OFFICE PROPERTIES

INCOME TRUST

2019 Annual Report

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2019

or

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

Commission file number 1-34364

OFFICE PROPERTIES INCOME TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**26-4273474**
(State of Organization)	(IRS Employer Identification No.)

Two Newton Place, 255 Washington Street, Suite 300, Newton, MA 02458-1634
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code **617-219-1440**

Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class	Trading Symbol(s)	Name Of Each Exchange On Which Registered
Common Shares of Beneficial Interest	OPI	The Nasdaq Stock Market LLC
5.875% Senior Notes due 2046	OPINI	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ 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 aggregate market value of the voting common shares of beneficial interest, $.01 par value, or common shares, of the registrant held by non-affiliates was approximately $1.2 billion based on the $26.27 closing price per common share on The Nasdaq Stock Market LLC on June 28, 2019. For purposes of this calculation, an aggregate of 797,807 common shares held directly by, or by affiliates of, the trustees and the executive officers of the registrant have been included in the number of common shares held by affiliates.

Number of the registrant's common shares outstanding as of February 19, 2020: 48,201,531.

References in this Annual Report on Form 10-K to the Company, OPI, we, us or our mean Office Properties Income Trust and its consolidated subsidiaries unless otherwise expressly stated or the context indicates otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference to our definitive Proxy Statement for the 2020 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2019.

Warning Concerning Forward-Looking Statements

This Annual Report on Form 10-K contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws. Also, whenever we use words such as "believe", "expect", "anticipate", "intend", "plan", "estimate", "will", "may" and negatives or derivatives of these or similar expressions, we are making forward-looking statements. These forward-looking statements are based upon our present intent, beliefs or expectations, but forward-looking statements are not guaranteed to occur and may not occur. Forward-looking statements in this Annual Report on Form 10-K relate to various aspects of our business, including:

- Our sales and acquisitions of properties,
- Our ability to compete for acquisitions and tenancies effectively,
- The likelihood that our tenants will pay rent or be negatively affected by cyclical economic conditions or government budget constraints,
- The likelihood that our tenants will renew or extend their leases and not exercise early termination options pursuant to their leases or that we will obtain replacement tenants,
- The likelihood that our rents will increase when we renew or extend our leases or enter new leases,
- Our ability to pay distributions to our shareholders and to increase the amount of such distributions,
- Our expectations regarding our future financial performance including funds from operations, or FFO, available for common shareholders, normalized funds from operations, or Normalized FFO, available for common shareholders, property net operating income, or NOI, and cash basis NOI,
- Our policies and plans regarding investments, financings and dispositions,
- Our expectations regarding occupancy at our properties,
- The future availability of borrowings under our revolving credit facility,
- Our expectation that there will be opportunities for us to acquire, and that we will acquire, additional properties primarily leased to single tenants and tenants with high credit quality characteristics like government entities,
- Our expectations regarding demand for leased space,
- Our expectations regarding capital expenditures,
- Our ability to raise debt or equity capital,
- Our ability to pay interest on and principal of our debt,
- Our ability to appropriately balance our use of debt and equity capital,
- Our ability to successfully execute our capital recycling program,
- Our credit ratings,
- Our expectation that we benefit from our relationships with The RMR Group Inc., or RMR Inc.,
- The credit qualities of our tenants,
- Our qualification for taxation as a real estate investment trust, or REIT,

- Changes in federal or state tax laws, and
- Other matters.

Our actual results may differ materially from those contained in or implied by our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. Risks, uncertainties and other factors that could have a material adverse effect on our forward-looking statements and upon our business, results of operations, financial condition, FFO available for common shareholders, Normalized FFO available for common shareholders, NOI, cash basis NOI, cash flows, liquidity and prospects include, but are not limited to:

- The impact of conditions in the economy and the capital markets on us and our tenants,
- Competition within the real estate industry, particularly in those markets in which our properties are located,
- The impact of changes in the real estate needs and financial conditions of our tenants,
- Compliance with, and changes to, federal, state and local laws and regulations, accounting rules, tax laws and similar matters,
- The impact of any U.S. government shutdown on our ability to collect rents or pay our operating expenses, debt obligations and distributions to shareholders on a timely basis,
- Actual and potential conflicts of interest with our related parties, including our Managing Trustees, The RMR Group LLC, or RMR LLC, RMR Inc., and others affiliated with them,
- Limitations imposed on our business and our ability to satisfy complex rules in order for us to maintain our qualification for taxation as a REIT for U.S. federal income tax purposes, and
- Acts of terrorism, outbreaks of so-called pandemics or other manmade or natural disasters beyond our control.

For example:

- Our ability to make future distributions to our shareholders and to make payments of principal and interest on our indebtedness depends upon a number of factors, including our future earnings, the capital costs we incur to lease our properties and our working capital requirements. We may be unable to pay our debt obligations or to maintain our current rate of distributions on our common shares and future distributions may be reduced or eliminated,
- Our ability to grow our business and increase our distributions depends in large part upon our ability to buy properties and lease them for rents, less their property operating costs, that exceed our capital costs. We may be unable to identify properties that we want to acquire, and we may fail to reach agreement with the sellers and complete the purchases of any properties we want to acquire. In addition, any properties we may acquire may not provide us with rents less property operating costs that exceed our capital costs or achieve our expected returns,
- We may fail to maintain, or we may elect to change, our target payout ratio for distributions to shareholders of 75% of cash available for distribution. Further, our Board of Trustees sets and resets our distribution rate from time to time after considering many factors, including cash available for distribution. Accordingly, future distribution rates may be increased or decreased and there is no assurance as to the rate at which future distributions will be paid,
- We plan to selectively sell certain properties from time to time to fund future acquisitions and to strategically update, rebalance and reposition our investment portfolio, which we refer to as our capital recycling program. We cannot be sure we will sell any of these properties or what the

terms of any sales may be nor that we will acquire replacement properties that improve our asset quality or our ability to increase our distributions to shareholders,

- We may not succeed in maintaining our leverage consistent with our current investment grade ratings or levels that the market or credit rating agencies believe are appropriate,
- Some of our tenants may not renew expiring leases, and we may be unable to obtain new tenants to maintain or increase the historical occupancy rates of, or rents from, our properties,
- Some government tenants may exercise their rights to vacate their space before the stated expirations of their leases, and we may be unable to obtain new tenants to maintain the historical occupancy rates of, or rents from, our properties,
- Rents that we can charge at our properties may decline upon renewals or expirations because of changing market conditions or otherwise,
- Leasing for some of our properties depends on a single tenant and we may be adversely affected by the bankruptcy, insolvency, a downturn of business or a lease termination of a single tenant,
- Our belief that there is a likelihood that tenants may renew or extend our leases prior to their expirations whenever they have made significant investments in the leased properties, or because those properties may be of strategic importance to them, may not be realized,
- Our belief that the reduction in government tenant space utilization and the consolidation of government tenants into government owned real estate is substantially complete may prove misplaced if these prior trends continue or do not moderate to the extent we expect,
- Our perception that recent activity suggests that the government has begun to shift its leasing strategy to include longer term leases and that the government is actively exploring 10 to 20 year lease terms at renewal, in some instances, may mistakenly imply that these activities are indicative of a trend or broader change in government leasing strategy or practices. Further, even if they may be indicative of such a trend or change, that trend or change may not be sustained by the government,
- Contingencies in our acquisition and sale agreements may not be satisfied and any expected acquisitions and sales and any related lease arrangements we expect to enter may not occur, may be delayed or the terms of such transactions or arrangements may change,
- We are substantially complete with our disposition program and are currently marketing four properties for sale. However, we may not succeed in selling any or all of these properties,
- In 2020, we expect to pursue accretively growing our property portfolio. However, we may not succeed in making acquisitions that are accretive and future acquisitions could be dilutive,
- The competitive advantages we believe we have may not in fact exist or provide us with the advantages we expect. We may fail to maintain any of these advantages or our competition may obtain or increase their competitive advantages relative to us,
- We intend to conduct our business activities in a manner that will afford us reasonable access to capital for investment and financing activities. However, we may not succeed in this regard and we may not have reasonable access to capital,
- Continued availability of borrowings under our revolving credit facility is subject to our satisfying certain financial covenants and other credit facility conditions that we may be unable to satisfy,
- Actual costs under our revolving credit facility will be higher than LIBOR plus a premium because of fees and expenses associated with such debt,

- The interest rates payable under our floating rate debt obligations depend upon our credit ratings. If our credit ratings are downgraded, our borrowing costs will increase,
- Our ability to access debt capital and the cost of our debt capital will depend in part on our credit ratings. If our credit ratings are downgraded, we may not be able to access debt capital or the debt capital we can access may be expensive,
- We may be unable to repay our debt obligations when they become due,
- The maximum borrowing availability under our revolving credit facility may be increased to up to $1.95 billion in certain circumstances; however, increasing the maximum borrowing availability under our revolving credit facility is subject to our obtaining additional commitments from lenders, which may not occur,
- We have the option to extend the maturity date of our revolving credit facility upon payment of a fee and meeting other conditions; however, the applicable conditions may not be met,
- We may incur significant costs to prepare a property for a tenant, particularly for single tenant properties,
- We may spend more for capital expenditures than we currently expect,
- We may fail to obtain development rights or entitlements that we may seek for development and other projects we may wish to conduct at our properties,
- Any joint venture arrangements that we may enter may not be successful,
- The business and property management agreements between us and RMR LLC have continuing 20 year terms. However, those agreements permit early termination in certain circumstances. Accordingly, we cannot be sure that these agreements will remain in effect for continuing 20 year terms,
- We believe that our relationships with our related parties, including RMR LLC, RMR Inc., and others affiliated with them may benefit us and provide us with competitive advantages in operating and growing our business. However, the advantages we believe we may realize from these relationships may not materialize, and
- It is difficult to accurately estimate leasing related obligations and costs of development and tenant improvement costs. Our unspent leasing related obligations and development costs may cost more and may take longer to complete than we currently expect, and we may incur increased amounts for these and similar purposes in the future.

