for the total portfolio as of June 30, 2016.

(4) Calculated as annualized base rent for such leases divided by the leased square feet for such leases as of June 30, 2016.

(5)

Represents tenants under month-to-month (“MTM”) leases or having holdover tenancy. Includes 61 MTM leases at our property located at 14723-14825 Oxnard Street, where due to number and the small size of spaces, we typically only enter into MTM leases.

As of June 30, 2016, in addition to 1.3 million rentable square feet of currently available space in our properties, leases representing 10.5% and 17.1% of the aggregate rentable square footage of our portfolio are scheduled to expire during the remainder of 2016 and 2017, respectively. During the six months ended June 30, 2016, we renewed 158 leases, which represented 65.3% of the aggregate rentable square footage under all expiring leases. Our retention rate during the period was impacted by our strategy to roll certain tenants at recessionary rents and to replace them with higher quality tenants paying higher rents. During the six months ended June 30, 2016, new and renewal leases had a weighted average term of 4.3 and 3.8 years, respectively, and we expect future new and renewal leases to have similar terms.

The leases scheduled to expire during the remainder of 2016 and 2017 represent approximately 11.1% and 18.9% respectively, of the total annualized base rent for our portfolio as of June 30, 2016. We estimate that, on a weighted average basis, in-place rents of leases scheduled to expire during the remainder of 2016 and 2017 are currently below current market asking rents, although individual units or properties within any particular submarket presently may be leased either above, below, or at the current market asking rates within that submarket. Over the last few years, rental rates for comparable product in our submarkets have generally been rising. This positive trend offers a favorable environment for additional increases in lease renewal rates. Accordingly, we expect the remainder of 2016 to be favorable with positive renewal rates and leasing spreads. We also expect 2017 lease expirations will show positive growth; however, it is difficult to predict market conditions that far into the future.

Property Expenses

Our property expenses generally consist of utilities, real estate taxes, insurance, site repair and maintenance costs, and the allocation of overhead costs. For the majority of our properties, our property expenses are recovered, in part, by either the triple net provisions or modified gross expense reimbursements in tenant leases. However, the terms of our leases vary, and in some instances, we may absorb property expenses. Our overall financial results will be impacted by the extent to which we are able to pass-through property expenses to our tenants.

Taxable REIT Subsidiary

As of June 30, 2016, our Operating Partnership indirectly and wholly owns Rexford Industrial Realty and Management, Inc., which we refer to as the services company. We have elected, together with our services company, to treat our services company as a taxable REIT subsidiary for federal income tax purposes. A taxable REIT subsidiary generally may provide non-customary and other services to our tenants and engage in activities that we may not engage in directly without adversely affecting our qualification as a REIT, provided a taxable REIT subsidiary may not operate or manage a lodging facility or health care facility or provide rights to any brand name under which any lodging facility or health care facility is operated. We may form additional taxable REIT subsidiaries in the future, and our Operating Partnership may contribute some or all of its interests in certain wholly owned subsidiaries or their assets to our services company. Any income earned by our taxable REIT subsidiaries will not be included in our taxable income for purposes of the 75% or 95% gross income tests, except to the extent such income is distributed to us as a dividend, in which case such dividend income will qualify under the 95%, but not the 75%, gross income test. Because a taxable REIT subsidiary is subject to federal income tax, and state and local income tax (where applicable) as a regular corporation, the income earned by our taxable REIT subsidiaries generally will be subject to an additional level of tax as compared to the income earned by our other subsidiaries. Our taxable REIT subsidiary is a C-corporation subject to federal and state income tax, however it has a cumulative unrecognized net operation loss carryforward and therefore there is no income tax provision for the three and six months ended June 30, 2016 and 2015.

Critical Accounting Policies

In our 2015 Annual Report on Form 10-K, we identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not made any material changes to our critical accounting policies during the period covered by this report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions in certain circumstances that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting periods. Actual amounts may

differ from these estimates and assumptions. Management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions that it believes are reasonable as of the date hereof. In addition, other companies in similar businesses may use different estimation policies and methodologies, which may affect the comparability of our results of operations and financial condition to those of other companies. See Note 2 to our consolidated financial statements for a discussion of our accounting policies.

Results of Operations

Our consolidated results of operations are often not comparable from period to period due to the effect of property acquisitions and dispositions completed during the comparative reporting periods. Our “Total Portfolio” represents all of the properties owned during the reported periods. To eliminate the effect of changes in our Total Portfolio due to acquisitions and dispositions and to highlight the operating results of our on-going business, we have separately presented the results of our “Same Properties Portfolio.”

For the three and six months ended June 30, 2016 and 2015, our Same Properties Portfolio includes all properties in our industrial portfolio that were wholly-owned by us as of January 1, 2015, and still owned by us as of June 30, 2016, which consisted of 96 properties aggregating approximately 9.6 million rentable square feet. Results for our Same Properties Portfolio exclude our joint venture property, any properties that were acquired or sold during the period from January 1, 2015, through June 30, 2016, interest income from our note receivable, interest expense and corporate general and administrative expenses. In addition to the properties included in our Same Properties Portfolio, our Total Portfolio includes the 34 properties aggregating approximately 4.0 million rentable square feet that were purchased between January 1, 2015, and June 30, 2016, and the three properties aggregating 183,111 rentable square feet that were sold between January 1, 2015, and June 30, 2016. As of June 30, 2016, our Total Portfolio consisted of 130 properties aggregating approximately 13.6 million rentable square feet.

As of June 30, 2016 and 2015, our Same Properties Portfolio occupancy was approximately 92.5% and 89.0%, respectively. For the three months ended June 30, 2016 and 2015, our Same Properties Portfolio weighted average occupancy was approximately 92.1% and 89.8%, respectively. For the six months ended June 30, 2016 and 2015, our Same Properties Portfolio weighted average occupancy was approximately 92.4% and 90.1%, respectively.

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Comparison of the Three Months Ended June 30, 2016 to the Three Months Ended June 30, 2015

The following table summarizes the historical results of operations for our Same Properties Portfolio and Total Portfolio for the three months ended June 30, 2016 and 2015 (dollars in thousands):

	Same Properties Portfolio				Total Portfolio				
	Three Months Ended June 30,		Increase/(Decrease)	% Change	Three Months Ended June 30,		Increase/(Decrease)	% Change	
2016	2015	2016			2015				
RENTAL REVENUES									
Rental income	\$ 19,230	\$ 17,891	\$ 1,339	7.5 %	\$ 26,119	\$ 19,275	\$ 6,844	35.5 %	
Tenant reimbursements	2,558	2,818	(260)	(9.2)%	4,119	2,844	1,275	44.8 %	
Other income	178	143	35	24.5 %	259	162	97	59.9 %	
TOTAL RENTAL REVENUES	21,966	20,852	1,114	5.3 %	30,497	22,281	8,216	36.9 %	
Management, leasing and development services	—	—	—	— %	111	161	(50)	(31.1)%	
Interest income	—	—	—	— %	—	280	(280)	(100.0)%	
TOTAL REVENUES	21,966	20,852	1,114	5.3 %	30,608	22,722	7,886	34.7 %	
EXPENSES									
Property expenses	5,695	5,638	57	1.0 %	7,959	5,874	2,085	35.5 %	
General and administrative	—	—	—	— %	4,521	3,740	781	20.9 %	
Depreciation and amortization	8,609	9,624	(1,015)	(10.5)%	12,610	10,490	2,120	20.2 %	
TOTAL OPERATING EXPENSES	14,304	15,262	(958)	(6.3)%	25,090	20,104	4,986	24.8 %	
OTHER EXPENSES									
Acquisition expenses	—	—	—	— %	635	847	(212)	(25.0)%	
Interest expense	—	—	—	— %	3,716	1,658	2,058	124.1 %	
TOTAL OTHER EXPENSES	—	—	—	— %	4,351	2,505	1,846	73.7 %	
TOTAL EXPENSES	14,304	15,262	(958)	(6.3)%	29,441	22,609	6,832	30.2 %	
Equity in income from unconsolidated real estate entities	—	—	—		62	12	50		
Gain on extinguishment of debt	—	—	—		—	71	(71)		
Gains on sale of real estate	—	—	—		11,563	—	11,563		
NET INCOME	\$ 7,662	\$ 5,590	\$ 2,072		\$ 12,792	\$ 196	\$ 12,596		

