CoreSite Realty Corp
Form 10-Q
April 27, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

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: 001-34877

CoreSite Realty Corporation

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	27-1925611 (I.R.S. Employer Identification No.)

1001 17th Street, Suite 500	
Denver, CO	80202
(Address of principal executive offices)	(Zip Code)

(866) 777-2673

(Registrant's telephone number, including area code)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of common stock outstanding at April 25, 2018, was 34,454,213.

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CORESITE REALTY CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED March 31, 2018

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands except share and per share data)

	March 31, 2018	December 31, 2017
ASSETS		
Investments in real estate:		
Land	$ 97,295	$ 97,258
Buildings and improvements	1,651,967	1,561,056
	1,749,262	1,658,314
Less: Accumulated depreciation and amortization	(500,961)	(473,141)
Net investment in operating properties	1,248,301	1,185,173
Construction in progress	121,989	162,903
Net investments in real estate	1,370,290	1,348,076
Operating lease right-of-use assets	88,781	92,984
Cash and cash equivalents	3,079	5,247
Accounts and other receivables, net of allowance for doubtful accounts of $885 and $1,094 as of March 31, 2018, and December 31, 2017, respectively	25,078	28,875
Lease intangibles, net of accumulated amortization of $8,779 and $8,585 as of March 31, 2018, and December 31, 2017, respectively	5,727	6,314
Goodwill	40,646	40,646
Other assets, net	106,813	103,501
Total assets	$ 1,640,414	$ 1,625,643
LIABILITIES AND EQUITY		
Liabilities:		
Debt, net of unamortized deferred financing costs of $4,526 and $4,930 as of March 31, 2018, and December 31, 2017, respectively	$ 986,974	$ 939,570
Operating lease liabilities	97,308	102,912
Accounts payable and accrued expenses	64,036	77,170
Accrued dividends and distributions	48,678	48,976
Acquired below-market lease contracts, net of accumulated amortization of $5,798 and $5,608 as of March 31, 2018, and December 31, 2017, respectively	3,314	3,504
Unearned revenue, prepaid rent and other liabilities	36,778	34,867

Total liabilities	1,237,088	1,206,999
Stockholders' equity:		
Common Stock, par value $0.01, 100,000,000 shares authorized and 34,454,213 and 34,240,815 shares issued and outstanding at March 31, 2018, and December 31, 2017, respectively	340	338
Additional paid-in capital	460,404	457,495
Accumulated other comprehensive income	1,163	753
Distributions in excess of net income	(191,013)	(177,566)
Total stockholders' equity	270,894	281,020
Noncontrolling interests	132,432	137,624
Total equity	403,326	418,644
Total liabilities and equity	$ 1,640,414	$ 1,625,643

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands except share and per share data)

	Three Months Ended March 31, 2018	2017
Operating revenues:		
Data center revenue:		
Rental revenue	$ 71,033	$ 64,251
Power revenue	36,403	30,861
Interconnection revenue	16,560	14,512
Tenant reimbursement and other	2,572	2,276
Office, light-industrial and other revenue	3,051	3,021
Total operating revenues	129,619	114,921
Operating expenses:		
Property operating and maintenance	33,848	29,226
Real estate taxes and insurance	4,937	4,504
Depreciation and amortization	33,776	32,338
Sales and marketing	5,080	4,503
General and administrative	9,185	8,124
Rent	6,400	5,962
Transaction costs	56	—
Total operating expenses	93,282	84,657
Operating income	36,337	30,264
Interest expense	(7,738)	(5,107)
Income before income taxes	28,599	25,157
Income tax expense	(33)	(97)
Net income	$ 28,566	$ 25,060
Net income attributable to noncontrolling interests	8,264	6,684
Net income attributable to CoreSite Realty Corporation	$ 20,302	$ 18,376
Preferred stock dividends	—	(2,084)
Net income attributable to common shares	$ 20,302	$ 16,292
Net income per share attributable to common shares:		
Basic	$ 0.60	$ 0.49
Diluted	$ 0.59	$ 0.48
Weighted average common shares outstanding		
Basic	33,935,564	33,558,787
Diluted	34,164,235	33,981,776

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	$ 28,566	$ 25,060
Other comprehensive income (loss):		
Unrealized gain on derivative contracts	609	313
Reclassification of other comprehensive income (loss) to interest expense	(32)	297
Comprehensive income	29,143	25,670
Comprehensive income attributable to noncontrolling interests	8,431	6,861
Comprehensive income attributable to CoreSite Realty Corporation	$ 20,712	$ 18,809

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(unaudited and in thousands except share data)

	Common Shares		Additional Paid-in	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number	Amount	Capital					
Balance at January 1, 2018	34,240,815	$ 338	$ 457,495	$ 753	$ (177,566)	$ 281,020	$ 137,624	$ 418,644
Redemption of noncontrolling interests	7,056	—	70	—	—	70	(70)	—
Issuance of stock awards, net of forfeitures	201,181	—	—	—	—	—	—	—
Exercise of stock options	5,161	—	100	—	—	100	—	100
Share-based compensation	—	2	2,739	—	—	2,741	—	2,741
Dividends and distributions	—	—	—	—	(33,749)	(33,749)	(13,553)	(47,302)
Net income	—	—	—	—	20,302	20,302	8,264	28,566
Other comprehensive income	—	—	—	410	—	410	167	577
Balance at March 31, 2018	34,454,213	$ 340	$ 460,404	$ 1,163	$ (191,013)	$ 270,894	$ 132,432	$ 403,326

See accompanying notes to condensed consolidated financial statements.

CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Three Months Ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 28,566	$ 25,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,776	32,338
Amortization of above/below market leases	(175)	(124)
Amortization of deferred financing costs	566	369
Share-based compensation	2,626	1,802
Bad debt expense	(145)	(96)
Changes in operating assets and liabilities:		
Accounts receivable	3,942	3,853
Deferred rent receivable	(1,250)	(1,350)
Deferred leasing costs	(3,405)	(3,660)
Other assets	(4,709)	(7,243)
Accounts payable and accrued expenses	(1,956)	846
Unearned revenue, prepaid rent and other liabilities	1,911	(2,255)
Operating leases	(1,400)	1,405
Net cash provided by operating activities	58,347	50,945
CASH FLOWS FROM INVESTING ACTIVITIES		
Tenant improvements	(1,295)	(2,608)
Real estate improvements	(54,338)	(42,586)
Acquisition of CH2 land	(4,383)	—
Net cash used in investing activities	(60,016)	(45,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	100	4,174
Proceeds from revolving credit facility	67,000	38,000
Payments on revolving credit facility	(20,000)	(9,000)
Dividends and distributions	(47,599)	(40,968)
Net cash used in financing activities	(499)	(7,794)
Net change in cash and cash equivalents	(2,168)	(2,043)
Cash and cash equivalents, beginning of period	5,247	4,429
Cash and cash equivalents, end of period	$ 3,079	$ 2,386
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of capitalized amounts	$ 4,354	$ 3,302
Cash paid for operating lease liabilities	$ 6,795	$ 5,132
NON-CASH INVESTING AND FINANCING ACTIVITY		
Construction costs payable capitalized to real estate	$ 22,061	$ 9,461
Accrual of dividends and distributions	$ 48,678	$ 41,097

Lease liabilities arising from obtaining right-of-use assets	$ —	$ 8,330

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

(unaudited)

1. Organization and Description of Business

CoreSite Realty Corporation (the "Company," "we," "us," or "our") was organized in the State of Maryland on February 17, 2010, and is a fully-integrated, self-administered, and self-managed real estate investment trust ("REIT"). Through our controlling interest in CoreSite, L.P. (our "Operating Partnership"), we are engaged in the business of owning, acquiring, constructing and operating data centers. As of March 31, 2018, the Company owns a 71.1% common interest in our Operating Partnership, and affiliates of The Carlyle Group and others own a 28.9% interest in our Operating Partnership. See additional discussion in Note 10, Noncontrolling Interests — Operating Partnership.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by our management in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and in compliance with the rules and regulations of the U.S. Securities and Exchange Commission. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2018, are not necessarily indicative of the expected results for the year ending December 31, 2018. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Our Operating Partnership meets the definition and criteria of a variable interest entity ("VIE") and we are the primary beneficiary of the VIE. Our sole significant asset is the investment in our Operating Partnership, and consequently, substantially all of our assets and liabilities represent those assets and liabilities of our Operating Partnership. Our debt is an obligation of our Operating Partnership where the creditors also have recourse against the credit of the Company. Intercompany balances and transactions have been eliminated upon consolidation.

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance codified in Accounting Standards Codification ("ASC") Topic 606, Revenue Recognition — Revenue from Contracts with Customers, which amends the guidance in former ASC Topic 605, Revenue Recognition. The standard establishes a five-step model framework which recognizes revenue as an entity transfers control of goods or services to the customer and requires enhanced disclosures.

The standard provides guidance for our nonlease revenue components, including power, interconnection, and tenant reimbursement revenue. We adopted this standard effective January 1, 2018, using the cumulative effect method. The adoption did not result in a cumulative catch-up adjustment to opening equity and does not change the recognition pattern of our operating revenues. Under the standard, disclosures are required to provide information on the nature, amount, timing, and uncertainty of revenue, certain costs, and cash flows arising from contracts with customers. See additional discussion below and in Note 6, Contracts with Customers.

Leases

In February 2016, the FASB issued guidance codified in ASC Topic 842, Leases, which amends the guidance in former ASC Topic 840, Leases. The new standard increases transparency and comparability most significantly by requiring the recognition by lessees of right-of-use ("ROU") assets and lease liabilities on the balance sheet for those leases classified

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as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

We elected to early adopt the lease standard effective January 1, 2018, concurrent with our adoption of the new revenue recognition standard. The lease standard requires a modified retrospective transition approach as of the January 1, 2016, transition date. We elected the package of practical expedients which permits us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) any initial direct costs for any existing leases as of the effective date. We did not elect the hindsight practical expedient which permits entities to use hindsight in determining the lease term and assessing impairment. The adoption of the lease standard did not change our previously reported consolidated statements of operations and did not result in a cumulative catch-up adjustment to opening equity.

Adoption of the lease standard had a material impact on our condensed consolidated balance sheets. As a lessee, we adjusted certain previously reported financial statements to include the recognition of ROU assets and lease liabilities for operating leases. See the table below for the impact of adoption of the lease standard on our condensed consolidated balance sheet as of December 31, 2017 (in thousands):

	As Previously Reported	New Lease Standard Adjustment	As Adjusted
Operating lease right-of-use assets	$ —	$ 92,984	$ 92,984
Operating lease liabilities	—	102,912	102,912
Deferred rent payable	9,928	(9,928)	—

As a lessor, our recognition of rental revenue remained mainly consistent with previous guidance, apart from the narrower definition of initial direct costs that can be capitalized. The new standard defines initial direct costs as only the incremental costs of signing a lease. Internal sales employees' compensation, payroll-related fringe benefits and certain external legal fees related to the execution of successful lease agreements no longer meet the definition of initial direct costs under the new standard and will be accounted for as a sales and marketing expense or general and administrative expense in our condensed consolidated statements of operations. As a result of electing the package of practical expedients described above, existing leases, including the allocation of consideration between lease and nonlease components, and related initial direct costs have not been reassessed prior to the effective date and therefore adoption of the lease standard did not have an impact on our previously reported condensed consolidated statements of operations.

Statement of Cash Flows

In August 2016, the FASB issued guidance codified in Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The standard provides guidance on eight specific cash flow classification issues including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and separately identifiable cash flows and application of the predominance principle. We adopted this standard effective January 1, 2018, and the provisions of ASU 2016-15 do not have a material impact on our condensed consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Intangibles – Goodwill and Other

In January 2017, the FASB issued guidance codified in ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the accounting for goodwill impairment by eliminating the process of measuring the implied value of goodwill, known as step two, from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The standard will be effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We do not expect the provisions of ASU 2017-04 to have a material impact on our consolidated financial statements.