Currently unexpected results could occur due to many different circumstances, some of which are beyond our control, such as changes in our tenants' needs for leased space, the ability of the U.S. government to approve spending bills to fund the U.S. government's obligations, acts of terrorism, natural disasters or changes in capital markets or the economy generally.

The information contained elsewhere in this Annual Report on Form 10-K or in our other filings with the Securities and Exchange Commission, or SEC, including under the caption "Risk Factors", or incorporated herein or therein, identifies other important factors that could cause differences from our forward-looking statements. Our filings with the SEC are available on the SEC's website at www.sec.gov.

You should not place undue reliance upon our forward-looking statements.

Except as required by law, we do not intend to update or change any forward-looking statements as a result of new information, future events or otherwise.

Statement Concerning Limited Liability

The amended and restated declaration of trust establishing Office Properties Income Trust, dated June 8, 2009, as amended, as filed with the State Department of Assessments and Taxation of Maryland, provides that no trustee, officer, shareholder, employee or agent of Office Properties Income Trust shall be held to any personal liability, jointly or severally, for any obligation of, or claim against, Office Properties Income Trust. All persons dealing with Office Properties Income Trust in any way shall look only to the assets of Office Properties Income Trust for the payment of any sum or the performance of any obligation.

OFFICE PROPERTIES INCOME TRUST

2019 FORM 10-K ANNUAL REPORT

Table of Contents

PART I

Item 1. Business

Our Company

We are a real estate investment trust, or REIT, formed in 2009 under Maryland law. As of December 31, 2019, our wholly owned properties were comprised of 189 properties with approximately 25.7 million rentable square feet (all square footage amounts included within this Annual Report on Form 10-K are unaudited) and we had a noncontrolling ownership interest in three properties through two unconsolidated joint ventures in which we own 51% and 50% interests. As of December 31, 2019, our properties have an undepreciated carrying value of approximately $3.5 billion and a depreciated carrying value of approximately $3.1 billion, excluding properties classified as held for sale. As of December 31, 2019, our properties were leased to 374 different tenants, with a weighted average remaining lease term (based on annualized rental income) of approximately 5.7 years. The U.S. Government is our largest tenant, representing approximately 25.0% of our annualized rental income as of December 31, 2019. The term annualized rental income as used herein is defined as the annualized contractual base rents from our tenants pursuant to our lease agreements as of December 31, 2019, plus straight line rent adjustments and estimated recurring expense reimbursements to be paid to us, and excluding lease value amortization.

Our principal executive offices are located at Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458-1634, and our telephone number is (617) 219-1440.

Merger with Select Income REIT

On December 31, 2018, we completed our acquisition of Select Income REIT, or SIR, a REIT that owned properties primarily net leased to single tenants, pursuant to a merger transaction, or the SIR Merger. As a result of the SIR Merger, we acquired SIR's property portfolio of 99 properties with approximately 16.5 million rentable square feet.

The aggregate transaction value, based on the closing price of our common shares on December 31, 2018 of $6.87 per share (prior to the Reverse Share Split, as defined below), was approximately $2.4 billion, excluding closing costs of approximately $27.5 million ($14.5 million of which was paid by us and $13.0 million of which was paid by SIR) and including the repayment or assumption of approximately $1.7 billion of SIR debt. In connection with the SIR Merger, SIR shareholders received 1.04 of our newly issued common shares for each common share of SIR, with cash paid in lieu of fractional shares. As a condition of the SIR Merger, on October 9, 2018, we sold all of the 24,918,421 common shares of SIR we then owned, or the Secondary Sale. In addition, as a condition of the SIR Merger, on December 27, 2018, SIR paid a pro rata distribution to SIR's shareholders of record as of the close of business on December 20, 2018 of all 45,000,000 common shares of beneficial interest of Industrial Logistics Properties Trust, or ILPT, that SIR owned, or the ILPT Distribution. The SIR Merger and the other transactions in connection with the SIR Merger, including the Secondary Sale and the ILPT Distribution, are collectively referred to herein as the SIR Transactions.

Following completion of the SIR Transactions, on December 31, 2018, we effected a reverse share split of our common shares, or the Reverse Share Split, pursuant to which every four of our common shares issued and outstanding as of the effective time of the Reverse Share Split were converted and reclassified into one of our common shares.

For more information regarding the SIR Transactions, see Notes 1, 3, 5, 10 and 11 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Acquisition of First Potomac Realty Trust

On October 2, 2017, we completed our acquisition of First Potomac Realty Trust, or FPO, as a result of which we acquired 72 properties with approximately 6.0 million rentable square feet, and three properties with approximately 0.4 million rentable square feet owned by joint ventures in which we acquired FPO's 51% and 50% interests, or collectively, the FPO Transaction. The aggregate value we paid for FPO was approximately $1.4 billion, including approximately $651.7 million in cash to FPO shareholders, the repayment of approximately $483.0 million of FPO debt and the assumption of approximately $167.5 million of FPO mortgage debt; this amount excludes our share of the $82.0 million of mortgage debt that encumbers the three joint venture properties and the payment of certain transaction fees and expenses, net of FPO cash on hand. See Note 3 to the Notes to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K for more information regarding the FPO Transaction and our related financing activities.

Our Business Strategy

Our business plan is to focus on owning, operating and leasing properties primarily leased to single tenants and those with high credit quality characteristics like government entities. We seek to maintain our properties, extend or enter new leases as leases approach expiration as well as enter new leases for our vacant space and selectively acquire additional properties.

As our current lease expirations approach, we will attempt to renew our leases with existing tenants or to enter leases with new tenants, in both circumstances at rents equal to or higher than the rents we now receive. Our ability to renew leases with our existing tenants or to enter new leases with new tenants and the rents we are able to charge will depend in large part upon market conditions which are generally beyond our control. For our properties that are leased to single tenants, because of the capital improvements in which many of these tenants have invested and because many of our properties that are leased to single tenants appear to have strategic importance to the tenants' businesses, we believe that there is a greater likelihood that these tenants will renew or extend their leases when they expire as compared to tenants that have not invested capital into a property or where the property location may not be strategic to its business. However, we also believe that if a property previously occupied by a single tenant becomes vacant, it may take longer and cost more to locate a replacement tenant than compared to space for lease in a multi-tenant property because in place improvements designed specifically for the needs of the prior single tenant may not suit a replacement tenant's needs.

We expect to selectively sell properties from time to time when we determine our continued ownership or ongoing required capital expenditures will not achieve desired returns or when we believe we can successfully pursue more desirable opportunities than retaining those properties. We also expect to use sales proceeds to acquire new properties that we believe will help us reduce the average age of our properties, increase our weighted average lease term, reduce our ongoing capital requirements and/or increase our distributions to shareholders. We refer to this as our capital recycling program.

Our Growth Strategy

Our internal growth strategy is to attempt to increase the rents we receive from our current properties. To achieve rent increases we may invest in our properties to make improvements requested by existing tenants or to induce lease renewals or new tenant leases when our current leases expire or vacant space is leased. However, as noted above, our ability to maintain or increase the rents we receive from our current properties will depend in large part upon market conditions which are beyond our control.

Our external growth strategy is defined by our investment policies, including our capital recycling program, and our acquisition, disposition and financing policies.

Our Investment Policies

Our investment objectives include acquiring properties that produce yields that are greater than the yields of properties we are disposing in connection with our capital recycling program, as well as acquiring properties with yields that are greater than our cost of capital, with a goal of (1) improving the asset quality of our portfolio by reducing the average age of our properties, lengthening the weighted average term of our leases and increasing the likelihood of retaining our tenants and (2) increasing our distributions to shareholders. To achieve these objectives, we seek to: (1) invest in institutional quality properties with high credit quality tenants; (2) use asset sales proceeds to fund additional investments and to maintain leverage consistent with our current investment grade ratings; (3) when market conditions permit, refinance debt with long term debt or additional equity; and (4) pursue diversification so that our cash flow from operations comes from diverse properties and tenants.

Acquisition Policies. We currently intend to focus our investments in U.S. office properties primarily in markets we believe have strong economic fundamentals to support growth, including (1) properties leased to single tenants that are strategic to the tenants and which may include built-to-suit properties, corporate headquarters and properties where tenants have invested meaningful capital, with a minimum remaining lease term of at least seven years and (2) properties leased to government tenants, including single and multi-tenant properties, with a focus on agencies that have high security needs or a mission strategic to the properties' location. We also expect to seek investments primarily in first generation properties where we believe there is a reasonably high likelihood of renewing the tenants in place and where we expect ongoing capital needs to be relatively modest when compared to older properties.

We expect to use the extensive nationwide resources of our manager, The RMR Group LLC, or RMR LLC, to locate and manage the acquisition of such properties. We expect most of our future acquisitions will be office properties; however, we may consider acquiring other types of properties, including properties which have a mix of retail or housing uses. We also expect to further diversify our sources of rents, which we expect would improve the security of our revenues.

In implementing our acquisition strategy, we consider a range of factors relating to proposed property purchases including:

- the return on the properties being sold to finance any acquisition compared to the projected returns we may realize by owning the property we would acquire;
- our cost of capital compared to the projected returns we may realize by owning the property;
- the pricing of comparable properties as evidenced by recent arm's length market sales;
- the strategic fit of the property with the rest of our properties and how it may strategically improve key attributes of our portfolio;
- the ongoing capital requirements for the property;
- the market location of the property and our assessment of rent growth for that market;
- the likelihood of the tenant(s) renewing at lease expiration;
- the type of property (e.g., single tenant or multi-tenant, etc.);
- the growth, tax and regulatory environments of the market in which the property is located;
- the occupancy and demand for similar properties in the same or nearby markets;
- the current or potential market position of the property;
- the historic and projected rents received and likely to be received from the property;

- the historic and expected operating expenses, including real estate taxes, incurred and expected to be incurred at the property;
- the remaining term of the lease(s) at the property and other lease terms;
- the industry(ies) in which the tenant(s) operate;
- the experience and credit quality of the property's tenant(s);
- the current and expected future space utilization at the property by its tenant(s);
- the construction quality, physical condition, age and design of the property;
- expected capital expenditures that may be needed at the property;
- the use and size of the property;
- the price at which the property may be acquired;
- the estimated replacement cost of the property; and
- the existence of alternative sources, uses or needs for our capital, including our debt leverage.