Rental Income

Our Same Properties Portfolio and Total Portfolio rental revenue increased \$1.3 million, or 7.5%, and \$6.8 million, or 35.5%, respectively, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015. The increase in our Same Properties Portfolio is primarily due to the increase in our average occupancy for comparable periods and the increase in average rental rates on new and renewal leases. Our Total Portfolio rental revenue was also positively impacted by the incremental revenues from the 34 properties we acquired between January 1, 2015, and June 30, 2016.

Tenant Reimbursements

Our Same Properties Portfolio and Total Portfolio tenant reimbursements revenue decreased \$0.3 million, or 9.2%, and increased \$1.3 million, or 44.8%, respectively, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015. The decrease in our Same Properties Portfolio tenant reimbursements is primarily

due to lower income from prior period reconciliations and a decrease in real estate taxes resulting from supplemental assessments of certain of our properties, partially offset by an increase in tenant reimbursements due to the increase in occupancy for comparable periods.

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Our Total Portfolio tenant reimbursements revenue was also impacted by the incremental reimbursements from the 34 properties we acquired between January 1, 2015 and June 30, 2016.

Other Income

Our Same Properties Portfolio and Total Portfolio other income increased \$35 thousand, or 24.5%, and increased \$0.1 million, or 59.9%, respectively, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily due to an increase in late fee income.

Management, Leasing and Development Services

Our Total Portfolio management, leasing and development services revenue decreased by \$0.1 million, or 31.1%, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily due to decreased management fee and leasing commission revenue from the 19 properties we manage.

Interest Income

Our Total Portfolio interest income decreased by \$0.3 million, or 100.0%, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015. On August 21, 2015, the borrower of the mortgage note receivable secured by an industrial property located at 32401-32803 Calle Perfecto, repaid, ahead of schedule the outstanding principal balance in full. The decrease in interest income is a result of this early repayment.

Property Expenses

Our Same Properties Portfolio property expenses increased by \$0.1 million, or 1.0%, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily due to an increase in recoverable real estate tax expense, partially offset by a decrease in overhead costs and repairs and maintenance. Our Total Portfolio property expenses increased \$2.1 million, or 35.5%, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily as a result of incremental expenses from the 34 properties we acquired between January 1, 2015, and June 30, 2016.

General and Administrative

Our Total Portfolio general and administrative expenses increased \$0.8 million, or 20.9%, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015. The increase is primarily due to the following: (i) a \$0.5 million increase in non-cash equity compensation expense related to equity grants made in December 2015, (ii) a \$0.2 million increase in employment related costs primarily due to an increase in headcount and (iii) a \$0.1 million increase in professional service fees.

Depreciation and Amortization

Our Same Properties Portfolio depreciation and amortization expense decreased \$1.0 million, or 10.5%, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily due to acquired lease related intangible assets for several of our properties becoming fully depreciated during the three months ended June 30, 2016, and the year ended December 31, 2015. Our Total Portfolio depreciation and amortization expense increased \$2.1 million, or 20.2%, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily due to incremental expenses from the 34 properties we acquired between January 1, 2015, and June 30, 2016, partially offset by the decrease in our Same Properties Portfolio depreciation and amortization expense noted above.

Acquisition Expenses

Our Total Portfolio acquisition expenses decreased \$0.2 million, or 25.0%, during the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily due to lower brokerage fees related to acquisitions completed during the current period.

Interest Expense

Our Total Portfolio interest expense increased by \$2.1 million, or 124.1%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. This was primarily due to the increase in our average outstanding debt balance for comparable periods and the increase in our weighted average interest rate due to the issuance of \$100.0 million of 4.29% fixed rate senior notes in August 2015, and the three interest rate swaps, with an aggregate notional value of \$130 million, that became effective subsequent to June 30, 2015. The increase was partially offset by an increase in capitalized interest related to our repositioning properties for comparable periods.

Equity in Income from Unconsolidated Real Estate Entities

Equity in income from unconsolidated real estate entities includes our equity interests in the operating results of the property held by our JV and basis adjustments related to this property. Our Total Portfolio equity in income from unconsolidated real estate entities increased by \$0.1 million, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, primarily due to the decrease in property expenses and depreciation and amortization expense of the JV property.

Gain on Extinguishment of Debt

We recognized a gain on extinguishment of debt of \$0.1 million for the three months ended June 30, 2015, as a result of the early repayment of the mortgage loan secured by our property located at 2980-2990 San Fernando Road. The loan was repaid on April 1, 2015 with no prepayment fees incurred.

Gain on Sale of Real Estate

We recognized gains on sale of real estate of \$11.6 million for the three months ended June 30, 2016, as a result of the sale of three of our properties located at 6010 North Paramount Boulevard, 1840 Dana Street and 12910 East Mulberry Drive. See Note 3 to the Consolidated Financial Statements for further information on the gains we recognized.

Comparison of the Six Months Ended June 30, 2016 to the Six Months Ended June 30, 2015

The following table summarizes the historical results of operations for our Same Properties Portfolio and Total Portfolio for the six months ended June 30, 2016 and 2015 (dollars in thousands):

	Same Properties Portfolio				Total Portfolio					
	Six Months Ended June 30,		Increase/ (Decrease)	% Change	Six Months Ended June 30,		Increase/(Decrease)		% Change	
2016	2015	2016			2015	2016	2015			
RENTAL REVENUES										
Rental income	\$38,253	\$35,782	\$2,471	6.9 %	\$49,618	\$37,832	\$11,786	31.2 %		
Tenant reimbursements	5,195	5,008	187	3.7 %	7,677	5,028	2,649	52.7 %		
Other income	352	320	32	10.0 %	572	352	220	62.5 %		
TOTAL RENTAL REVENUES	43,800	41,110	2,690	6.5 %	57,867	43,212	14,655	33.9 %		
Management, leasing and development services	—	—	—	— %	245	293	(48)	(16.4 %)		
Interest income	—	—	—	— %	—	557	(557)	(100.0 %)		
TOTAL REVENUES	43,800	41,110	2,690	6.5 %	58,112	44,062	14,050	31.9 %		
EXPENSES										
Property expenses	11,778	11,261	517	4.6 %	15,502	11,645	3,857	33.1 %		
General and administrative	—	—	—	— %	8,123	7,286	837	11.5 %		
Depreciation and amortization	17,402	19,041	(1,639)	(8.6 %)	23,824	20,374	3,450	16.9 %		
TOTAL OPERATING EXPENSES	29,180	30,302	(1,122)	(3.7 %)	47,449	39,305	8,144	20.7 %		
OTHER EXPENSES										
Acquisition expenses	—	—	—	— %	1,110	1,080	30	2.8 %		
Interest expense	—	—	—	— %	6,970	3,484	3,486	100.1 %		
TOTAL OTHER EXPENSES	—	—	—	— %	8,080	4,564	3,516	77.0 %		
TOTAL EXPENSES	29,180	30,302	(1,122)	(3.7 %)	55,529	43,869	11,660	26.6 %		
Equity in income from unconsolidated real estate entities	—	—	—		123	13	110			
Gain on extinguishment of debt	—	—	—		—	71	(71)			
Gain on sale of real estate	—	—	—		11,563	—	11,563			
NET INCOME	\$14,620	\$10,808	\$3,812		\$14,269	\$277	\$13,992			