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Derivatives and Hedging

In August 2017, the FASB issued guidance codified in ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 simplifies hedge accounting by eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line item as the hedged item. The standard will be effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. We do not expect the provisions of ASU 2017-12 to have a material impact on our consolidated financial statements.

Leases – Targeted Improvements

In January 2018, the FASB proposed an ASU for targeted improvements to lease accounting. The proposed ASU provides a practical expedient which allows lessors not to separate nonlease components from the related lease components if both the timing and pattern of revenue recognition are the same for the nonlease component(s) and related lease component, and the combined single lease component would be classified as an operating lease. The FASB has deliberated on the comment letters received and approved additional clarifications to the proposed ASU, including allowing lessors to apply the practical expedient to all existing leases on a retrospective or prospective basis. We intend to elect the practical expedient and combine our lease and nonlease components that meet the defined criteria once the FASB issues the ASU. Once we elect this practical expedient, we plan to adjust our condensed consolidated statement of operations to present our revenues as follows:

	Currently Reported	Anticipated Adjustment	Adjusted Presentation
Statement of Operations			
Three Months Ended March 31, 2018			
Rental revenue	$ 71,033	$ (71,033)	$ —
Power revenue	36,403	(36,403)	—
Tenant reimbursement and other	2,572	(2,572)	—
Rental, power, and related revenue	—	110,008	110,008
Three Months Ended March 31, 2017			
Rental revenue	$ 64,251	$ (64,251)	$ —
Power revenue	30,861	(30,861)	—
Tenant reimbursement and other	2,276	(2,276)	—
Rental, power, and related revenue	—	97,388	97,388

Use of Estimates

The preparation of these unaudited condensed consolidated financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates, including those related to assessing our standalone selling prices, performance-based equity compensation plans and the carrying values of our real estate properties, goodwill, and accrued liabilities. We base our estimates on historical experience, current market conditions, and various other assumptions that we believe to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could vary under different assumptions or conditions.

Investments in Real Estate

Real estate investments are carried at cost less accumulated depreciation and amortization. The cost of real estate includes the purchase price of property and leasehold improvements. Expenditures for maintenance and repairs are expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized. During land development and construction periods, we capitalize construction costs, legal fees, financing costs, real estate taxes and insurance, rent expense and internal costs of personnel performing development, if such costs are incremental and identifiable to a specific development project. Capitalization of costs begins upon commencement of development efforts and ceases when the project is ready for its intended use and held available for occupancy. Interest is capitalized during the period of development based upon applying the weighted-average borrowing rate to the actual

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development costs expended. Capitalized interest costs were $1.1 million and $0.6 million for the three months ended March 31, 2018, and 2017, respectively.

Depreciation and amortization are calculated using the straight-line method over the following useful lives of the assets:

Buildings	27 to 40 years
Building improvements	1 to 10 years
Leasehold improvements	The shorter of the lease term or useful life of the asset

Depreciation expense was $29.1 million and $26.8 million for the three months ended March 31, 2018, and 2017, respectively.

Acquisition of Investment in Real Estate

When accounting for business combinations and asset acquisitions, the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting primarily of land, building and building improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and the value of customer relationships.

The fair value of the land and building of an acquired property is determined by valuing the property as if it were vacant, and the “as-if-vacant” fair value is then allocated to land and building based on management's determination of the fair values of these assets. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases.

The fair value of intangibles related to in-place leases includes the value of lease intangibles for above-market and below-market leases, lease origination costs, and customer relationships, determined on a lease-by-lease basis. Above-market and below-market leases are valued based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease and, for below-market leases, over a time period equal to the initial term plus any below-market fixed rate renewal periods. Lease origination costs include estimates of costs avoided associated with leasing the property, including tenant allowances and improvements and leasing commissions. Customer relationship intangibles relate to the additional revenue opportunities expected to be generated through interconnection services and utility services to be provided to the in-place lease tenants.

The capitalized values for above and below-market lease intangibles, lease origination costs, and customer relationships are amortized over the term of the underlying leases or the expected customer relationship. Amortization related to above-market and below-market leases where the Company is the lessor is recorded as either a reduction of or an increase to rental revenue, amortization related to above-market and below-market leases where the Company is the lessee is recorded as either a reduction of or an increase to rent expense. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off.

The carrying value of intangible assets is reviewed for impairment in connection with its respective asset group whenever events or changes in circumstances indicate that the asset group may not be recoverable. An impairment loss is recognized if the carrying amount of the asset group is not recoverable and its carrying amount exceeds its estimated fair value. No impairment loss related to these intangible assets was recognized for the three months ended March 31, 2018, or 2017.

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. As of March 31, 2018, and December 31, 2017, we had $40.6 million of goodwill at each date. The Company’s goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. No impairment loss was recognized for the three months ended March 31, 2018, or 2017.

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Cash and Cash Equivalents

Cash and cash equivalents include all non-restricted cash held in financial institutions and other non-restricted highly liquid short-term investments with original maturities at acquisition of three months or less.

Initial Direct Costs

Initial direct costs include commissions paid to third parties, including brokers, leasing and referral agents, and internal sales commissions paid to employees for successful execution of lease agreements. Initial direct costs are incremental costs that would not have been incurred if the lease agreement had not been executed. These commissions are capitalized and generally amortized over the term of the related leases using the straight-line method. If a customer lease terminates prior to the expiration of its initial term, any unamortized initial direct costs related to the lease are written off to amortization expense. Amortization of initial direct costs were $3.9 million and $4.1 million for the three months ended March 31, 2018, and 2017, respectively. Initial direct costs are included within other assets in the condensed consolidated balance sheets and consisted of the following, net of amortization, as of March 31, 2018, and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Internal sales commissions	$ 16,503	$ 17,402
Third party commissions	11,051	11,802
Other	765	775
Total	$ 28,319	$ 29,979

Deferred Financing Costs

Deferred financing costs include costs incurred in connection with obtaining debt and extending existing debt. These financing costs are capitalized and amortized on a straight-line basis, which approximates the effective-interest method, over the term of the loan and the amortization is included as a component of interest expense. Depending on the type of debt instrument, deferred financing costs are reported either in other assets or as a direct deduction from the carrying amount of the related debt liabilities in our condensed consolidated balance sheets.