Other Acquisitions. We prefer wholly owned investments in fee interests. However, we may invest in leaseholds, joint ventures, mortgages and other real estate interests. We currently own 51% and 50% interests in two unconsolidated joint ventures. In the future, we may invest in or enter into additional real estate joint ventures if we conclude that by doing so we may benefit from the participation of co-venturers, or that our opportunity to participate in the investment is contingent on the use of a joint venture structure or that pre-existing joint venture arrangements may be part of an acquisition we wish to make. We may invest in participating, convertible or other types of mortgages if we conclude that by doing so, we may benefit from the cash flow or appreciation in the value of a property which is not available for purchase.

We have in the past considered, and may in the future consider, the possibility of entering into mergers or strategic combinations with other companies. The principal goals of any such transaction will be to increase our cash flow from operations and to further diversify our revenue sources.

We have no policies which specifically limit the percentage of our assets that may be invested in any individual property, in any one type of property, in properties managed by or leased to any one entity, in properties managed by or leased to any affiliated group of entities or in securities of one or more other persons.

Our Board of Trustees may change our acquisition policies without a vote of, or notice to, our shareholders.

Disposition Policies. We expect to sell properties, from time to time, in order to recycle capital into properties that we believe have better long term earnings potential. We make disposition decisions based on a number of factors including, but not limited to, the following:

- the estimated sales price or value we may receive by selling the property;
- the capital required to maintain the property;
- our intended use of the proceeds we may realize from the sale of a property;
- our expectation regarding tenant lease renewals or the likelihood of finding (a) replacement tenant(s) if the property has significant vacancies or is likely to become substantially vacant;
- our evaluation of future rent for the property relative to leasing costs;
- the strategic fit of the property or investment with the rest of our portfolio;

- the remaining length of the current lease(s) and its (their) other terms;
- the potential costs associated with finding replacement tenant(s), including tenant improvements, leasing commissions and concessions, the cost to operate the property while vacant and building improvement capital, as compared to our projected returns from future rents;
- the occupancy of the property;
- the future expected space utilization of the tenant(s) and the potential impact that may have on occupancy at the property;
- whether the property's tenant(s) is current on its lease obligation(s);
- our evaluation of the property's tenant(s) ability to pay its contractual rents;
- the tax implications to us and our shareholders of any proposed dispositions;
- our financial position and needs from time to time; and
- the existence of alternative sources, uses or needs for capital, including our debt leverage.

During the year ended December 31, 2019, we sold 58 properties with 6.2 million rentable square feet for an aggregate sales price of approximately $848.9 million, excluding closing costs. Since January 1, 2020, we have sold an additional three properties with 0.2 million rentable square feet for an aggregate sales price of approximately $21.1 million, excluding closing costs. As of February 19, 2020, we have entered into agreements to sell three properties with 0.6 million rentable square feet for approximately $64.3 million, excluding closing costs. In addition, we are currently marketing for sale four properties containing approximately 0.2 million rentable square feet. We cannot be sure we will sell any properties we are marketing for prices in excess of their carrying values. With our current disposition program substantially complete, we expect to pursue accretively growing our property portfolio in 2020 through our capital recycling program. Pursuant to our capital recycling program, we plan to sell certain properties from time to time to fund future acquisitions and to maintain leverage consistent with our current investment grade ratings with a goal of (1) improving the asset quality of our portfolio by reducing the average age of our properties, lengthening the weighted average term of our leases and increasing the likelihood of retaining our tenants and (2) increasing our distributions to shareholders.

Our Financing Policies

To qualify for taxation as a REIT under the United States Internal Revenue Code of 1986, as amended, or the IRC, we must distribute at least 90% of our annual REIT taxable income (excluding net capital gains). Accordingly, we generally will not be able to retain sufficient cash to fund our operations, repay our debts, invest in our properties and fund acquisitions and development or redevelopment efforts. We expect to use proceeds from our capital recycling program to fund acquisitions and to maintain leverage consistent with our current investment grade ratings. We also expect to repay our debts, invest in our properties and fund acquisitions and development or redevelopment efforts with borrowings under our revolving credit facility (as defined below), proceeds from debt or equity securities we may issue or retained cash from operations that may exceed our distributions paid. To the extent we obtain additional debt financing, we may do so on an unsecured or a secured basis. We may seek to obtain lines of credit or to issue securities senior to our common shares, including preferred shares or debt securities, which may be convertible into our common shares or be accompanied by warrants to purchase our common shares. We may also finance acquisitions by assuming debt or through the issuance of equity or other securities. The proceeds from any of our financings may be used to pay distributions, to provide working capital, to refinance existing indebtedness or to finance acquisitions and expansions of existing or new properties.

Although there are no limitations in our organizational documents on the type or amount of indebtedness we may incur, the borrowing limitations established by the covenants in the credit agreement governing our revolving credit facility, or our credit agreement, and our senior unsecured notes indentures and their supplements currently restrict our ability to incur indebtedness and require us to comply with certain financial and other covenants. However, we may seek to amend these covenants or seek replacement financings with less restrictive covenants. In the future, we may decide to seek changes in the financial covenants which currently restrict our debt leverage based upon then current economic conditions, the relative availability and costs of debt versus equity capital and our need for capital to take advantage of acquisition opportunities or otherwise.

We currently have a $750.0 million unsecured revolving credit facility, or our revolving credit facility, that we use for working capital and general business purposes, including to fund acquisitions on an interim basis until we may refinance with equity or term debt. In some instances, we may assume outstanding mortgage debt in connection with our acquisitions or place new mortgages on properties we own. For more information regarding our financing sources and activities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Our Investment and Financing Liquidity and Resources" included in Part II, Item 7 of this Annual Report on Form 10-K.

Generally, we intend to manage our leverage in a way that may allow us to maintain "investment grade" ratings from nationally recognized statistical rating organizations. As a result of the FPO Transaction and the SIR Merger, our leverage increased through our assumption and issuance of additional debt. During 2019, we successfully reduced our leverage by disposing of properties, completing the Secondary Sale and selling all of the approximately 2.8 million shares of class A common stock of RMR Inc. that we previously owned. However, we cannot be sure that we will be able to maintain our investment grade ratings in the future.

Our Board of Trustees may change our financing policies at any time without a vote of, or notice to, our shareholders.

Other Information

Employees. We have no employees. Services which would otherwise be provided to us by employees are provided by RMR LLC and by our Managing Trustees and officers. As of December 31, 2019, RMR LLC had approximately 600 full time employees in its headquarters and regional offices located throughout the United States.

Our Manager. RMR Inc. is a holding company and substantially all of its business is conducted by its majority owned subsidiary, RMR LLC. Our Chair of our Board of Trustees and one of our Managing Trustees, Adam D. Portnoy, as the sole trustee of ABP Trust, is the controlling shareholder of RMR Inc. and is a managing director and the president and chief executive officer of RMR Inc. and an officer and employee of RMR LLC. David M. Blackman, our other Managing Trustee and our President and Chief Executive Officer, also serves as an officer and employee of RMR LLC. Our day to day operations are conducted by RMR LLC. RMR LLC originates and presents investment and divestment opportunities to our Board of Trustees and provides management and administrative services to us. RMR LLC has a principal place of business at Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458-1634, and its telephone number is (617) 796-8390. RMR LLC or its subsidiaries also acts as the manager to Service Properties Trust (formerly known as Hospitality Properties Trust), or SVC, ILPT, Diversified Healthcare Trust (formerly known as Senior Housing Properties Trust), or DHC, and Tremont Mortgage Trust, or TRMT, and provides management and other services to other private and public companies, including Five Star Senior Living Inc., or Five Star, TravelCenters of America Inc., or TA, and Sonesta International Hotels Corporation, or Sonesta. As of the date of this Annual Report on Form 10-K, the executive officers of RMR LLC are: Adam D.

Portnoy, President and Chief Executive Officer; David M. Blackman, Executive Vice President; Jennifer B. Clark, Executive Vice President, General Counsel and Secretary; Matthew P. Jordan, Executive Vice President, Chief Financial Officer and Treasurer; John G. Murray, Executive Vice President; and Jonathan M. Pertchik, Executive Vice President. Our Chief Financial Officer and Treasurer, Matthew C. Brown, is a Senior Vice President of RMR LLC. Our Vice President, Christopher J. Bilotto, is a Vice President of RMR LLC. Messrs. Blackman, Brown and Bilotto and other officers of RMR LLC also serve as officers of other companies to which RMR LLC or its subsidiaries provide management services.

Environmental Matters. Ownership of real estate is subject to risks associated with environmental matters. When we acquire properties we perform environmental site assessments and where there are concerns we do additional monitoring and periodic assessments. We require our tenants to maintain compliance with environmental laws and we also monitor any known conditions. Although we do not believe that there are environmental conditions at any of our properties that will materially and adversely affect us, we cannot be sure that such conditions or costs we may be required to incur in the future to address environmental contamination will not materially and adversely affect us.