Rental Income

Our Same Properties Portfolio and Total Portfolio rental revenue increased \$2.5 million, or 6.9%, and \$11.8 million, or 31.2%, respectively, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increase in our Same Properties Portfolio is primarily due to the increase in our average occupancy for comparable periods and the increase in average rental rates on new and renewal leases. Our Total Portfolio rental revenue was also positively impacted by the incremental revenues from the 34 properties we acquired between January 1, 2015 and June 30, 2016.

Tenant Reimbursements

Our Same Properties Portfolio and Total Portfolio tenant reimbursements revenue increased \$0.2 million, or 3.7%, and increased \$2.6 million, or 52.7%, respectively, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increase in our Same Properties Portfolio tenant reimbursements is primarily due to an increase in occupancy for comparable periods and an increase in real estate taxes resulting from supplemental assessments of certain of our properties, partially offset by lower income from prior period reconciliations. Our Total Portfolio tenant reimbursements

revenue was also impacted by the incremental reimbursements from the 34 properties we acquired between January 1, 2015 and June 30, 2016.

Other Income

Our Same Properties Portfolio and Total Portfolio other income increased \$32 thousand, or 10.0%, and increased \$0.2 million, or 62.5%, respectively, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015, primarily due to an increase in late fee income.

Management, Leasing and Development Services

Our Total Portfolio management, leasing and development services revenue decreased by \$48 thousand, or 16.4%, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015, primarily due to decreased management fee and leasing commission revenue from the 19 properties we manage.

Interest Income

Our Total Portfolio interest income decreased by \$0.6 million, or 100.0%, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015. On August 21, 2015, the borrower of the mortgage note receivable secured by an industrial property located at 32401-32803 Calle Perfecto, repaid, ahead of schedule the outstanding principal balance in full. The decrease in interest income is a result of this early repayment.

Property Expenses

Our Same Properties Portfolio property expenses increased by \$0.5 million, or 4.6%, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015, primarily due to an increase recoverable real estate tax expense and repairs and maintenance. Our Total Portfolio property expenses increased \$3.9 million, or 33.1%, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015, primarily as a result of incremental expenses from the 34 properties we acquired between January 1, 2015, and June 30, 2016.

General and Administrative

Our Total Portfolio general and administrative expenses increased \$0.8 million, or 11.5%, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increase is primarily due to the following: (i) a \$1.1 million increase in non-cash equity compensation expense primarily due to equity grants made in December 2015, (ii) a \$0.4 million increase in employment related costs primarily due to an increase in headcount and (iii) a \$0.3 million increase in professional service fees. These increases were partially offset by a \$1.1 million decrease in legal fees, which includes a \$0.6 million insurance reimbursement of legal fees related to prior litigation received during the six months ended June 30, 2016.

Depreciation and Amortization

Our Same Properties Portfolio depreciation and amortization expense decreased \$1.6 million, or 8.6%, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015, primarily due to acquired lease related intangible assets for several of our properties becoming fully depreciated during the six months ended June 30, 2016 and the year ended December 31, 2015. Our Total Portfolio depreciation and amortization expense increased \$3.5 million, or 16.9%, during the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily due to incremental expenses from the 34 properties we acquired between January 1, 2015, and June 30, 2016.

Acquisition Expenses

Our Total Portfolio acquisition expenses increased \$30 thousand, or 2.8%, during the six months ended June 30, 2016, compared to the six months ended June 30, 2015.

Interest Expense

Our Total Portfolio interest expense increased by \$3.5 million, or 100.1%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. This was primarily due to the increase in our average outstanding debt balance for comparable periods and the increase in our weighted average interest rate due to the issuance of \$100.0 million of 4.29% fixed rate senior notes in August 2015, and the four interest rate swaps, with an aggregate notional value of \$160 million, that were in effect during the six months ended June 30, 2016. The increase was partially offset by an increase in capitalized interest related to our repositioning properties for comparable periods.

Equity in Income from Unconsolidated Real Estate Entities

Equity in income from unconsolidated real estate entities includes our equity interests in the operating results of the property held by our JV and basis adjustments related to this property. Our Total Portfolio equity in income from unconsolidated real estate entities increased by \$0.1 million, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015, primarily due to the decrease in property expenses and depreciation and amortization expense of the JV property.

Gain on Extinguishment of Debt

We recognized a gain on extinguishment of debt of \$0.1 million for the six months ended June 30, 2015 as a result of the early repayment of the mortgage loan secured by our property located at 2980-2990 San Fernando Road. The loan was repaid on April 1, 2015 with no prepayment fees incurred.

Gain on Sale of Real Estate

We recognized gains on sale of real estate of \$11.6 million for the six months ended June 30, 2016 as a result of the sale of three of our properties located at 6010 North Paramount Boulevard, 1840 Dana Street and 12910 East Mulberry Drive. See Note 3 to the Consolidated Financial Statements for further information on the gains we recognized.

Non-GAAP Supplemental Measure: Funds From Operations

We calculate funds from operations (“FFO”) before non-controlling interest in accordance with the standards established by the National Association of Real Estate Investment Trusts (“NAREIT”). FFO represents net income (loss) (computed in accordance with accounting principles generally accepted in the United States (“GAAP”)), excluding gains (or losses) from sales of depreciable operating property, impairment losses, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated joint ventures.

Management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization, gains and losses from property dispositions, and asset impairments, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of performance used by other REITs, FFO may be used by investors as a basis to compare our operating performance with that of other REITs.

However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. Other equity REITs may not calculate or interpret FFO in accordance with the NAREIT definition as we do, and, accordingly, our FFO may not be comparable to such other REITs’ FFO. FFO should not be used as a measure of our liquidity, and is not indicative of funds available for our cash needs, including our ability to pay dividends.

The following table sets forth a reconciliation of net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, to FFO (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Net income	\$12,792	\$196	\$14,269	\$277
Add:				
Depreciation and amortization	12,610	10,490	23,824	20,374
Depreciation and amortization from unconsolidated joint venture ⁽¹⁾	5	20	10	48
Deduct:				
Gains on sale of real estate	11,563	—	11,563	—
Funds from operations	\$13,844	\$10,706	\$26,540	\$20,699

(1) Amount represents our 15% ownership of the Mission Oaks unconsolidated joint venture.