Recoverability of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and without interest charges) are less than the carrying amount of the assets. The estimation of expected future net cash flows is inherently uncertain and relies, to a considerable extent, on assumptions regarding current and future economics and market conditions and the availability of capital. If, in future periods, there are changes in the estimates or assumptions incorporated into the impairment review analysis, the changes could result in an adjustment to the carrying amount of the long-lived assets. To the extent that impairment has occurred, the excess of the carrying amount of long-lived assets over its estimated fair value would be recognized as an impairment loss charged to net income. For the three months ended March 31, 2018, and 2017, no impairment of long-lived assets was recognized in the condensed consolidated financial statements.

Derivative Instruments and Hedging Activities

We reflect all derivative instruments at fair value as either assets or liabilities on the condensed consolidated balance sheets. For those derivative instruments that are designated and qualify as hedging instruments, we record the effective portion of the gain or loss on the hedging instruments as a component of accumulated other comprehensive income or loss. Any ineffective portion of a derivative's change in fair value is immediately recognized within net income. For derivatives that do not meet the criteria for hedge accounting, changes in fair value are immediately recognized within net income. See additional discussion in Note 8, Derivatives and Hedging Activities.

Internal-Use Software

We recognize internal-use software development costs based on the development stage of the project and nature of the cost. Internal and external costs incurred during the preliminary project stage are expensed as they are incurred. Internal and external costs incurred to develop internal-use software during the application development stage are capitalized. Internal and external training costs and maintenance costs during the post-implementation-operation stage are expensed as incurred. Completed projects are placed into service and amortized over the estimated useful life of the software. No impairment was recognized related to internal-use software in the condensed consolidated statements of operations for the three months ended March 31, 2018, and 2017.

Revenue Recognition

We derive our revenues from leases with customers for data center and office and light-industrial space which include lease rental revenue components and nonlease revenue components, such as power, interconnection, and other data center services.

Data center lease rental revenue and power arrangements are included within a single contract, which requires that we allocate the transaction consideration to each lease and nonlease component on a relative standalone selling price basis. In instances where standalone selling prices are not directly observable, such as when we do not sell the product or service separately, we determine our standalone selling prices maximizing our use of observable inputs as well as various market conditions. We typically have more than one standalone selling price for individual services due to the variability of the pricing of those services based on market, building, and customer specific conditions. We estimate standalone selling prices based on the contractual prices charged to customers and allocate discounts proportionately when necessary.

Interconnection revenue and other data center services revenue are separate contracts that are generally month-to-month or a point-in-time service and are not combined with lease and power arrangements.

Lessor Rental Revenue

Our leases with customers are classified as operating leases and rental revenue is recognized on a straight-line basis over the customer lease term. Occasionally, our customer leases include options to extend or terminate the lease agreements. We do not include any of these extension or termination options in a customer’s lease term for lease classification purposes or recognizing rental revenue unless we are reasonably certain the customer will exercise these extension or termination options. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is recorded as deferred rent receivable within our condensed consolidated balance sheets.

Power Revenue

Customer power arrangements are coterminous with the customer's underlying lease and have the same pattern of transfer over the lease term. In general, we provide two power products, including a fixed (breakered-amperage) and variable (sub-metered) model. Over the lease term, monthly power services are substantially the same and we account for the nonlease component as a series of distinct services.

For our fixed power arrangements, a customer is billed and pays a fixed monthly fee per committed available amount of connected power. The customer simultaneously receives and consumes the power benefits we provide over the lease term and we recognize power revenue on a straight-line basis over the lease term.

For our variable power arrangements, a customer pays us variable monthly fees for the specific amount of power utilized at the current utility rates. Customers have the flexibility to increase or decrease the amount of power consumed, and therefore sub-metered power revenue is constrained at contract inception. We recognize power revenue each month as the uncertainty related to the consideration is resolved, we provide power to our customers, and our customers utilize the power.

Interconnection Revenue

Interconnection services are generally contracted on a month-to-month basis cancellable by the customer at any time. We recognize revenue each month as these services are delivered to and utilized by our customers.

Tenant Reimbursement and Other Revenue

Some of our leases contain provisions under which our customers reimburse us for common area maintenance and other executory costs. Such tenant reimbursements are recognized in the period that the expenses are recognized. We also provide other data center support services to our customers, which are generally provided to customers at a point in time. We recognize revenue each month as these service are delivered to and utilized by our customers.

A provision for uncollectible accounts is recorded if a receivable balance relating to contractual rent, rent recorded on a straight-line basis, tenant reimbursements or other billed amounts is considered by management to be uncollectible. At March 31, 2018, and December 31, 2017, the allowance for doubtful accounts totaled $0.9 million and $1.1 million, respectively, on the condensed consolidated balance sheets.

Lessee Accounting

We determine if an arrangement is a lease at inception. Our operating lease agreements are primarily for real estate space and are included within operating lease ROU assets and operating lease liabilities on the condensed consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. ROU assets also include any lease payments made and exclude lease incentives. Many of our lessee agreements include options to extend the lease, which we do not include in our minimum lease terms unless they are reasonably certain to be exercised. Rental expense for lease payments related to operating leases is recognized on a straight-line basis over the lease term.

Share-Based Compensation

We account for share-based compensation using the fair value method of accounting. The estimated fair value of the stock options granted by us is calculated based on the Black-Scholes option-pricing model. The fair value of restricted share-based and Operating Partnership unit compensation is based on the fair value of our common stock on the date of the grant. The fair value of performance share awards, which have a market condition, is based on a Monte Carlo simulation. The fair value for all share-based compensation is amortized on a straight-line basis over the vesting period. We have elected to account for forfeitures as they occur.

Asset Retirement and Environmental Remediation Obligations

We record accruals for estimated asset retirement and environmental remediation obligations. The obligations relate primarily to the removal of asbestos during development of properties as well as the estimated equipment removal costs upon termination of a certain lease where we are the lessee. At March 31, 2018, and December 31, 2017, the amount included in unearned revenue, prepaid rent and other liabilities on the condensed consolidated balance sheets was $1.5 million at each date.