Sustainability. In reaction to the Energy Policy Act of 2005, the U.S. Government has instituted "green lease" policies which include the "Promotion of Energy Efficiency and Use of Renewable Energy" as one of the factors it considers when leasing property. The Energy Independence and Security Act of 2007 also allows the General Services Administration, or GSA, to give preference to properties for lease that have received an "ENERGY STAR" certification. The ENERGY STAR program is a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy which is focused on promoting energy efficient products and properties. Properties that reach a specified level of energy efficiency may receive the ENERGY STAR recognition for a period of 12 months before the requirement that they be recertified. Furthermore, certain properties are not eligible for ENERGY STAR certification. For example, lab uses, medical office properties and properties less than 50% occupied cannot be ENERGY STAR certified. For the year ended December 31, 2019, 40 of our properties with an aggregate of 5.8 million rentable square feet (21.7% and 23.2% of our eligible properties and eligible rentable square feet, respectively) were ENERGY STAR certified.

The U.S. Government's "green lease" policies also permit government tenants to require Leadership in Energy and Environmental Design, or LEED®, designation in selecting new premises or renewing leases at existing premises. The LEED® designation program is administered by the U.S. Green Building Council, a nonprofit organization focused on promoting environmental sustainability for the built environment. Properties that reach specified levels of sustainability may receive a LEED® designation. As of December 31, 2019, 28 of our properties with an aggregate of 4.5 million rentable square feet (15.2% and 18.0% of our total properties and total rentable square feet, respectively) were LEED® designated.

In an effort to reduce the effects of any increased energy costs in the future, we continuously study ways to improve the energy efficiency at all of our properties. Our property manager, RMR LLC, is a member of the "ENERGY STAR" partner program, and a member of the U.S. Green Building Council. We believe our effort to obtain additional ENERGY STAR labels and/or LEED® designations and manage our properties in a sustainable manner benefits our business while also bettering the environment. We are also monitoring the U.S. presidential administration policies and practices for potential changes to "green lease" policies. For more information, see "Risk Factors—Risks Related to Our Business—The U.S. Government's "green lease" policies may adversely affect us" included in Part I, Item 1A of this Annual Report on Form 10-K.

Competition. Investing in and operating real estate properties is a highly competitive business. We compete against publicly traded and private REITs, numerous financial institutions, individuals and public and private companies, including entities funded by both domestic and foreign capital, who are actively engaged in this business. Some of our competitors may have greater financial and other resources, or lower costs of capital than us. Also, we compete for investments based on a number of factors including purchase prices, closing terms, underwriting criteria and our reputation. Our ability to successfully compete is also materially impacted by the availability and cost of capital to us. We do not believe we have a dominant position in any of the geographic markets in which we operate, but some of our competitors are dominant in selected markets. We believe the experience and abilities of our management and our manager, the quality of our properties, the diversity and credit qualities of our tenants, and the structure of our leases may afford us some competitive advantages and allow us to operate our business successfully despite the competitive nature of our business. For additional information about competition and other risks associated with our business, see "Risk Factors" included in Part I, Item 1A of this Annual Report on Form 10-K.

Insurance. We generally have insurance coverage for our properties and the operations conducted on them, including for casualty, liability, fire and extended coverage. We previously participated with other companies to which RMR LLC or its subsidiaries provide management services in a combined property insurance program through Affiliates Insurance Company, or AIC. The policies under that program expired on June 30, 2019 and we and the other companies to which RMR LLC provides services elected not to renew the AIC property insurance program; we instead have purchased standalone property insurance coverage with unrelated third party insurance providers.

Other Matters. Legislative and regulatory developments may occur at the federal, state and local levels that have direct or indirect impact on the ownership, leasing and operation of our properties. We may need to make expenditures, to the extent these costs are not paid by our tenants, due to changes in government regulations, or the application of such regulations to our properties, including the Americans with Disabilities Act, fire and safety regulations, building codes, land use regulations or environmental regulations on containment, abatement or removal.

Segment Information. As of December 31, 2019, we had one operating segment: direct ownership of real estate properties. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Item 7 of this Annual Report on Form 10-K and our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Internet Website. Our internet website address is www.opireit.com. Copies of our governance guidelines, our code of business conduct and ethics, or our Code of Conduct, and the charters of our audit, compensation and nominating and governance committees are posted on our website and also may be obtained free of charge by writing to our Secretary, Office Properties Income Trust, Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts, 02458-1634. We also have a policy outlining procedures for handling concerns or complaints about accounting, internal accounting controls or auditing matters and a governance hotline accessible on our website that shareholders can use to report concerns or complaints about accounting, internal accounting controls or auditing matters or violations or possible violations of our Code of Conduct. We make available, free of charge, through the "Investors" section of our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after these forms are filed with, or furnished to, the Securities and Exchange Commission, or SEC. Any material we file with or furnish to the SEC is also maintained on the SEC website, www.sec.gov. Securityholders may send communications to our Board of Trustees or individual Trustees by writing to the party for whom the communication is intended at c/o Secretary, Office Properties Income Trust, Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458-1634 or by email at secretary@opireit.com. Our website address is included several times in this Annual Report on Form 10-K as a textual reference only. The information on or accessible through our website is not incorporated by reference into this Annual Report on Form 10-K or other documents we file with, or furnish to, the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Those disclosures will be included on our website in the "Investors" section. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

Material United States Federal Income Tax Considerations

The following summary of material United States federal income tax considerations is based on existing law, and is limited to investors who own our shares as investment assets rather than as inventory or as property used in a trade or business. The summary does not discuss all of the particular tax considerations that might be relevant to you if you are subject to special rules under federal income tax law, for example if you are:

- a bank, insurance company or other financial institution;
- a regulated investment company or REIT;
- a subchapter S corporation;
- a broker, dealer or trader in securities or foreign currencies;
- a person who marks-to-market our shares for U.S. federal income tax purposes;
- a U.S. shareholder (as defined below) that has a functional currency other than the U.S. dollar;
- a person who acquires or owns our shares in connection with employment or other performance of services;
- a person subject to alternative minimum tax;
- a person who acquires or owns our shares as part of a straddle, hedging transaction, constructive sale transaction, constructive ownership transaction or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction;
- a person who owns 10% or more (by vote or value, directly or constructively under the IRC) of any class of our shares;
- a U.S. expatriate;
- a non-U.S. shareholder (as defined below) whose investment in our shares is effectively connected with the conduct of a trade or business in the United States;
- a nonresident alien individual present in the United States for 183 days or more during an applicable taxable year;
- a "qualified shareholder" (as defined in Section 897(k)(3)(A) of the IRC);
- a "qualified foreign pension fund" (as defined in Section 897(l)(2) of the IRC) or any entity wholly owned by one or more qualified foreign pension funds;
- a person subject to special tax accounting rules as a result of their use of applicable financial statements (within the meaning of Section 451(b)(3) of the IRC); or
- except as specifically described in the following summary, a trust, estate, tax-exempt entity or foreign person.

The sections of the IRC that govern the federal income tax qualification and treatment of a REIT and its shareholders are complex. This presentation is a summary of applicable IRC provisions, related rules and regulations, and administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect. Future legislative, judicial or administrative actions or decisions could also affect the accuracy of statements made in this summary. We have not received a ruling from the U.S. Internal Revenue Service, or the IRS, with respect to any matter described in this summary, and we cannot be sure that the IRS or a court will agree with all of the statements made in this summary. The IRS could, for example, take a different position from that described in this summary with respect to our acquisitions, operations, valuations, restructurings or other matters, which, if a court agreed, could result in significant tax liabilities for applicable parties. In addition, this summary is not exhaustive of all possible tax considerations and does not discuss any estate, gift, state, local or foreign tax considerations. For all these reasons, we urge you and any holder of or prospective acquiror of our shares to consult with a tax advisor about the federal income tax and other tax consequences of the acquisition, ownership and disposition of our shares. Our intentions and beliefs described in this summary are based upon our understanding of applicable laws and regulations that are in effect as of the date of this Annual Report on Form 10-K. If new laws or regulations are enacted which impact us directly or indirectly, we may change our intentions or beliefs.

Your federal income tax consequences generally will differ depending on whether or not you are a "U.S. shareholder." For purposes of this summary, a "U.S. shareholder" is a beneficial owner of our shares that is:

- an individual who is a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under the federal income tax laws;
- an entity treated as a corporation for federal income tax purposes that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or, to the extent provided in Treasury regulations, a trust in existence on August 20, 1996 that has elected to be treated as a domestic trust;

whose status as a U.S. shareholder is not overridden by an applicable tax treaty. Conversely, a "non-U.S. shareholder" is a beneficial owner of our shares that is not an entity (or other arrangement) treated as a partnership for federal income tax purposes and is not a U.S. shareholder.

If any entity (or other arrangement) treated as a partnership for federal income tax purposes holds our shares, the tax treatment of a partner in the partnership generally will depend upon the tax status of the partner and the activities of the partnership. Any entity (or other arrangement) treated as a partnership for federal income tax purposes that is a holder of our shares and the partners in such a partnership (as determined for federal income tax purposes) are urged to consult their own tax advisors about the federal income tax consequences and other tax consequences of the acquisition, ownership and disposition of our shares.

Taxation as a REIT

We have elected to be taxed as a REIT under Sections 856 through 860 of the IRC, commencing with our 2009 taxable year. Our REIT election, assuming continuing compliance with the then applicable qualification tests, has continued and will continue in effect for subsequent taxable years. Although we cannot be sure, we believe that from and after our 2009 taxable year we have been organized and have operated, and will continue to be organized and to operate, in a manner that qualified us and will continue to qualify us to be taxed as a REIT under the IRC.