Non-GAAP Supplemental Measure: NOI and Cash NOI

Net operating income (“NOI”) includes the revenue and expense directly attributable to our real estate properties calculated in accordance with GAAP. NOI is calculated as total revenue from real estate operations including i) rental revenues ii) tenant reimbursements, and iii) other income less property-level operating expenses. We use NOI as a supplemental performance measure because, in excluding real estate depreciation and amortization expense, general and administrative expenses, interest expense, gains (or losses) on sale of real estate and other non-operating items, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that NOI will be useful to investors as a basis to compare our operating performance with that of other REITs. However, because NOI excludes depreciation and amortization expense and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties (all of which have real economic effect and could materially impact our results from operations), the utility of NOI as a measure of our performance is limited. Other equity REITs may not calculate NOI in a similar manner and, accordingly, our NOI may not be comparable to such other REITs’ NOI. Accordingly, NOI should be considered only as a supplement to net income as a measure of our performance. NOI should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs. NOI should not be used as a substitute for cash flow from operating activities in accordance with GAAP.

NOI on a cash-basis (“Cash NOI”) is a non-GAAP measure, which we calculate by adding or subtracting from NOI i) fair value lease revenue and ii) straight-line rent adjustments. We use Cash NOI, together with NOI, as a supplemental performance measure. Cash NOI should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs. Cash NOI should not be used as a substitute for cash flow from operating activities computed in accordance with GAAP.

The following table sets forth the revenue and expense items comprising NOI and the adjustments to calculate Cash NOI (in thousands):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Rental income	\$26,119	\$19,275	\$49,618	\$37,832
Tenant reimbursements	4,119	2,844	7,677	5,028
Other income	259	162	572	352
Total operating revenues	30,497	22,281	57,867	43,212
Property expenses	7,959	5,874	15,502	11,645
Net Operating Income	\$22,538	\$16,407	\$42,365	\$31,567
Fair value lease revenue	60	46	56	85
Straight line rent adjustment	(922)	(612)	(2,017)	(977)
Cash Net Operating Income	\$21,676	\$15,841	\$40,404	\$30,675

The following table sets forth a reconciliation of net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, to NOI and Cash NOI (in thousands):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$12,792	\$196	\$14,269	\$277
Add:				
General and administrative	4,521	3,740	8,123	7,286
Depreciation and amortization	12,610	10,490	23,824	20,374
Acquisitions expense	635	847	1,110	1,080
Interest expense	3,716	1,658	6,970	3,484
Deduct:				
Management, leasing and development services	111	161	245	293
Interest income	—	280	—	557
Equity in income from unconsolidated real estate entities	62	12	123	13
Gain on extinguishment of debt	—	71	—	71
Gains on sale of real estate	11,563	—	11,563	—
Net Operating Income	\$22,538	\$16,407	\$42,365	\$31,567
Fair value lease revenue	60	46	56	85
Straight line rent adjustment	(922)	(612)	(2,017)	(977)
Cash Net Operating Income	\$21,676	\$15,841	\$40,404	\$30,675

Non-GAAP Supplemental Measure: EBITDA

We believe that earnings before interest expense, income taxes, depreciation and amortization (“EBITDA”) is helpful to investors as a supplemental measure of our operating performance as a real estate company because it is a direct measure of the actual operating results of our industrial properties. We also use this measure in ratios to compare our performance to that of our industry peers. However, our industry peers may not calculate EBITDA in the same manner as we do and, accordingly, our EBITDA may not be comparable to our peers’ EBITDA. Accordingly, EBITDA should be considered only as a supplement to net income (loss) as a measure of our performance.

The following table sets forth a reconciliation of net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, to EBITDA (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 12,792	\$ 196	\$ 14,269	\$ 277
Interest expense	3,716	1,658	6,970	3,484
Depreciation and amortization	12,610	10,490	23,824	20,374
Proportionate share of real estate related depreciation and amortization from unconsolidated joint venture	5	20	10	48
EBITDA	\$ 29,123	\$ 12,364	\$ 45,073	\$ 24,183

Liquidity and Capital Resources

Overview

Our short-term liquidity requirements consist primarily of funds to pay for property operating expenses, interest expense, general and administrative expenses, capital expenditures, tenant improvements and leasing commissions and distributions to our common stockholders and holders of common units. We expect to meet our short-term liquidity requirements through available cash on hand, cash flows from operations, by drawing on our unsecured revolving credit facility and pursuant to the ATM Program described below.

Our long-term liquidity needs consist primarily of funds necessary to pay for acquisitions, recurring and non-recurring capital expenditures and scheduled debt maturities. We intend to satisfy our long-term liquidity needs through net cash flow from operations, proceeds from long-term secured and unsecured financings, borrowings available under our unsecured revolving credit facility, the issuance of equity securities, including preferred stock, and proceeds from selective real estate dispositions as we identify capital recycling opportunities.

As of June 30, 2016, our cash and cash equivalents were \$29.2 million, excluding restricted cash, and we did not have any amounts outstanding under our unsecured revolving credit facility, leaving \$200.0 million available for future borrowings.

Sources of Liquidity

Cash Flow from Operations

Cash flow from operations is one of our key sources of liquidity and is primarily dependent upon: (i) the occupancy levels and lease rates at our properties, (ii) our ability to collect rent, (iii) the level of operating costs we incur and (iv) our ability to pass through operating expenses to our tenants. We are subject to a number of risks related to general economic and other unpredictable conditions, which have the potential to affect our overall performance and resulting cash flows from operations. However, based on our current portfolio mix and business strategy, we anticipate that we will be able to generate positive cash flows from operations.

ATM Program

On April 17, 2015, we established an at-the-market equity offering program (the "ATM Program") pursuant to which we may issue and sell shares of our common stock having an aggregate offering price of up to \$125 million in amounts and at times to be determined by us from time to time. As of June 30, 2016, we have issued 500 shares of common stock pursuant to the ATM Program, and future sales, if any, will depend on a variety of factors to be determined by us, including among others, market conditions, the trading price of our common stock, determinations by us of the appropriate sources of funding for us and potential uses of funding available to us. We intend to use the net proceeds from the offering of shares under the ATM Program, if any, to fund potential acquisition opportunities, repay amounts outstanding from time to time under our unsecured revolving credit facility or other debt financing obligations, to fund our development or redevelopment activities and/or for general corporate purposes.

Equity Offering

On April 15, 2016, we completed a public follow-on offering (the “Equity Offering”) of 10,350,000 shares of our common stock, including the underwriters exercise in full of its option to purchase an additional 1,350,000 shares of our common stock, at an offering price per share of \$17.65. The net proceeds were approximately \$174.4 million, after deducting the underwriting discount and offering costs totaling \$8.3 million. A portion of the net proceeds from the Equity Offering were used to repay all of the outstanding borrowings under our unsecured revolving credit facility, which had an outstanding balance of \$62.5 million on April 15, 2016, the date of repayment, and to partially fund the REIT Portfolio Acquisition as discussed below under —Uses of Liquidity— REIT Portfolio Acquisition.

We evaluate the capital markets on an ongoing basis for opportunities to raise capital, and as circumstances warrant, we may issue additional securities, from time to time, to fund acquisitions, for the repayment of long-term debt upon maturity and for other general corporate purposes. Any future issuance, however, is dependent upon market conditions, available pricing and capital needs and there can be no assurance that we will be able to complete any such offerings of securities.