Income Taxes

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with our taxable year ended December 31, 2010. To qualify as a REIT, we are required to distribute at least 90% of our taxable income to our stockholders and meet various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we generally are not subject to corporate level federal income tax on the earnings distributed currently to our stockholders. If we fail to qualify as a REIT in any taxable year, and are 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.

To maintain REIT status, we must distribute a minimum of 90% of our taxable income. However, it is our policy and intent, subject to change, to distribute 100% of our taxable income and therefore, no provision is required in the accompanying condensed consolidated financial statements for federal income taxes with regards to activities of the REIT and its subsidiary pass-through entities. The allocable share of taxable income is included in the income tax returns of its stockholders. The Company is subject to the statutory requirements of the locations in which it conducts business. State and local income taxes are accrued as deemed required in the best judgment of management based on analysis and interpretation of respective tax laws.

We have elected to treat certain subsidiaries as taxable REIT subsidiaries (“TRS”). Certain activities that we undertake must be conducted by a TRS, such as services for our tenants that could be considered otherwise impermissible for us to perform and holding assets that we cannot hold directly. A TRS is subject to corporate level federal and state income taxes.

Deferred income taxes are recognized in certain taxable entities. Deferred income tax generally is a function of the period's temporary differences (items that are treated differently for tax purposes than for financial reporting purposes), the utilization of tax net operating losses generated in prior years that previously had been recognized as deferred income tax assets and the reversal of any previously recorded deferred income tax liabilities. A valuation allowance for deferred income tax assets is provided if we believe all or some portion of the deferred income tax asset may more likely than not be realized. Any increase or decrease in the valuation allowance resulting from a change in circumstances that causes a change in the estimated realizability of the related deferred income tax asset is included in deferred tax expense. As of March 31, 2018, and December 31, 2017, the gross deferred income taxes were not material.

We currently have no liabilities for uncertain income tax positions. The earliest tax year for which we are subject to examination is 2014.

Concentration of Credit Risks

Our cash and cash equivalents are maintained in various financial institutions, which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts, and management believes that the Company is not exposed to any significant credit risk in this area. We have no off-balance sheet concentrations of credit risk, such as foreign exchange contracts, option contracts, or foreign currency hedging arrangements.

Segment Information

We manage our business as one reportable segment consisting of investments in data centers located in the United States. Although we provide services in several markets, these operations have been aggregated into one reportable segment based on the similar economic characteristics amongst all markets, including the nature of the services provided and the type of customers purchasing these services.

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3. Investment in Real Estate

The following is a summary of the properties owned or leased by market at March 31, 2018 (in thousands):

Market	Land	Buildings and Improvements	Construction in Progress	Total Cost
Boston	$ 5,154	$ 106,651	$ 146	$ 111,951
Chicago(1)	5,493	112,634	4,792	122,919
Denver	—	19,682	2,827	22,509
Los Angeles	28,467	324,173	6,880	359,520
Miami	728	11,627	691	13,046
New York	2,388	134,770	42,011	179,169
Northern Virginia	23,679	324,276	45,122	393,077
San Francisco Bay	31,386	618,154	19,520	669,060
Total	$ 97,295	$ 1,651,967	$ 121,989	$ 1,871,251

(1) On January 29, 2018, we acquired a two-acre land parcel located in downtown Chicago, Illinois, for a purchase price of $4.5 million. We expect to build a 175,000 square foot turn-key data center building on the acquired land parcel, which we refer to as CH2, upon the receipt of necessary permits and entitlements.

4. Other Assets

Other assets consisted of the following, net of amortization and depreciation, if applicable for each line item, as of March 31, 2018, and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Deferred rent receivable	$ 41,288	$ 40,038
Initial direct costs	28,319	29,979
Internal-use software	17,782	17,477
Prepaid expenses	10,420	6,770
Corporate furniture, fixtures and equipment	5,860	6,408
Deferred financing costs - revolving credit facility	796	957
Other	2,348	1,872
Total	$ 106,813	$ 103,501

5. Leases

As the lessee, we currently lease real estate space under noncancelable operating lease agreements for our turn-key data centers at NY1, LA1, DC1, DC2, DE1, and DE2, and our corporate headquarters located in Denver, Colorado. Our leases have remaining lease terms of 1 year to 20 years, some of which include options to extend the leases for up to 20 years. We do not include any of our renewal options in our lease terms for calculating our lease liability as the renewal options allow us to maintain operational flexibility and we are not reasonably certain we will exercise these options at this time. The weighted-average remaining lease term for our operating leases was five years at both March 31, 2018, and December 31, 2017. The weighted-average discount rate was 4.8% at both March 31, 2018, and December 31, 2017.

The components of lease expense were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Lease expense:		
Operating lease expense	$ 5,227	$ 5,088
Variable lease expense	1,173	874
Rent expense	$ 6,400	$ 5,962

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The future minimum lease payments to be paid under noncancelable leases in effect at March 31, 2018, are as follows (in thousands):

Period / Year Ending December 31,	Operating Leases
2018	$ 14,653
2019	22,661
2020	22,991
2021	22,740
2022	15,613
Thereafter	12,039
Total lease payments	$ 110,697
Less imputed interest	(13,389)
Total	$ 97,308

6. Contracts with Customers

The future minimum lease payments to be received under noncancelable operating leases and the minimum payments to be received for our fixed contracted power services in effect at March 31, 2018, are as follows (in thousands):

Period / Year Ending December 31,	Rent	Power
2018	$ 192,453	$ 48,559
2019	197,753	35,425
2020	136,461	17,688
2021	103,176	7,481
2022	78,777	2,684
Thereafter	168,500	2,763
Total	$ 877,120	$ 114,600

In addition to our fixed minimum lease and power service payments, we receive variable monthly fees for variable power arrangements, interconnection services and tenant reimbursements.