As a REIT, we generally are not subject to federal income tax on our net income distributed as dividends to our shareholders. Distributions to our shareholders generally are included in our shareholders' income as dividends to the extent of our available current or accumulated earnings and profits. Our dividends are not generally entitled to the preferential tax rates on qualified dividend income, but a portion of our dividends may be treated as capital gain dividends or as qualified dividend income, all as explained below. In addition, for taxable years beginning before 2026 and pursuant to the deduction-without-outlay mechanism of Section 199A of the IRC, our noncorporate U.S. shareholders are generally eligible for lower effective tax rates on our dividends that are not treated as capital gain dividends or as qualified dividend income. No portion of any of our dividends is eligible for the dividends received deduction for corporate shareholders. Distributions in excess of our current or accumulated earnings and profits generally are treated for federal income tax purposes as returns of capital to the extent of a recipient shareholder's basis in our shares, and will reduce this basis. Our current or accumulated earnings and profits are generally allocated first to distributions made on our preferred shares, of which there are none outstanding at this time, and thereafter to distributions made on our common shares. For all these purposes, our distributions include cash distributions, any in kind distributions of property that we might make, and deemed or constructive distributions resulting from capital market activities (such as some redemptions), as described below.

Our counsel, Sullivan & Worcester LLP, is of the opinion that we have been organized and have qualified for taxation as a REIT under the IRC for our 2009 through 2019 taxable years, and that our current and anticipated investments and plan of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT under the IRC. Our counsel's opinions are conditioned upon the assumption that our leases, our declaration of trust, and all other legal documents to which we have been or are a party have been and will be complied with by all parties to those documents, upon the accuracy and completeness of the factual matters described in this Annual Report on Form 10-K and upon representations made by us to our counsel as to certain factual matters relating to our organization and operations and our expected manner of operation. If this assumption or a description or representation is inaccurate or incomplete, our counsel's opinions may be adversely affected and may not be relied upon. The opinions of our counsel are based upon the law as it exists today, but the law may change in the future, possibly with retroactive effect. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, neither Sullivan & Worcester LLP nor we can be sure that we will qualify as or be taxed as a REIT for any particular year. Any opinion of Sullivan & Worcester LLP as to our qualification or taxation as a REIT will be expressed as of the date issued. Our counsel will have no obligation to advise us or our shareholders of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. Also, the opinions of our counsel are not binding on either the IRS or a court, and either could take a position different from that expressed by our counsel.

Our continued qualification and taxation as a REIT will depend upon our compliance with various qualification tests imposed under the IRC and summarized below. While we believe that we have satisfied and will satisfy these tests, our counsel does not review compliance with these tests on a continuing basis. If we fail to qualify for taxation as a REIT in any year, we will be subject to federal income taxation as if we were a corporation taxed under subchapter C of the IRC, or a C corporation, and our shareholders will be taxed like shareholders of regular C corporations, meaning that federal income tax generally will be applied at both the corporate and shareholder levels. In this event, we could be subject to significant tax liabilities, and the amount of cash available for distribution to our shareholders could be reduced or eliminated.

If we continue to qualify for taxation as a REIT and meet the tests described below, we generally will not pay federal income tax on amounts we distribute to our shareholders. However, even if we continue to qualify for taxation as a REIT, we may still be subject to federal tax in the following circumstances, as described below:

- We will be taxed at regular corporate income tax rates on any undistributed "real estate investment trust taxable income," determined by including our undistributed ordinary income and net capital gains, if any.
- If we have net income from the disposition of "foreclosure property," as described in Section 856(e) of the IRC, that is held primarily for sale to customers in the ordinary course of a trade or business or other nonqualifying income from foreclosure property, we will be subject to tax on this income at the highest regular corporate income tax rate.
- If we have net income from "prohibited transactions"—that is, dispositions at a gain of inventory or property held primarily for sale to customers in the ordinary course of a trade or business other than dispositions of foreclosure property and other than dispositions excepted by statutory safe harbors—we will be subject to tax on this income at a 100% rate.
- If we fail to satisfy the 75% gross income test or the 95% gross income test discussed below, due to reasonable cause and not due to willful neglect, but nonetheless maintain our qualification for taxation as a REIT because of specified cure provisions, we will be subject to tax at a 100% rate on the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, with adjustments, multiplied by a fraction intended to reflect our profitability for the taxable year.
- If we fail to satisfy any of the REIT asset tests described below (other than a de minimis failure of the 5% or 10% asset tests) due to reasonable cause and not due to willful neglect, but nonetheless maintain our qualification for taxation as a REIT because of specified cure provisions, we will be subject to a tax equal to the greater of $50,000 or the highest regular corporate income tax rate multiplied by the net income generated by the nonqualifying assets that caused us to fail the test.
- If we fail to satisfy any provision of the IRC that would result in our failure to qualify for taxation as a REIT (other than violations of the REIT gross income tests or violations of the REIT asset tests described below) due to reasonable cause and not due to willful neglect, we may retain our qualification for taxation as a REIT but will be subject to a penalty of $50,000 for each failure.
- If we fail to distribute for any calendar year at least the sum of 85% of our REIT ordinary income for that year, 95% of our REIT capital gain net income for that year and any undistributed taxable income from prior periods, we will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amounts actually distributed.
- If we acquire a REIT asset where our adjusted tax basis in the asset is determined by reference to the adjusted tax basis of the asset in the hands of a C corporation, under specified circumstances we may be subject to federal income taxation on all or part of the built-in gain (calculated as of the date the property ceased being owned by the C corporation) on such asset. We generally do not expect to sell assets if doing so would result in the imposition of a material built-in gains tax liability; but if and when we do sell assets that may have associated built-in gains tax exposure, then we expect to make appropriate provision for the associated tax liabilities on our financial statements.
- If we acquire a corporation in a transaction where we succeed to its tax attributes, to preserve our qualification for taxation as a REIT we must generally distribute all of the C corporation

earnings and profits inherited in that acquisition, if any, no later than the end of our taxable year in which the acquisition occurs. However, if we fail to do so, relief provisions would allow us to maintain our qualification for taxation as a REIT provided we distribute any subsequently discovered C corporation earnings and profits and pay an interest charge in respect of the period of delayed distribution.

- Our subsidiaries that are C corporations, including our "taxable REIT subsidiaries", as defined in Section 856(l) of the IRC, or TRSs, generally will be required to pay federal corporate income tax on their earnings, and a 100% tax may be imposed on any transaction between us and one of our TRSs that does not reflect arm's length terms.
- If it is determined that SIR or FPO failed to satisfy one or more of the REIT tests described below before their respective mergers into us, the IRS might allow us, as successor to SIR or FPO, the same opportunity for relief as though we were the remediating REIT. In such case, SIR or FPO, as applicable, would be deemed to have retained its qualification for taxation as a REIT and the relevant penalties or sanctions for remediation would fall upon us in a manner comparable to the above.

If we fail to qualify for taxation as a REIT in any year, then we will be subject to federal income tax in the same manner as a regular C corporation. Further, as a regular C corporation, distributions to our shareholders will not be deductible by us, nor will distributions be required under the IRC. Also, to the extent of our current and accumulated earnings and profits, all distributions to our shareholders will generally be taxable as ordinary dividends potentially eligible for the preferential tax rates discussed below under the heading "—Taxation of Taxable U.S. Shareholders" and, subject to limitations in the IRC, will be potentially eligible for the dividends received deduction for corporate shareholders. Finally, we will generally be disqualified from taxation as a REIT for the four taxable years following the taxable year in which the termination of our REIT status is effective. Our failure to qualify for taxation as a REIT for even one year could result in us reducing or eliminating distributions to our shareholders, or in us incurring substantial indebtedness or liquidating substantial investments in order to pay the resulting corporate-level income taxes. Relief provisions under the IRC may allow us to continue to qualify for taxation as a REIT even if we fail to comply with various REIT requirements, all as discussed in more detail below. However, it is impossible to state whether in any particular circumstance we would be entitled to the benefit of these relief provisions.

REIT Qualification Requirements

General Requirements. Section 856(a) of the IRC defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;

(3) that would be taxable, but for Sections 856 through 859 of the IRC, as a domestic C corporation;

(4) that is not a financial institution or an insurance company subject to special provisions of the IRC;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) that is not "closely held," meaning that during the last half of each taxable year, not more than 50% in value of the outstanding shares are owned, directly or indirectly, by five or fewer "individuals" (as defined in the IRC to include specified tax-exempt entities); and

(7) that meets other tests regarding the nature of its income and assets and the amount of its distributions, all as described below.

Section 856(b) of the IRC provides that conditions (1) through (4) must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Although we cannot be sure, we believe that we have met conditions (1) through (7) during each of the requisite periods ending on or before the close of our most recently completed taxable year, and that we will continue to meet these conditions in our current and future taxable years.

To help comply with condition (6), our declaration of trust restricts transfers of our shares that would otherwise result in concentrated ownership positions. These restrictions, however, do not ensure that we have previously satisfied, and may not ensure that we will in all cases be able to continue to satisfy, the share ownership requirements described in condition (6). If we comply with applicable Treasury regulations to ascertain the ownership of our outstanding shares and do not know, or by exercising reasonable diligence would not have known, that we failed condition (6), then we will be treated as having met condition (6). Accordingly, we have complied and will continue to comply with these regulations, including by requesting annually from holders of significant percentages of our shares information regarding the ownership of our shares. Under our declaration of trust, our shareholders are required to respond to these requests for information. A shareholder that fails or refuses to comply with the request is required by Treasury regulations to submit a statement with its federal income tax return disclosing its actual ownership of our shares and other information.

For purposes of condition (6), an "individual" generally includes a natural person, a supplemental unemployment compensation benefit plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes, but does not include a qualified pension plan or profit-sharing trust. As a result, REIT shares owned by an entity that is not an "individual" are considered to be owned by the direct and indirect owners of the entity that are individuals (as so defined), rather than to be owned by the entity itself. Similarly, REIT shares held by a qualified pension plan or profit-sharing trust are treated as held directly by the individual beneficiaries in proportion to their actuarial interests in such plan or trust. Consequently, five or fewer such trusts could own more than 50% of the interests in an entity without jeopardizing that entity's qualification for taxation as a REIT.