Capital Recycling

We continuously evaluate opportunities for the potential disposition of properties in our portfolio when we believe such disposition is appropriate in view of our business objectives. In evaluating these opportunities, we consider a variety of criteria including, but not limited to, local market conditions and lease rates, asset type and location, as well as potential uses of proceeds and tax considerations. Tax considerations include entering into tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code (“1031 Exchange”), when possible, to defer some or all of the taxable gains, if any, on dispositions.

During the three months ended June 30, 2016, we completed the sale of three of our properties for an aggregate gross sales price of \$21.7 million. The net cash proceeds from these dispositions, which totaled \$20.4 million, were used to acquire the property located at 10750-10826 Lower Azusa Road and 3233 Mission Oaks Road in two separate 1031 Exchange transactions.

We anticipate continuing to selectively dispose of properties, however, the timing of any potential future dispositions will depend on market conditions and our capital needs. Our ability to dispose of selective properties on advantageous terms, or at all, is dependent upon a number of factors including the availability of credit to potential buyers to purchase properties at prices that we consider acceptable.

Unsecured Revolving Credit and Term Loan Facilities

We have a senior unsecured revolving credit facility with a borrowing capacity of \$200 million (the “Revolver”) and a senior unsecured term loan facility (the “\$100 Million Term Loan Facility”) with a borrowing capacity of \$100 million (together the “Credit Facility”). The Revolver is scheduled to mature on June 11, 2018, with one 12-month extension option available, subject to certain conditions, and the \$100 Million Term Loan Facility is scheduled to mature on June 11, 2019. The aggregate principal amount of the Credit Facility may be increased to a total of up to \$600 million, which may be comprised of additional revolving commitments under the Revolver or an increase to the \$100 Million Term Loan Facility, or any combination of the foregoing, subject to the satisfaction of specified conditions and the identification of lenders willing to make available such additional amounts.

Interest on the Credit Facility accrues, at our option, either (i) LIBOR plus the applicable LIBOR margin or (ii) the applicable base rate which is the greater of (a) the federal funds rate plus 0.50%, (b) the administrative agent’s prime rate or (c) the thirty-day LIBOR plus 1.00%, plus the applicable base rate margin. Until we attain an investment grade rating by two or more of Standard & Poor’s, Moody’s Investor Services and Fitch Ratings, and elect to use the alternative rates based on our debt rating, the applicable LIBOR margin will range from 1.30% to 1.90% for the Revolver and 1.25% to 1.85% for the Term Loan Facility, depending on our Leverage Ratio (as defined in the credit agreement governing the Credit Facility). Additionally, a quarterly facility fee is paid on the undrawn portion of the Revolver in an amount equal to 0.20% or 0.30% depending on the undrawn amount of the Revolver.

The Credit Facility is guaranteed by the Company and by substantially all of the current and future subsidiaries of the Operating Partnership that own an unencumbered property. The Credit Facility is not secured by the Company’s properties or by equity interests in the subsidiaries that hold such properties.

The Revolver and the \$100 Million Term Loan Facility may be voluntarily prepaid in whole or in part at any time without premium or penalty. Amounts borrowed under the \$100 Million Term Loan Facility and repaid or prepaid may not be re-borrowed.

The Credit Facility contains usual and customary events of default including defaults in the payment of principal, interest or fees, defaults in compliance with the covenants set forth in the Credit Facility and other loan documentation, cross-defaults to certain other indebtedness, and bankruptcy and other insolvency defaults. If an event of default occurs and is continuing under the Credit Facility, the unpaid principal amount of all outstanding loans, together with all accrued unpaid interest and other amounts owing in respect thereof, may be declared immediately due and payable.

\$225 Million Term Loan Facility

On January 14, 2016, we entered into a credit agreement for a senior unsecured term loan facility (the “\$225 Million Term Loan Facility”) that initially permits aggregate borrowings of up to \$125 million, the total of which we borrowed the same day at closing. Under the terms of the \$225 Million Term Loan Facility, we are permitted to add one or more incremental term loans in an aggregate amount not to exceed \$100 million (the “Accordion”), subject to the satisfaction of specified conditions. On April 15, 2016, we exercised the Accordion in full, thereby increasing the aggregate amount outstanding under the \$225 Million Term Loan Facility to \$225 million. The maturity date of the \$225 Million Term Loan Facility is January 14, 2023.

Interest on the \$225 Million Term Loan Facility accrues based upon, at our option, either (i) LIBOR plus the applicable Eurodollar rate margin or (ii) the applicable base rate which is the greater of (a) the federal funds rate plus 0.50%, (b) the administrative agent’s prime rate or (c) the thirty-day LIBOR plus 1.00%, plus the applicable base rate margin. Until we obtain an investment grade rating by two or more of Standard & Poor’s, Moody’s Investor Services and Fitch Ratings, and elect to use the alternative rates based on our debt rating, the applicable Eurodollar rate margin will range from 1.50% to 2.25% per annum, and the applicable base rate margin will range from 0.50% to 1.25% per annum, depending on our Leverage Ratio (as defined in the credit agreement).

We have the option to voluntarily prepay any amounts borrowed under the \$225 Million Term Loan Facility in whole or in part at any time, subject to certain notice requirements. To the extent that we prepay all or any portion of a loan on or prior to January 14, 2018, we will pay a prepayment premium equal to (i) if such prepayment occurs prior to January 14, 2017, 2.00% of the principal amount so prepaid and (ii) if such prepayment occurs on or after January 14, 2017, but prior to January 14, 2018, 1.00% of the principal amount so prepaid. Amounts borrowed under the \$225 Million Term Loan Facility and repaid or prepaid may not be reborrowed.

Investment Grade Rating

During 2015, we obtained investment grade ratings of BBB- from Fitch Ratings on our Revolver, \$100 Million Term Loan Facility and \$100 million guaranteed senior notes, which were recently affirmed in April 2016, with a stable outlook. In April 2016, we also obtained the same rating on our \$225 Million Term Loan Facility. Our credit rating is based on our operating performance, liquidity and leverage ratios, overall financial position and other factors employed by the credit rating agencies in their rating analysis of us, and there can be no assurance that we will be able to maintain our current credit rating. In the event our current credit rating is downgraded, it may become difficult or expensive to obtain additional financing or refinance existing indebtedness as maturities become due.

Uses of Liquidity

Acquisitions

One of our most significant liquidity needs has historically been for the acquisition of real estate properties. As part of our growth strategy, we are actively monitoring a number of properties in our markets that we believe represent attractive potential investment opportunities. As of the date of this report we have approximately \$83 million of acquisitions under contract or letter of intent. While the actual number of acquisitions that we complete will be dependent upon a number of factors, in the short term, we expect to fund our acquisitions through available cash on hand, cash flows from operations, borrowings available under the Revolver, recycling capital through property dispositions and, in the long term, through the issuance of equity securities or proceeds from long-term secured and

unsecured financings.
REIT Portfolio Acquisition

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On April 11, 2016, we entered into a stock purchase agreement (the “Stock Purchase Agreement”) to acquire a private real estate investment trust that owns a portfolio of nine industrial properties totaling approximately 1.53 million rentable square feet, from a third-party seller in exchange for approximately \$191.0 million in cash, exclusive of closing costs (the “REIT Portfolio Acquisition”).