7. Debt

A summary of outstanding indebtedness as of March 31, 2018, and December 31, 2017, is as follows (in thousands):

	Interest Rate	Maturity Date	March 31, 2018	December 31, 2017
Revolving credit facility	3.43% and 3.11% at March 31, 2018, and December 31, 2017, respectively	June 24, 2019	$ 216,500	$ 169,500
2020 Senior unsecured term loan(1)	3.16% and 3.00% at March 31, 2018, and December 31, 2017, respectively	June 24, 2020	150,000	150,000
2021 Senior unsecured term loan	3.38% and 3.06% at March 31, 2018, and December 31, 2017, respectively	February 2, 2021	100,000	100,000
2022 Senior unsecured term loan(2)	3.28% and 3.04% at March 31, 2018, and December 31, 2017, respectively	April 19, 2022	200,000	200,000
2023 Senior unsecured notes	4.19% at March 31, 2018, and December 31, 2017, respectively	June 15, 2023	150,000	150,000
2024 Senior unsecured notes	3.91% at March 31, 2018, and December 31, 2017, respectively	April 20, 2024	175,000	175,000
Total principal outstanding		`	991,500	944,500
Unamortized deferred financing costs			(4,526)	(4,930)
Total debt			$ 986,974	$ 939,570

(1) Our Operating Partnership has in place a swap agreement with respect to the 2020 Term Loan (as defined below) to swap the variable interest rate associated with $75 million, or 50% of the principal amount, of the 2020 Term Loan to a fixed rate of approximately 2.93% per annum at our current leverage ratio. The interest rate on the remaining $75 million of the 2020 Term Loan is based on LIBOR plus the applicable spread. The effective interest rate as of March 31, 2018, is 3.16%. See Note 8 – Derivatives and Hedging Activities.

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(2) Our Operating Partnership has in place a swap agreement with respect to the 2022 Term Loan (as defined below) to swap the variable interest rate associated with $50 million, or 25% of the principal amount of the 2022 Term Loan to a fixed rate of approximately 2.98% per annum at our current leverage ratio as of March 31, 2018. The interest rate on the remaining $150 million of the 2022 Term Loan is based on LIBOR plus the applicable spread. The effective interest rate as of March 31, 2018, is 3.28%. See Note 8 – Derivatives and Hedging Activities.

Subsequent Debt Financing

On April 19, 2018, our Operating Partnership and certain subsidiary co-borrowers amended and restated the Credit Agreement, as defined below (as amended, the "Amended and Restated Credit Agreement"), in order to provide additional liquidity of $250 million, which was used to pay down a portion of the current revolving credit facility balance, fund continued development across our portfolio, and for general corporate purposes. The Amended and Restated Credit Agreement, among other things, (i) increases the revolving credit facility from $350 million to $450 million, (ii) extends the maturity of the revolving credit facility from June 24, 2019, to April 19, 2022, with a one-year extension option, and (iii) establishes a $150 million senior unsecured term loan maturing April 19, 2023 (the "2023 Term Loan"), which increases our total commitment under the Amended and Restated Credit Agreement from $600 million to $850 million. The accordion feature under the Amended and Restated Credit Agreement was also increased by $150 million to $350 million, which allows our Operating Partnership to increase the total commitment from $850 million to $1.2 billion, under specified circumstances, including securing capital from new or existing lenders.

The revolving credit facility has also been amended to bear interest at a variable rate per annum equal to either (i) LIBOR plus 145 basis points to 205 basis points, or (ii) a base rate plus 45 basis points to 105 basis points, each depending on our Operating Partnership's leverage ratio. Our 2020 Term Loan, 2021 Term Loan, 2022 Term Loan, and 2023 Term Loans, each as defined herein, have also been amended to bear interest at a variable rate per annum equal to either (i) LIBOR plus 140 basis points to 200 basis points, or (ii) a base rate plus 40 basis points to 100 basis points, each depending on our Operating Partnership's leverage ratio.

Additionally, the revolving credit facility and senior unsecured term loans were amended to remove or change certain financial covenants and other customary restrictive covenants, including removal of covenants limiting distributions (except upon an event of default), incurrence of unhedged variable rate debt, and increases or decreases, as applicable to a number of ratios and other figures in the Credit Agreement resulting in increased flexibility for our Operating Partnership. As a result of these amendments our minimum fixed charge coverage ratio has been reduced to 1.5 to 1.0 from 1.7 to 1.0.

Revolving Credit Facility

Our Operating Partnership and certain subsidiary co-borrowers have entered into a first amendment to the third amended and restated credit agreement (the "Credit Agreement") with a group of lenders for which KeyBank National

Association acts as the administrative agent. The Credit Agreement maturity date is June 24, 2019, with a one-time extension option, which, if exercised, would extend the maturity date to June 24, 2020. The exercise of the extension option is subject to the payment of an extension fee equal to 10 basis points of the total commitment under the Credit Agreement at initial maturity and certain other customary conditions. The Credit Agreement includes a total commitment of $600 million, consisting of a $350 million revolving credit facility, a $150 million unsecured term loan scheduled to mature on June 24, 2020, and a $100 million unsecured term loan scheduled to mature on February 2, 2021. See “2020 Senior Unsecured Term Loan” and “2021 Senior Unsecured Term Loan” below for a discussion of the $150 million and $100 million term loans. The Credit Agreement contains an accordion feature, which allows our Operating Partnership to increase the total commitment from $600 million to $800 million, under specified circumstances, including securing capital from new or existing lenders.

Borrowings under the revolving credit facility bear interest at a variable rate per annum equal to either (i) LIBOR plus 155 basis points to 225 basis points, or (ii) a base rate plus 55 basis points to 125 basis points, each depending on our Operating Partnership’s leverage ratio. At March 31, 2018, our Operating Partnership’s leverage ratio was 26.8% and the interest rate was LIBOR plus 155 basis points.

The total amount available for borrowing under the revolving credit facility, is equal to the lesser of $350.0 million or the availability calculated based on our unencumbered asset pool. As of March 31, 2018, the borrowing capacity was $350.0 million. As of March 31, 2018, $216.5 million was borrowed and outstanding, $4.9 million was outstanding

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under letters of credit, and therefore, $128.6 million remained available for us to borrow under the revolving credit facility. Including the impacts of our subsequent debt financing, as described above, $378.6 million currently remains available for us to borrow under our revolving credit facility.