The IRC provides that we will not automatically fail to qualify for taxation as a REIT if we do not meet conditions (1) through (6), provided we can establish that such failure was due to reasonable cause and not due to willful neglect. Each such excused failure will result in the imposition of a $50,000 penalty instead of REIT disqualification. This relief provision may apply to a failure of the applicable conditions even if the failure first occurred in a year prior to the taxable year in which the failure was discovered.

Our Wholly Owned Subsidiaries and Our Investments Through Partnerships. Except in respect of a TRS as discussed below, Section 856(i) of the IRC provides that any corporation, 100% of whose stock is held by a REIT and its disregarded subsidiaries, is a qualified REIT subsidiary and shall not be treated as a separate corporation for U.S. federal income tax purposes. The assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary are treated as the REIT's. We believe that each of our direct and indirect wholly owned subsidiaries, other than the TRSs discussed below (and entities owned in whole or in part by the TRSs), will be either a qualified REIT subsidiary within the meaning of Section 856(i)(2) of the IRC or a noncorporate entity that for federal income tax purposes is not treated as separate from its owner under Treasury regulations issued under Section 7701 of the IRC, each such entity referred to as a QRS. Thus, in applying all of the REIT qualification requirements described in this summary, all assets, liabilities and items of income, deduction and credit of our QRSs are treated as ours, and our investment in the stock and other securities of such QRSs will be disregarded.

We have invested and may in the future invest in real estate through one or more entities that are treated as partnerships for federal income tax purposes. In the case of a REIT that is a partner in a partnership, Treasury regulations under the IRC provide that, for purposes of the REIT qualification requirements regarding income and assets described below, the REIT is generally deemed to own its proportionate share, based on respective capital interests, of the income and assets of the partnership (except that for purposes of the 10% value test, described below, the REIT's proportionate share of the partnership's assets is based on its proportionate interest in the equity and specified debt securities issued by the partnership). In addition, for these purposes, the character of the assets and items of gross income of the partnership generally remains the same in the hands of the REIT. In contrast, for purposes of the distribution requirements discussed below, we must take into account as a partner our share of the partnership's income as determined under the general federal income tax rules governing partners and partnerships under Subchapter K of the IRC.

Subsidiary REITs. We have invested and may invest in real estate through one or more entities that are intended to qualify for taxation as REITs. When a subsidiary qualifies for taxation as a REIT separate and apart from its REIT parent, the subsidiary's shares are qualifying real estate assets for purposes of the REIT parent's 75% asset test described below. However, failure of the subsidiary to separately satisfy the various REIT qualification requirements described in this summary or that are otherwise applicable (and failure to qualify for the applicable relief provisions) would generally result in (a) the subsidiary being subject to regular U.S. corporate income tax, as described above, and (b) the REIT parent's ownership in the subsidiary (i) ceasing to be qualifying real estate assets for purposes of the 75% asset test, (ii) becoming subject to the 5% asset test, the 10% vote test and the 10% value test generally applicable to a REIT's ownership in corporations other than REITs and TRSs, and (iii) thereby jeopardizing the REIT parent's own REIT qualification and taxation on account of the subsidiary's failure cascading up to the REIT parent, all as described below under the heading "—Asset Tests". We have made and expect to make protective TRS elections with respect to our subsidiary REITs and may implement other protective arrangements intended to avoid a cascading REIT failure if any of our intended subsidiary REITs were not to qualify for taxation as a REIT, but we cannot be sure that such protective elections and other arrangements will be effective to avoid or mitigate the resulting adverse consequences to us.

Taxable REIT Subsidiaries. As a REIT, we are permitted to own any or all of the securities of a TRS, provided that no more than 20% of the total value of our assets, at the close of each quarter, is comprised of our investments in the stock or other securities of our TRSs. Very generally, a TRS is a subsidiary corporation other than a REIT in which a REIT directly or indirectly holds stock and that has made a joint election with its affiliated REIT to be treated as a TRS. Our ownership of stock and other securities in our TRSs is exempt from the 5% asset test, the 10% vote test and the 10% value test discussed below. In addition, any corporation (other than a REIT) in which a TRS directly or indirectly owns more than 35% of the voting power or value of the outstanding securities is automatically a TRS. Subject to the discussion below, we believe that we and each of our TRSs have complied with, and will continue to comply with, the requirements for TRS status at all times during which we intend for the subsidiary's TRS election to be in effect, and we believe that the same will be true for any TRS that we later form or acquire.

As discussed below, TRSs can perform services for our tenants without disqualifying the rents we receive from those tenants under the 75% gross income test or the 95% gross income test discussed below. Moreover, because our TRSs are taxed as C corporations that are separate from us, their assets, liabilities and items of income, deduction and credit generally are not imputed to us for purposes of the REIT qualification requirements described in this summary. Therefore, our TRSs may generally conduct activities that would be treated as prohibited transactions or would give rise to nonqualified income if conducted by us directly. As regular C corporations, TRSs may generally utilize net operating losses and other tax attribute carryforwards to reduce or otherwise eliminate federal income tax liability in a given taxable year. Net operating losses and other carryforwards are subject to limitations, however, including limitations imposed under Section 382 of the IRC following an "ownership change" (as defined in applicable Treasury regulations) and a limitation providing that carryforwards of net operating losses arising in taxable years beginning after 2017 generally cannot offset more than 80% of the current year's taxable income. Moreover, net operating losses arising in taxable years beginning after 2017 may not be carried back, but may be carried forward indefinitely. As a result, we cannot be sure that our TRSs will be able to utilize, in full or in part, any net operating losses or other carryforwards that they may generate in the future.

Restrictions and sanctions are imposed on TRSs and their affiliated REITs to ensure that the TRSs will be subject to an appropriate level of federal income taxation. For example, if a TRS pays interest, rent or other amounts to its affiliated REIT in an amount that exceeds what an unrelated third party would have paid in an arm's length transaction, then the REIT generally will be subject to an excise tax equal to 100% of the excessive portion of the payment. Further, if in comparison to an arm's length transaction, a third-party tenant has overpaid rent to the REIT in exchange for underpaying the TRS for services rendered, and if the REIT has not adequately compensated the TRS for services provided to or on behalf of the third-party tenant, then the REIT may be subject to an excise tax equal to 100% of the undercompensation to the TRS. A safe harbor exception to this excise tax applies if the TRS has been compensated at a rate at least equal to 150% of its direct cost in furnishing or rendering the service. Finally, the 100% excise tax also applies to the underpricing of services provided by a TRS to its affiliated REIT in contexts where the services are unrelated to services for REIT tenants. We cannot be sure that arrangements involving our TRSs will not result in the imposition of one or more of these restrictions or sanctions, but we do not believe that we or our TRSs are or will be subject to these impositions.

Income Tests. We must satisfy two gross income tests annually to maintain our qualification for taxation as a REIT. First, at least 75% of our gross income for each taxable year must be derived from investments relating to real property, including "rents from real property" within the meaning of Section 856(d) of the IRC, interest and gain from mortgages on real property or on interests in real property, income and gain from foreclosure property, gain from the sale or other disposition of real property (including specified ancillary personal property treated as real property under the IRC), or dividends on and gain from the sale or disposition of shares in other REITs (but excluding in all cases any gains subject to the 100% tax on prohibited transactions). When we receive new capital in exchange for our shares or in a public offering of our five-year or longer debt instruments, income attributable to the temporary investment of this new capital in stock or a debt instrument, if received or accrued within one year of our receipt of the new capital, is generally also qualifying income under the 75% gross income test. Second, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, other types of interest and dividends, gain from the sale or disposition of stock or securities, or any combination of these. Gross income from our sale of property that we hold primarily for sale to customers in the ordinary course of business, income and gain from specified "hedging transactions" that are clearly and timely identified as such, and income from the repurchase or discharge of indebtedness is excluded from both the numerator and the denominator in both gross income tests. In addition, specified foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests.

In order to qualify as "rents from real property" within the meaning of Section 856(d) of the IRC, several requirements must be met:

- The amount of rent received generally must not be based on the income or profits of any person, but may be based on a fixed percentage or percentages of receipts or sales.

- Rents generally do not qualify if the REIT owns 10% or more by vote or value of stock of the tenant (or 10% or more of the interests in the assets or net profits of the tenant, if the tenant is not a corporation), whether directly or after application of attribution rules. We generally do not intend to lease property to any party if rents from that property would not qualify as "rents from real property," but application of the 10% ownership rule is dependent upon complex attribution rules and circumstances that may be beyond our control. Our declaration of trust generally disallows transfers or purported acquisitions, directly or by attribution, of our shares to the extent necessary to maintain our qualification for taxation as a REIT under the IRC. Nevertheless, we cannot be sure that these restrictions will be effective to prevent our qualification for taxation as a REIT from being jeopardized under the 10% affiliated tenant rule. Furthermore, we cannot be sure that we will be able to monitor and enforce these restrictions, nor will our shareholders necessarily be aware of ownership of our shares attributed to them under the IRC's attribution rules.

- There is a limited exception to the above prohibition on earning "rents from real property" from a 10% affiliated tenant where the tenant is a TRS. If at least 90% of the leased space of a property is leased to tenants other than TRSs and 10% affiliated tenants, and if the TRS's rent to the REIT for space at that property is substantially comparable to the rents paid by nonaffiliated tenants for comparable space at the property, then otherwise qualifying rents paid by the TRS to the REIT will not be disqualified on account of the rule prohibiting 10% affiliated tenants.

- In order for rents to qualify, a REIT generally must not manage the property or furnish or render services to the tenants of the property, except through an independent contractor from whom it derives no income or through one of its TRSs. There is an exception to this rule permitting a REIT to perform customary management and tenant services of the sort that a tax-exempt organization could perform without being considered in receipt of "unrelated business taxable income" as defined in Section 512(b)(3) of the IRC, or UBTI. In addition, a *de minimis* amount of noncustomary services provided to tenants will not disqualify income as "rents from real property" as long as the value of the impermissible tenant services does not exceed 1% of the gross income from the property.