On April 15, 2016, pursuant to the Stock Purchase Agreement, we consummated the transaction. We funded the purchase price and related transaction costs with available cash and the proceeds from the Accordion and the Equity Offering.

Recurring and Nonrecurring Capital Expenditures

Capital expenditures are considered part of both our short-term and long-term liquidity requirements. Under “Acquisitions and Development of Properties,” we identified 10 of our properties that were in various stages of repositioning and lease-up as of June 30, 2016. We currently estimate that approximately \$46.0 million of capital will be required over the next eight quarters (3Q-2016 through 2Q-2018) to complete the repositioning of these properties. This estimate, however, is based on our current construction plan and budgets, both of which are subject to change as a result of a number of factors. If we are unable to complete construction on schedule or within budget, we could incur increased construction costs and experience potential delays in leasing the properties. We expect to fund the capital improvements to complete these repositioning efforts through a combination of cash flow from operations, recycling capital through property dispositions and borrowings available under the Revolver.

The following table sets forth certain information regarding non-recurring and recurring capital expenditures at the properties in our consolidated portfolio as follows (dollars in thousands):

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Cost	Square Feet ⁽¹⁾	Per Square Foot ⁽²⁾	Cost	Square Feet ⁽¹⁾	Per Square Foot ⁽²⁾
Non-Recurring Capital Expenditures ⁽³⁾	\$5,430	5,594,405	\$ 0.97	\$9,668	5,975,269	\$ 1.62
Recurring Capital Expenditures ⁽⁴⁾	848	13,441,153	\$ 0.06	1,434	12,706,826	\$ 0.11
Total Capital Expenditures	\$6,278			\$11,102		

For non-recurring capital expenditures, reflects the aggregate square footage of the properties in which we incurred (1) such capital expenditures. For recurring capital expenditures reflects the weighted average square footage of our consolidated portfolio during the period.

(2) Per square foot amounts are calculated by dividing the aggregate capital expenditure costs by the square footage as defined in (1) above.

(3) Non-recurring capital expenditures include, but are not limited to, the following: property improvements to appearance, seismic upgrades, deferred property maintenance at the time such property was acquired, and repositioning and redevelopment efforts, including those mentioned above for the seven properties currently under repositioning.

(4) Recurring capital expenditures include, but are not limited to, the following: replacement of items due to ordinary wear and tear, roofing materials, mechanical systems, HVAC systems and other structural systems, and parking lot replacement.

Commitments and Contractual Obligations

The following table sets forth our principal obligations and commitments as of June 30, 2016, including (i) scheduled principal payments and debt maturities, (ii) periodic interest payments related to our outstanding indebtedness and interest rate swaps, (iii) office and ground lease payments and (iv) other contractual obligations (in thousands):

	Payments by Period						
	Total	Remainder of 2016	2017	2018	2019	2020	Thereafter
Principal payments and debt maturities	\$ 503,009	\$ 207	\$ 430	\$ 5,380	\$ 169,533	\$ 166	\$ 327,293
Interest payments - fixed-rate debt	43,749	2,598	5,179	4,959	4,491	4,412	22,110
Interest payments - variable-rate debt ⁽¹⁾	40,339	4,027	7,880	7,880	6,303	4,646	9,603
Interest rate swap payments ⁽²⁾	13,444	1,178	2,303	3,606	2,157	2,046	2,154
Office lease payments	1,907	313	635	622	337	—	—
Ground lease payments	6,612	72	144	144	144	144	5,964
Contractual obligations ⁽³⁾	6,628	6,628	—	—	—	—	—
Total	\$ 615,688	\$ 15,023	\$ 16,571	\$ 22,591	\$ 182,965	\$ 11,414	\$ 367,124

(1) Based on the 1-month LIBOR rate of 0.46505%, as of June 30, 2016.

(2) Reflects the estimated payments to counterparties assuming that the 1-month LIBOR rate is equal to 0.46505% from the effective date through the maturity date of each respective interest rate swap.

(3) Includes total commitments for tenant improvement and construction work related to obligations under certain tenant leases and vendor contracts. We anticipate these obligations to be paid as incurred through the remainder of 2016 and 2017. As the timing of these obligations is subject to a number of factors, for purposes of this table, we have included the full amount under "Remainder of 2016".

Consolidated Debt

The following table sets forth certain information with respect to our consolidated debt outstanding as of June 30, 2016:

	Maturity Date	Stated Interest Rate	Effective Interest Rate ⁽¹⁾	Principal Balance (in thousands) ⁽²⁾	Maturity Date of Effective Swaps
Secured Debt:					
Term Loan ⁽³⁾	8/1/2019 ⁽³⁾	LIBOR + 1.90%	3.818 % ⁽⁴⁾	\$ 60,000	2/15/2019
Gilbert/La Palma	3/1/2031	5.125%	5.125 %	2,977	—
12907 Imperial Highway	4/1/2018	5.950%	5.950 %	5,242	—
1065 Walnut Street	2/1/2019	4.550%	4.550 %	9,790	—
Unsecured Debt:					
\$100M Term Loan Facility	6/11/2019	LIBOR +1.35% ⁽⁵⁾	3.248 % ⁽⁶⁾	100,000	12/14/2018
Revolver ⁽⁷⁾	6/11/2018 ⁽³⁾	LIBOR +1.40% ⁽⁵⁾	1.865 %	—	—
\$225M Term Loan Facility	1/14/2023	LIBOR +1.60% ⁽⁵⁾	2.065 % ⁽⁸⁾	225,000	—
Guaranteed Senior Notes	8/6/2025	4.290%	4.290 %	100,000	—
Total Consolidated:			3.059 %	\$ 503,009	

Includes the effect of interest rate swaps that were effective as of June 30, 2016. Assumes a 1-month LIBOR rate (1) of 0.46505% as of June 30, 2016, as applicable. Excludes the effect of amortization of deferred loan fees, discounts/premiums and the unused commitment fee on the Revolver.

(2) Excludes unamortized deferred loan fees and net debt premiums aggregating \$2.4 million as of June 30, 2016.

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(3) One additional one-year extension is available, if certain conditions are satisfied.

As of June 30, 2016, this \$60 million term loan has been effectively fixed at 3.818% through the use of two interest rate swaps as follows: (i) \$30 million at 3.726% with an effective date of January 15, 2015 and (ii) \$30 million at 3.91% with an effective date of July 15, 2015.

The LIBOR margin will range from 1.25% to 1.85% for the \$100 Million Term Loan Facility, 1.30% to 1.90% for the Revolver and 1.50% to 2.25% for the \$125 Million Term Loan Facility depending on the ratio of our outstanding consolidated indebtedness to the value of our consolidated gross asset value. This ratio is measured on a quarterly basis, and as a result, the effective interest rate will fluctuate from period to period.

As of June 30, 2016, this \$100 Million Term Loan Facility has been effectively fixed at 1.8975% plus the applicable LIBOR margin through the use of two interest rate swaps as follows: (i) \$50 million with a strike rate of 1.79% with an effective date of August 14, 2015, and (ii) \$50 million with a strike rate of 2.005% with an effective date of February 16, 2016.

The Revolver is subject to an unused commitment fee, which is calculated as 0.30% or 0.20% of the daily-unused commitment if the balance is under \$100 million or over \$100 million, respectively.