Our ability to borrow under the Credit Agreement is subject to ongoing compliance with a number of financial covenants and other customary restrictive covenants, including, among others:

- a maximum leverage ratio (defined as total consolidated indebtedness to total gross asset value) of 60%, which, as of March 31, 2018, was 26.8%
- a maximum secured debt ratio (defined as total consolidated secured debt to total gross asset value) of 40%, which, as of March 31, 2018, was 0.0%
- a minimum fixed charge coverage ratio (defined as adjusted consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.7 to 1.0, which, as of March 31, 2018, was 8.6 to 1.0; and
- a maximum unhedged variable rate debt ratio (defined as unhedged variable rate indebtedness to gross asset value) of 30%, which, as of March 31, 2018, was 14.6%.

The Credit Agreement ranks pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2022 Term Loan, the 2023 Term Loan (each as defined herein), the 2023 Notes, and the 2024 Notes and contains the same financial covenants and other customary restrictive covenants as those debt instruments. As of March 31, 2018, we were in compliance with all of the financial covenants under the Credit Agreement.

2020 Senior Unsecured Term Loan

On June 24, 2015, in connection with, and pursuant to the terms of, the Credit Agreement, our Operating Partnership and certain subsidiaries entered into a $150 million senior unsecured term loan (the “2020 Term Loan”). The 2020 Term Loan has a five-year term maturing on June 24, 2020. The 2020 Term Loan ranks pari passu with the 2021 Term Loan, the 2022 Term Loan, the 2023 Term Loan, the 2023 Notes, the 2024 Notes and the Credit Agreement and contains the same financial covenants and other customary restrictive covenants as those debt instruments. As of March 31, 2018, we were in compliance with all of the financial covenants under the 2020 Term Loan.

The borrowings under the 2020 Term Loan bear interest at a variable rate per annum equal to either (i) LIBOR plus 150 basis points to 220 basis points, or (ii) a base rate plus 50 basis points to 120 basis points, each depending on our Operating Partnership's leverage ratio. At March 31, 2018, the Operating Partnership’s leverage ratio was 26.8% and the interest rate was LIBOR plus 150 basis points.

2021 Senior Unsecured Term Loan

On February 2, 2016, pursuant to the terms of the Credit Agreement, we partially exercised the accordion feature and entered into a $100 million senior unsecured term loan (the “2021 Term Loan”). The 2021 Term Loan has a five-year term maturing on February 2, 2021. The 2021 Term Loan ranks pari passu with the 2020 Term Loan, the 2022 Term Loan, the 2023 Term Loan, the 2023 Notes, the 2024 Notes and the Credit Agreement and contains the same financial covenants and other customary restrictive covenants as those debt instruments. As of March 31, 2018, we were in compliance with all of the financial covenants under the 2021 Term Loan.

The borrowings under the 2021 Term Loan bear interest at a variable rate per annum equal to either (i) LIBOR plus 150 basis points to 220 basis points, or (ii) a base rate plus 50 basis points to 120 basis points, each depending on our Operating Partnership’s leverage ratio. At March 31, 2018, our Operating Partnership’s leverage ratio was 26.8% and the interest rate was LIBOR plus 150 basis points.

2022 Senior Unsecured Term Loan

On April 19, 2017, our Operating Partnership and certain subsidiaries amended and restated the $100 million senior unsecured term loan, originally entered into on January 31, 2014, to (i) exercise the accordion feature to increase the total commitments to $200 million, (ii) extend the maturity of the term loan from January 31, 2019, to April 19, 2022, (iii) amend the accordion feature to allow an increase in total commitments from $200 million to $300 million, under

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specified circumstances, including securing capital from new or existing lenders, and (iv) explicitly permit the issuance of the 2024 Notes defined below (the “2022 Term Loan”).

The 2022 Term Loan ranks pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2023 Term Loan, the 2023 Notes, the 2024 Notes and the Credit Agreement and contains the same financial covenants and other customary restrictive covenants as those debt instruments. As of March 31, 2018, we were in compliance with all of the financial covenants under the 2022 Term Loan.

The borrowings under the 2022 Term Loan bear interest at a variable rate per annum equal to either (i) LIBOR plus 150 basis points to 210 basis points, or (ii) a base rate plus 50 basis points to 110 basis points, each depending on our Operating Partnership's leverage ratio. At March 31, 2018, our Operating Partnership’s leverage ratio was 26.8% and the interest rate was LIBOR plus 150 basis points.

2023 Senior Unsecured Term Loan

On April 19, 2018, in connection with, and pursuant to the terms of, the Amended and Restated Credit Agreement, our Operating Partnership and certain subsidiaries entered into the 2023 Term Loan in principal amount of $150 million. The 2023 Term Loan has a five-year term maturing on April 19, 2023. The 2023 Term Loan ranks pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2022 Term Loan, the 2023 Notes, the 2024 Notes and the Credit Agreement and contains the same financial covenants and other customary restrictive covenants as those debt instruments.

The borrowings under the 2023 Term Loan bear interest at a variable rate per annum equal to either (i) LIBOR plus 140 basis points to 200 basis points, or (ii) a base rate plus 40 basis points to 100 basis points, each depending on our Operating Partnership’s leverage ratio.

2023 Senior Unsecured Notes

On June 15, 2016, our Operating Partnership issued an aggregate principal amount of $150 million, 4.19% senior unsecured notes due June 15, 2023 (the “2023 Notes”), in a private placement to certain accredited investors. The terms of the 2023 Notes are governed by a note purchase agreement, dated June 15, 2016 (the “2023 Note Purchase Agreement”), by and among our Operating Partnership, the Company and the purchasers of the 2023 Notes.

Interest is payable semiannually, on the 15th day of June and December of each year, commencing on December 15, 2016. The 2023 Notes are senior unsecured obligations of our Operating Partnership and are jointly and severally guaranteed by the Company and each of our Operating Partnership's subsidiaries that guarantees indebtedness under our Operating Partnership's Credit Agreement (the "Subsidiary Guarantors").