- If rent attributable to personal property leased in connection with a lease of real property is 15% or less of the total rent received under the lease, then the rent attributable to personal property will qualify as "rents from real property"; if this 15% threshold is exceeded, then the rent attributable to personal property will not so qualify. The portion of rental income treated as attributable to personal property is determined according to the ratio of the fair market value of the personal property to the total fair market value of the real and personal property that is rented.

- In addition, "rents from real property" includes both charges we receive for services customarily rendered in connection with the rental of comparable real property in the same geographic area, even if the charges are separately stated, as well as charges we receive for services provided by our TRSs when the charges are not separately stated. Whether separately stated charges received by a REIT for services that are not geographically customary and provided by a TRS are included in "rents from real property" has not been addressed clearly by the IRS in published authorities; however, our counsel, Sullivan & Worcester LLP, is of the opinion that, although the matter is not free from doubt, "rents from real property" also includes charges we receive for services provided by our TRSs when the charges are separately stated, even if the services are not geographically customary. Accordingly, we believe that our revenues from TRS-provided services, whether the charges are separately stated or not, qualify as "rents from real property" because the services satisfy the geographically customary standard, because the services have been provided by a TRS, or for both reasons.

We believe that all or substantially all of our rents and related service charges have qualified and will continue to qualify as "rents from real property" for purposes of Section 856 of the IRC.

Absent the "foreclosure property" rules of Section 856(e) of the IRC, a REIT's receipt of active, nonrental gross income from a property would not qualify under the 75% and 95% gross income tests. But as foreclosure property, the active, nonrental gross income from the property would so qualify. Foreclosure property is generally any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as a result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or when default was imminent on a lease of such property or on indebtedness that such property secured;
- for which any related loan acquired by the REIT was acquired at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

Any gain that a REIT recognizes on the sale of foreclosure property held as inventory or primarily for sale to customers, plus any income it receives from foreclosure property that would not otherwise qualify under the 75% gross income test in the absence of foreclosure property treatment, reduced by expenses directly connected with the production of those items of income, would be subject to income tax at the highest regular corporate income tax rate under the foreclosure property income tax rules of Section 857(b)(4) of the IRC. Thus, if a REIT should lease foreclosure property in exchange for rent that qualifies as "rents from real property" as described above, then that rental income is not subject to the foreclosure property income tax.

Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer if an extension is obtained from the IRS. However, this grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test (disregarding income from foreclosure property), or any nonqualified income under the 75% gross income test is received or accrued by the REIT, directly or indirectly, pursuant to a lease entered into on or after such day;
- on which any construction takes place on the property, other than completion of a building or any other improvement where more than 10% of the construction was completed before default became imminent and other than specifically exempted forms of maintenance or deferred maintenance; or
- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income or a TRS.

Other than sales of foreclosure property, any gain that we realize on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of a trade or business, together known as dealer gains, may be treated as income from a prohibited transaction that is subject to a penalty tax at a 100% rate. The 100% tax does not apply to gains from the sale of property that is held through a TRS, although such income will be subject to tax in the hands of the TRS at regular corporate income tax rates; we may therefore utilize our TRSs in transactions in which we might otherwise recognize dealer gains. Whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding each particular transaction. Sections 857(b)(6)(C) and (E) of the IRC provide safe harbors pursuant to which limited sales of real property held for at least two years and meeting specified additional requirements will not be treated as prohibited transactions. However, compliance with the safe harbors is not always achievable in practice. We attempt to structure our activities to avoid transactions that are prohibited transactions, or otherwise conduct such activities through TRSs; but, we cannot be sure whether or not the IRS might successfully assert that one or more of our dispositions is subject to the 100% penalty tax. Gains subject to the 100% penalty tax are excluded from the 75% and 95% gross income tests, whereas real property gains that are not dealer gains or that are exempted from the 100% penalty tax on account of the safe harbors are considered qualifying gross income for purposes of the 75% and 95% gross income tests.

We believe that any gain from dispositions of assets that we have made, or that we might make in the future, including through any partnerships, will generally qualify as income that satisfies the 75% and 95% gross income tests, and will not be dealer gains or subject to the 100% penalty tax. This is because our general intent has been and is to: (a) own our assets for investment with a view to long-term income production and capital appreciation; (b) engage in the business of developing, owning, leasing and managing our existing properties and acquiring, developing, owning, leasing and managing new properties; and (c) make occasional dispositions of our assets consistent with our long-term investment objectives.

If we fail to satisfy one or both of the 75% gross income test or the 95% gross income test in any taxable year, we may nevertheless qualify for taxation as a REIT for that year if we satisfy the following requirements: (a) our failure to meet the test is due to reasonable cause and not due to willful neglect; and (b) after we identify the failure, we file a schedule describing each item of our gross income included in the 75% gross income test or the 95% gross income test for that taxable year. Even if this relief provision does apply, a 100% tax is imposed upon the greater of the amount by which we failed the 75% gross income test or the amount by which we failed the 95% gross income test, with adjustments, multiplied by a fraction intended to reflect our profitability for the taxable year. This relief provision may apply to a failure of the applicable income tests even if the failure first occurred in a year prior to the taxable year in which the failure was discovered.

Based on the discussion above, we believe that we have satisfied, and will continue to satisfy, the 75% and 95% gross income tests outlined above on a continuing basis beginning with our first taxable year as a REIT.

Asset Tests. At the close of each calendar quarter of each taxable year, we must also satisfy the following asset percentage tests in order to qualify for taxation as a REIT for federal income tax purposes:

- At least 75% of the value of our total assets must consist of "real estate assets," defined as real property (including interests in real property and interests in mortgages on real property or on interests in real property), ancillary personal property to the extent that rents attributable to such personal property are treated as rents from real property in accordance with the rules described above, cash and cash items, shares in other REITs, debt instruments issued by "publicly offered REITs" as defined in Section 562(c)(2) of the IRC, government securities and temporary investments of new capital (that is, any stock or debt instrument that we hold that is attributable to any amount received by us (a) in exchange for our stock or (b) in a public offering of our five-year or longer debt instruments, but in each case only for the one-year period commencing with our receipt of the new capital).
- Not more than 25% of the value of our total assets may be represented by securities other than those securities that count favorably toward the preceding 75% asset test.

- Of the investments included in the preceding 25% asset class, the value of any one non-REIT issuer's securities that we own may not exceed 5% of the value of our total assets. In addition, we may not own more than 10% of the vote or value of any one non-REIT issuer's outstanding securities, unless the securities are "straight debt" securities or otherwise excepted as discussed below. Our stock and other securities in a TRS are exempted from these 5% and 10% asset tests.
- Not more than 20% of the value of our total assets may be represented by stock or other securities of our TRSs.
- Not more than 25% of the value of our total assets may be represented by "nonqualified publicly offered REIT debt instruments" as defined in Section 856(c)(5)(L)(ii) of the IRC.

Our counsel, Sullivan & Worcester LLP, is of the opinion that, although the matter is not free from doubt, our investments in the equity or debt of a TRS of ours, to the extent that and during the period in which they qualify as temporary investments of new capital, will be treated as real estate assets, and not as securities, for purposes of the above REIT asset tests.

The above REIT asset tests must be satisfied at the close of each calendar quarter of each taxable year as a REIT. After a REIT meets the asset tests at the close of any quarter, it will not lose its qualification for taxation as a REIT in any subsequent quarter solely because of fluctuations in the values of its assets. This grandfathering rule may be of limited benefit to a REIT such as us that makes periodic acquisitions of both qualifying and nonqualifying REIT assets. When a failure to satisfy the above asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter.

In addition, if we fail the 5% asset test, the 10% vote test or the 10% value test at the close of any quarter and we do not cure such failure within 30 days after the close of that quarter, that failure will nevertheless be excused if (a) the failure is de minimis and (b) within six months after the last day of the quarter in which we identify the failure, we either dispose of the assets causing the failure or otherwise satisfy the 5% asset test, the 10% vote test and the 10% value test. For purposes of this relief provision, the failure will be de minimis if the value of the assets causing the failure does not exceed $10,000,000. If our failure is not de minimis, or if any of the other REIT asset tests have been violated, we may nevertheless qualify for taxation as a REIT if (a) we provide the IRS with a description of each asset causing the failure, (b) the failure was due to reasonable cause and not willful neglect, (c) we pay a tax equal to the greater of (1) $50,000 or (2) the highest regular corporate income tax rate imposed on the net income generated by the assets causing the failure during the period of the failure, and (d) within six months after the last day of the quarter in which we identify the failure, we either dispose of the assets causing the failure or otherwise satisfy all of the REIT asset tests. These relief provisions may apply to a failure of the applicable asset tests even if the failure first occurred in a year prior to the taxable year in which the failure was discovered.

The IRC also provides an excepted securities safe harbor to the 10% value test that includes among other items (a) "straight debt" securities, (b) specified rental agreements in which payment is to be made in subsequent years, (c) any obligation to pay "rents from real property," (d) securities issued by governmental entities that are not dependent in whole or in part on the profits of or payments from a nongovernmental entity, and (e) any security issued by another REIT. In addition, any debt instrument issued by an entity classified as a partnership for federal income tax purposes, and not otherwise excepted from the definition of a security for purposes of the above safe harbor, will not be treated as a security for purposes of the 10% value test if at least 75% of the partnership's gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test.

We have maintained and will continue to maintain records of the value of our assets to document our compliance with the above asset tests and intend to take actions as may be required to cure any failure to satisfy the tests within 30 days after the close of any quarter or within the six month periods described above.

Based on the discussion above, we believe that we have satisfied, and will continue to satisfy, the REIT asset tests outlined above on a continuing basis beginning with our first taxable year as a REIT.