As of June 30, 2016, we have executed two interest rate swaps that will effectively fix the interest on the Credit Agreement as follows: (i) \$125 million at 1.349% plus the applicable LIBOR margin from February 14, 2018, to January 14, 2022, and (ii) \$100 million at 1.406% plus the applicable LIBOR margin from August 14, 2018, to January 14, 2022.

The following table summarizes the composition of our consolidated debt between fixed-rate and variable-rate and secured and unsecured debt as of June 30, 2016:

	Average Term Remaining (in years)	Stated Interest Rate	Effective Interest Rate ⁽¹⁾	Principal Balance (in thousands) ⁽²⁾	% of Total
Fixed vs. Variable:					
Fixed	5.3	3.86%	3.86%	\$ 278,009	55%
Variable	6.5	LIBOR + 1.60%	2.07%	\$ 225,000	45%
Secured vs. Unsecured:					
Secured	3.4		4.10%	\$ 78,009	16%
Unsecured	6.3		2.87%	\$ 425,000	84%

Includes the effect of interest rate swaps that were effective as of June 30, 2016. Excludes the effect of (1) amortization of deferred loan fees, discounts/premiums and the unused commitment fee on the Revolver. Assumes a 1-month LIBOR rate of 0.46505% as of June 30, 2016, as applicable.

(2) Excludes unamortized deferred loan fees and net debt premiums aggregating \$2.4 million as of June 30, 2016.

At June 30, 2016, we had total consolidated indebtedness of \$503.0 million, excluding unamortized deferred loan fees and net debt premiums, with a weighted average interest rate of 3.059% and an average term-to-maturity of 5.8 years. As of June 30, 2016, \$278.0 million, or 55% of our outstanding indebtedness had an interest rate that was effectively fixed under either the terms of the loan (\$118.0 million) or an interest rate swap (\$160.0 million). We have two interest rate swaps that will effectively fix the interest on the \$225 Million Term Loan Facility as follows: (i) \$125 million at 1.349% plus the applicable LIBOR margin from February 14, 2018 to January 14, 2022 and (ii) \$100 million at 1.406% plus the applicable LIBOR margin from August 14, 2018 to January 14, 2022. If these interest rate swaps were effective as of June 30, 2016, our consolidated debt would be 100% fixed-rate and 0% variable-rate.

At June 30, 2016, we had total indebtedness of \$503.0 million, reflecting a net debt to total market capitalization of approximately 24.9%. Our total market capitalization is defined as the sum of the market value of our outstanding common stock excluding shares of nonvested restricted stock, plus the aggregate value of common units not owned by

us, plus the value of our net debt. Our net debt is defined as our consolidated indebtedness less cash and cash equivalents.

Debt Covenants

The \$225 Million Term Loan Facility and the Credit Facility both include a series of financial and other covenants that we must comply with, including the following covenants which are tested on a quarterly basis:

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- Maintaining a ratio of total indebtedness to total asset value of not more than 60%;
- Maintaining a ratio of secured debt to total asset value of not more than 45%;
- Maintaining a ratio of total secured recourse debt to total asset value of not more than 15%;
- Maintaining a minimum tangible net worth of at least the sum of (i) \$283,622,250, and (ii) an amount equal to at least 75% of the net equity proceeds received by the Company after March 31, 2014;
- Maintaining a ratio of adjusted EBITDA (as defined in the credit agreement) to fixed charges of at least 1.50 to 1.0;
- Maintaining a ratio of total unsecured debt to total unencumbered asset value of not more than 60%;
- Maintaining a ratio of unencumbered NOI (as defined in the credit agreement) to unsecured interest expense of at least 1.75 to 1.0.

Additionally, the \$225 Million Term Loan Facility and the Credit Facility contain limitations on our ability to pay distributions on our common stock. Specifically, our cash dividends may not exceed the greater of (1) 95% of our FFO (as defined in the credit agreement) and (2) the amount required for us to qualify and maintain our REIT status. If an event of default exists, we may only make distributions sufficient to qualify and maintain our REIT status.

The \$100 million unsecured guaranteed senior notes (the “Notes”) contain a series of financial and other covenants with which we must comply. The financial covenants, which are tested on a quarterly basis, are the same as those that we must comply with under the \$225 Million Term Loan Facility and the Credit Facility, as detailed above. Subject to the terms of the Notes, upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, make-whole payment amount, or interest under the Notes, (ii) a default in the payment of certain of our other indebtedness, (iii) a default in compliance with the covenants set forth in the Notes agreement and (iv) bankruptcy and other insolvency defaults, the principal and accrued and unpaid interest and the make-whole payment amount on the outstanding Notes will become due and payable at the option of the purchasers.

Our \$60 million term loan contains the following financial covenants:

- Maintaining a Debt Service Coverage Ratio (as defined in the term loan agreement) of at least 1.10 to 1.00, to be tested quarterly;
- Maintaining Unencumbered Liquid Assets (as defined in the term loan agreement) of not less than (i) \$5 million, or (ii) \$8 million if we elect to have Line of Credit Availability (as defined in the term loan agreement) included in the calculation, of which \$2 million must be cash or cash equivalents, to be tested annually as of December 31 of each year;
- Maintaining a minimum Fair Market Net Worth (as defined in the term loan agreement) of at least \$75 million, to be tested annually as of December 31 of each year.

We were in compliance with all of our quarterly debt covenants as of June 30, 2016.

Off Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements other than the one unconsolidated real estate entity which has been disclosed in the notes to our consolidated financial statements.

Cash Flows

Comparison of the Six Months Ended June 30, 2016 to the Six Months Ended June 30, 2015

The following table summarizes the changes in net cash flows associated with our operating, investing, and financing activities for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended June		
	2016	2015	Change
Cash provided by operating activities	\$24,355	\$17,824	\$6,531
Cash used in investing activities	\$(241,380)	\$(114,194)	\$(127,186)
Cash provided by financing activities	\$241,001	\$97,752	\$143,249

Net cash provided by operating activities. Net cash provided by operating activities increased by \$6.5 million to \$24.4 million for the six months ended June 30, 2016, compared to \$17.8 million for the six months ended June 30, 2015. The increase was primarily attributable to the incremental cash flows from property acquisitions completed after January 1, 2015, the increase in Cash NOI from our Same Properties Portfolio and changes in working capital, partially offset by higher cash interest paid for comparable periods.

Net cash used in investing activities. Net cash used in investing activities increased by \$127.2 million to \$241.4 million for the six months ended June 30, 2016, compared to \$114.2 million for the six months ended June 30, 2015. The increase was primarily attributable to a \$123.8 million increase in cash paid for property acquisitions, including related deposits and an increase in cash paid for construction and development projects of \$5.7 million for comparable periods, partially offset by proceeds of \$20.4 million received from real estate dispositions, of which \$18.0 million was placed in a qualified intermediary account in anticipation of a 1031 Exchange transaction.