Our Operating Partnership may prepay all or a portion of the 2023 Notes upon notice to the holders for 100% of the principal amount so prepaid plus a make-whole premium as set forth in the 2023 Note Purchase Agreement. Upon the occurrence of certain change of control events, holders of the 2023 Notes have the right to require our Operating Partnership to purchase 100% of such holders' 2023 Notes in cash at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

The 2023 Notes rank pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2022 Term Loan, the 2023 Term Loan, the 2024 Notes and the Credit Agreement. The 2023 Note Purchase Agreement contains the same financial covenants as the Credit Agreement, as described above. In addition, certain additional financial covenants in the Credit Agreement were automatically incorporated into the 2023 Note Purchase Agreement, and, subject to certain conditions, these additional financial covenants will be deleted, removed, amended or otherwise modified to be more or less restrictive if the analogous covenant in the Credit Agreement is so deleted, removed, amended or otherwise modified. These covenants are subject to a number of exceptions and qualifications set forth in the 2023 Note Purchase Agreement. As of March 31, 2018, we were in compliance with all of the financial covenants under the 2023 Note Purchase Agreement.

2024 Senior Unsecured Notes

On April 20, 2017, our Operating Partnership issued an aggregate principal amount of $175 million, 3.91% senior unsecured notes due April 20, 2024 (the "2024 Notes"), in a private placement to certain accredited investors. The terms

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of the 2024 Notes are governed by a note purchase agreement, dated April 20, 2017 (the “2024 Note Purchase Agreement”), by and among our Operating Partnership, the Company and the purchasers of the 2024 Notes.

Interest is payable semiannually, on the 15th day of June and December of each year, commencing on December 15, 2017. The 2024 Notes are senior unsecured obligations of our Operating Partnership and are jointly and severally guaranteed by the Company and each of the Subsidiary Guarantors.

Our Operating Partnership may prepay all or a portion of the 2024 Notes upon notice to the holders for 100% of the principal amount so prepaid plus a make-whole premium as set forth in the 2024 Note Purchase Agreement. Upon the occurrence of certain change of control events, holders of the 2024 Notes will have the right to require our Operating Partnership to purchase 100% of such holders’ 2024 Notes in cash at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

The 2024 Notes rank pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2022 Term Loan, the 2023 Term Loan, the 2023 Notes and the Credit Agreement. The 2024 Note Purchase Agreement contains the same financial covenants as the Credit Agreement, as described above. In addition, certain additional financial covenants in the Credit Agreement were automatically incorporated into the 2024 Note Purchase Agreement, and, subject to certain conditions, these additional financial covenants will be deleted, removed, amended or otherwise modified to be more or less restrictive if the analogous covenant in the Credit Agreement is so deleted, removed, amended or otherwise modified. These covenants are subject to a number of exceptions and qualifications set forth in the 2024 Note Purchase Agreement. As of March 31, 2018, we were in compliance with all of the financial covenants under the 2024 Note Purchase Agreement.

Debt Maturities

The following table summarizes when our debt currently becomes due, adjusted for the April 2018 debt financing transactions, which includes the 2023 Term Loan, and the partial repayment and extension of the revolving credit facility (in thousands):

Year Ending December 31,		
2018	$	—
2019		—
2020		150,000
2021		100,000
2022		266,500
Thereafter		475,000

Total principal outstanding	991,500
Unamortized deferred financing costs	(4,526)
Total debt, net	$ 986,974

8. Derivatives and Hedging Activities

On April 19, 2018, we entered into a $75 million forward starting five-year interest rate swap agreement, effective May 5, 2018, to protect against adverse fluctuation in interest rates. The swap reduces our exposure to variability in cash flows relating to interest payments on $75 million of one-month LIBOR variable rate debt and effectively fixes the interest rate at approximately 4.11% per annum.

On April 21, 2017, we terminated $50 million of our previously existing $100 million five-year interest rate swap agreement that reduces our exposure to variability in cash flows relating to interest payments based on one-month LIBOR variable rate debt, resulting in a remaining $50 million interest rate swap effective through January 31, 2019, at approximately 2.98% per annum as of March 31, 2018, and December 31, 2017.

On April 9, 2015, we entered into a $75 million forward starting five-year interest rate swap agreement, effective May 5, 2015, to protect against adverse fluctuation in interest rates. The swap reduces our exposure to variability in cash flows relating to interest payments on $75 million of one-month LIBOR variable rate debt and effectively fixes the interest rate at approximately 2.93% per annum. All interest rate swap agreements were designated for hedge accounting.

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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 receipt or payment of future known or 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 receipts and our known or expected cash payments principally related to our investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to reduce variability in interest expense and to manage our exposure to adverse 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 the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income or loss on the condensed consolidated balance sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The amounts recorded in other comprehensive income or loss related to the unrealized gain on derivative contracts were $0.6 million and $0.3 million for the three months ended March 31, 2018, and 2017, respectively. The amounts reclassified from other comprehensive income to interest expense on the condensed consolidated statements of operations was less than ($0.1) million and $0.3 million for the three months ended March 31, 2018, and 2017, respectively. Any ineffective portion of the change in fair value of the derivatives is recognized directly in net income. During the three months ended March 31, 2018, and 2017, we did not record any amount in net income related to derivatives as there was no hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the subsequent twelve months, beginning April 1, 2018, we estimate that $0.7 million will be reclassified as an increase to interest expense.

Derivatives are recorded at fair value in our condensed consolidated balance sheets in other assets or unearned revenue, prepaid rent and other liabilities, as applicable. We do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure. We had $1.7 million and $1.1 million in derivative assets recognized in other assets in our condensed consolidated balance sheets as of March 31, 2018, and December 31, 2017, respectively.

9. Stockholders' Equity

We announced the following dividends per share on our common stock during the three months ended March 31, 2018:

Declaration Date	Record Date	Payment Date	Common Stock
March 9, 2018	March 29, 2018	April 16, 2018	$ 0.98

10. Noncontrolling Interests — Operating Partnership

Noncontrolling interests represent the limited partnership interests in our Operating Partnership held by individuals and entities other than CoreSite Realty Corporation. The current holders of common Operating Partnership units are eligible to have the common Operating Partnership units redeemed for cash or common stock on a one-for-one basis, at our option.