Net cash provided by financing activities. Net cash provided by financing activities was \$241.0 million for the six months ended June 30, 2016, and consists primarily of \$174.4 million in net proceeds raised from the sale of 10.35 million shares of common stock and gross proceeds of \$225.0 million from borrowings made under the \$225 Million Term Loan Facility, partially offset by the repayment of \$140.5 million of net borrowings outstanding under the Revolver and the payment of \$15.6 million in dividends and distributions. Net cash provided by financing activities was \$97.8 million for the six months ended June 30, 2015, and consists primarily of \$176.3 million in net proceeds raised from the sale of 11.5 million shares of common stock, partially offset by the repayment of \$55.5 million of net borrowings outstanding under the Revolver, the repayment of a term loan with a remaining balance of \$10.1 million and the payment of \$12.4 million in dividends and distributions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk refers to the risk of loss from adverse changes in market prices and interest rates. A key market risk we face is interest rate risk. We are exposed to interest rate changes primarily as a result of debt used to satisfy various short-term and long-term liquidity needs, which bears interest at variable rates. We use interest rate swaps to manage, or hedge, interest rate risks related to our borrowings. Because actual interest rate movements over time are uncertain, our swaps pose potential interest rate risks, notably if interest rates fall. We also expose ourselves to credit risk, which we attempt to minimize by contracting with highly-rated banking financial counterparties. For a summary of our outstanding variable-rate debt, see Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources. For a summary of our interest rate swaps, see Note 7 to our consolidated financial statements.

As of June 30, 2016, interest on the \$60.0 million variable-rate term loan has been effectively fixed through the use of two interest rate swaps, each with a notional value of \$30.0 million. The first interest rate swap, which is effective for the period from January 15, 2015, to February 15, 2019, currently fixes the annual interest rate payable at 3.726%. The second interest rate swap, which is effective for the period from July 15, 2015, to February 15, 2019, currently fixes the annual interest rate payable at 3.91%.

As of June 30, 2016, interest on the \$100 Million Term Loan Facility has been effectively fixed through the use of two interest rate swaps, each with a notional value of \$50.0 million. The first interest rate swap has an effective date of August 14, 2015, and a maturity date of December 14, 2018, and the second interest rate swap has an effective date of February 16, 2016, and a maturity date of December 14, 2018. The two interest rate swaps currently fix the annual interest rate payable on the \$100 Million Term Loan Facility as follows: 1.79% for the first \$50.0 million and 2.005% for the second \$50.0 million, plus an applicable margin under the terms of the Credit Facility.

On February 24, 2016, we entered into an interest rate swap transaction to manage our exposure to fluctuations in variable interest rate associated with the \$125.0 million initially borrowed under the \$225 Million Term Loan Facility. The interest rate swap has a notional amount of \$125.0 million with an effective date of February 14, 2018, and a maturity date of January 14, 2022. Under the terms of the interest rate swap, we are required to make certain monthly fixed rate payments on a notional amount of \$125.0 million while the counterparty is obligated to make certain

monthly floating rate payments based on LIBOR to us referencing the same notional amount. The interest rate swap will effectively fix the annual interest rate payable on this notional amount of the Company's debt which may exist under the \$225 Million Term Loan Facility at 1.349% plus an applicable margin under the terms of the \$225 Million Term Loan Facility.

On May 12, 2016, we entered into a second interest rate swap transaction to manage our exposure to fluctuations in variable interest rate associated with the incremental \$100 million borrowed under the \$225 Million Term Loan Facility. The interest rate swap has a notional amount of \$100.0 million with an effective date of August 14, 2018, and a maturity date of January 14, 2022. Under the terms of the interest rate swap, we are required to make certain monthly fixed rate payments on a notional amount of \$100.0 million while the counterparty is obligated to make certain monthly floating rate payments based on LIBOR to us referencing the same notional amount. The interest rate swap will effectively fix the annual interest rate payable on this notional amount of the Company's debt which may exist under the \$225 Million Term Loan Facility at 1.406% plus an applicable margin under the terms of the \$225 Million Term Loan Facility.

At June 30, 2016, we had total consolidated indebtedness, excluding unamortized deferred loan fees and net debt premiums, of \$503.0 million. Of this total, \$278.0 million, or 55%, had an interest rate that was effectively fixed under the terms of the loan or an interest rate swap. The remaining \$225.0 million, or 45%, comprises our variable-rate debt. Based upon the amount of variable-rate debt outstanding as of June 30, 2016, if LIBOR were to increase by 50 basis points, the increase in interest expense on our variable rate debt would decrease our future earnings and cash flows by approximately \$1.1 million annually. If LIBOR were to decrease by 50 basis points, the decrease in interest expense on our variable-rate debt would be approximately \$1.0 million annually.

Interest risk amounts are our management's estimates and were determined by considering the effect of hypothetical interest rates on our financial instruments. We calculate interest sensitivity by multiplying the amount of variable rate debt outstanding by the respective change in rate. The sensitivity analysis does not take into consideration possible changes in the balances or fair value of our floating rate debt. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized, and reported within the time periods specified in the Security and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the Co-Chief Executive Officers and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of management, including our Co-Chief Executive Officers and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of June 30, 2016, the end of the period covered by this report.

Based on the foregoing, our Co-Chief Executive Officers and Chief Financial Officer concluded that, as of June 30, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. No changes to our internal control over financial reporting were identified that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are party to various lawsuits, claims and legal proceedings that arise in the ordinary course of business. Excluding ordinary routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

Please refer to our Risk Factors as set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 and our Form 8-K filed on April 11, 2016. There have been no material changes to the risk factors as set forth in these documents.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities

None.

(b) Use of Proceeds

None.

(c) Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2016 to April 30, 2016	4,896	\$ 18.24	N/A	N/A
May 1, 2016 to May 31, 2016	—	—	N/A	N/A
June 1, 2016 to June 30, 2016	—	—	N/A	N/A
	4,896	\$ 18.24	N/A	N/A

(1) In April 2016, these shares were tendered by certain of our employees to satisfy minimum statutory tax withholding obligations related to the vesting of restricted shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

- 3.1 Articles of Amendment and Restatement of Rexford Industrial Realty, Inc. (incorporated by reference to Exhibit 3.1 of Form S-11/A, filed by the registrant on July 15, 2013 (Registration No. 333-188806))
- 3.2 Amended and Restated Bylaws of Rexford Industrial Realty, Inc. (incorporated by reference to Exhibit 3.2 of Form S-11/A, filed by the registrant on July 15, 2013 (Registration No. 333-188806))
- 10.1 Stock Purchase Agreement by and among Atlantic CT Holdings, LLC, Atlantic CT REIT, Inc. and Rexford Industrial Realty, L.P., dated April 11, 2016 (incorporated by reference to Exhibit 2.1 of the Form 8-K filed by the registrant on April 11, 2016)
- 10.2 Increase Certificate dated April 15, 2016 (incorporated by reference to Exhibit 10.1 of the Form 8-K filed by the registrant on April 15, 2016)
- 31.1* Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.3* Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.3* Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.1* The registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited) and (vi) the Notes to the Consolidated Financial Statements (unaudited) that have been detail tagged.

*Filed herein

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 thereunto authorized.

Rexford Industrial Realty, Inc.

August 5, 2016 /s/ Michael S. Frankel
Michael S. Frankel
Co-Chief Executive Officer (Principal Executive Officer)

August 5, 2016 /s/ Howard Schwimmer
Howard Schwimmer
Co-Chief Executive Officer (Principal Executive Officer)

August 5, 2016 /s/ Adeel Khan
Adeel Khan
Chief Financial Officer
(Principal Financial and Accounting Officer)