Annual Distribution Requirements. In order to qualify for taxation as a REIT under the IRC, we are required to make annual distributions other than capital gain dividends to our shareholders in an amount at least equal to the excess of:

(1) the sum of 90% of our "real estate investment trust taxable income" and 90% of our net income after tax, if any, from property received in foreclosure, over

(2) the amount by which our noncash income (e.g., imputed rental income or income from transactions inadvertently failing to qualify as like-kind exchanges) exceeds 5% of our "real estate investment trust taxable income."

For these purposes, our "real estate investment trust taxable income" is as defined under Section 857 of the IRC and is computed without regard to the dividends paid deduction and our net capital gain and will generally be reduced by specified corporate-level income taxes that we pay (e.g., taxes on built-in gains or foreclosure property income).

The IRC generally limits the deductibility of net interest expense paid or accrued on debt properly allocable to a trade or business to 30% of "adjusted taxable income," subject to specified exceptions. Any deduction in excess of the limitation is carried forward and may be used in a subsequent year, subject to that year's 30% limitation. Provided a taxpayer makes an election (which is irrevocable), the 30% limitation does not apply to a trade or business involving real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage, within the meaning of Section 469(c)(7)(C) of the IRC. Legislative history and proposed Treasury regulations indicate that a real property trade or business includes a trade or business conducted by a corporation or a REIT. We have made an election to be treated as a real property trade or business and accordingly do not expect the foregoing interest deduction limitations to apply to us or to the calculation of our "real estate investment trust taxable income."

Distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our federal income tax return for the earlier taxable year and if paid on or before the first regular distribution payment after that declaration. If a dividend is declared in October, November or December to shareholders of record during one of those months and is paid during the following January, then for federal income tax purposes such dividend will be treated as having been both paid and received on December 31 of the prior taxable year to the extent of any undistributed earnings and profits.

The 90% distribution requirements may be waived by the IRS if a REIT establishes that it failed to meet them by reason of distributions previously made to meet the requirements of the 4% excise tax discussed below. To the extent that we do not distribute all of our net capital gain and all of our "real estate investment trust taxable income," as adjusted, we will be subject to federal income tax at regular corporate income tax rates on undistributed amounts. In addition, we will be subject to a 4% nondeductible excise tax to the extent we fail within a calendar year to make required distributions to our shareholders of 85% of our ordinary income and 95% of our capital gain net income plus the excess, if any, of the "grossed up required distribution" for the preceding calendar year over the amount treated as distributed for that preceding calendar year. For this purpose, the term "grossed up required distribution" for any calendar year is the sum of our taxable income for the calendar year without regard to the deduction for dividends paid and all amounts from earlier years that are not treated as having been distributed under the provision. We will be treated as having sufficient earnings and profits to treat as a dividend any distribution by us up to the amount required to be distributed in order to avoid imposition of the 4% excise tax.

If we do not have enough cash or other liquid assets to meet the 90% distribution requirements, or if we so choose, we may find it necessary or desirable to arrange for new debt or equity financing to provide funds for required distributions in order to maintain our qualification for taxation as a REIT. We cannot be sure that financing would be available for these purposes on favorable terms, or at all.

We may be able to rectify a failure to pay sufficient dividends for any year by paying "deficiency dividends" to shareholders in a later year. These deficiency dividends may be included in our deduction for dividends paid for the earlier year, but an interest charge would be imposed upon us for the delay in distribution. While the payment of a deficiency dividend will apply to a prior year for purposes of our REIT distribution requirements and our dividends paid deduction, it will be treated as an additional distribution to the shareholders receiving it in the year such dividend is paid.

In addition to the other distribution requirements above, to preserve our qualification for taxation as a REIT we are required to timely distribute all C corporation earnings and profits that we inherit from acquired corporations, as described below.

Acquisitions of C Corporations

We may in the future engage in transactions where we acquire all of the outstanding stock of a C corporation. Upon these acquisitions, except to the extent we make an applicable TRS election, each of our acquired entities and their various wholly-owned corporate and noncorporate subsidiaries will become our QRSs. Thus, after such acquisitions, all assets, liabilities and items of income, deduction and credit of the acquired and then disregarded entities will be treated as ours for purposes of the various REIT qualification tests described above. In addition, we generally will be treated as the successor to the acquired (and then disregarded) entities' federal income tax attributes, such as those entities' (a) adjusted tax bases in their assets and their depreciation schedules; and (b) earnings and profits for federal income tax purposes, if any. The carryover of these attributes creates REIT implications such as built-in gains tax exposure and additional distribution requirements, as described below. However, when we make an election under Section 338(g) of the IRC with respect to corporations that we acquire, we generally will not be subject to such attribute carryovers in respect of attributes existing prior to such election.

Built-in Gains from C Corporations. Notwithstanding our qualification and taxation as a REIT, under specified circumstances we may be subject to corporate income taxation if we acquire a REIT asset where our adjusted tax basis in the asset is determined by reference to the adjusted tax basis of the asset as owned by a C corporation. For instance, we may be subject to federal income taxation on all or part of the built-in gain that was present on the last date an asset was owned by a C corporation, if we succeed to a carryover tax basis in that asset directly or indirectly from such C corporation and if we sell the asset during the five year period beginning on the day the asset ceased being owned by such C corporation. To the extent of our income and gains in a taxable year that are subject to the built-in gains tax, net of any taxes paid on such income and gains with respect to that taxable year, our taxable dividends paid in the following year will be potentially eligible for taxation to noncorporate U.S. shareholders at the preferential tax rates for "qualified dividends" as described below under the heading "—Taxation of Taxable U.S. Shareholders". We generally do not expect to sell assets if doing so would result in the imposition of a material built-in gains tax liability; but if and when we do sell assets that may have associated built-in gains tax exposure, then we expect to make appropriate provision for the associated tax liabilities on our financial statements.

Earnings and Profits. Following a corporate acquisition, we must generally distribute all of the C corporation earnings and profits inherited in that transaction, if any, no later than the end of our taxable year in which the transaction occurs, in order to preserve our qualification for taxation as a REIT. However, if we fail to do so, relief provisions would allow us to maintain our qualification for taxation as a REIT provided we distribute any subsequently discovered C corporation earnings and profits and pay an interest charge in respect of the period of delayed distribution. C corporation earnings and profits that we inherit are, in general, specially allocated under a priority rule to the earliest possible distributions following the event causing the inheritance, and only then is the balance of our earnings and profits for the taxable year allocated among our distributions to the extent not already treated as a distribution of C corporation earnings and profits under the priority rule. The distribution of these C corporation earnings and profits is potentially eligible for taxation to noncorporate U.S. shareholders at the preferential tax rates for "qualified dividends" as described below under the heading "—Taxation of Taxable U.S. Shareholders".

Our Acquisitions

On December 31, 2018, we acquired SIR in a transaction that was intended to qualify as a "reorganization" within the meaning of Section 368(a) of the IRC, and our counsel, Sullivan & Worcester LLP, so opined. In 2017, we acquired FPO in a transaction that was intended to be treated as an asset sale for federal income tax purposes. We believe that each of SIR and FPO qualified for taxation as a REIT for the period prior to the date we acquired it. As a result of these acquisitions, we are generally liable for unpaid taxes, including penalties and interest (if any), of SIR and FPO. If either SIR or FPO is deemed to have lost its qualification for taxation as a REIT prior to the date of our acquisition and no relief is available, we would face the following tax consequences:

- as a successor, we would generally inherit any corporate income tax liabilities of the acquired entity, including penalties and interest;
- we would be subject to tax on the built-in gain on each asset of the acquired entity existing at the time we acquired it if we were to dispose of such an asset during the five-year period following the date that we acquired the entity; and
- we could be required to pay a special distribution and/or employ applicable deficiency dividend procedures (including interest payments to the IRS) to eliminate any earnings and profits accumulated by the acquired entity for taxable periods that it did not qualify for taxation as a REIT.

Finally, if there is an adjustment to SIR's real estate investment trust taxable income or dividends paid deductions, we could elect to use the deficiency dividend procedure described above to preserve our predecessor SIR's qualification for taxation as a REIT. It is unclear whether this deficiency dividend procedure would be available to remediate an issue arising from FPO. If and to the extent the remedial provisions are available to us to address SIR or FPO's REIT qualification and taxation for the applicable periods prior to or including our acquisitions of these entities, we may incur significant cash outlays in connection with such remediation, possibly including (a) required distribution payments to shareholders and associated interest payments to the IRS and (b) tax and interest payments to the IRS and state and local tax authorities.

Depreciation and Federal Income Tax Treatment of Leases

Our initial tax bases in our assets will generally be our acquisition cost. We will generally depreciate our depreciable real property on a straight-line basis over 40 years and our personal property over the applicable shorter periods. These depreciation schedules, and our initial tax bases, may vary for properties that we acquire through tax-free or carryover basis acquisitions (for example, the properties we acquired from SIR), or that are the subject of cost segregation analyses.

We are entitled to depreciation deductions from our facilities only if we are treated for federal income tax purposes as the owner of the facilities. This means that the leases of our facilities must be classified for U.S. federal income tax purposes as true leases, rather than as sales or financing arrangements, and we believe this to be the case.

Distributions to our Shareholders

As described above, we expect to make distributions to our shareholders from time to time. These distributions may include cash distributions, in kind distributions of property, and deemed or constructive distributions resulting from capital market activities. The U.S. federal income tax treatment of our distributions will vary based on the status of the recipient shareholder as more fully described below under the headings "—Taxation of Taxable U.S. Shareholders," "—Taxation of Tax-Exempt U.S. Shareholders," and "—Taxation of Non-U.S. Shareholders."

Section 302 of the IRC treats a redemption of our shares for cash only as a distribution under Section 301 of the IRC, and hence taxable as a dividend to the extent of our available current or accumulated earnings and profits, unless the redemption satisfies one of the tests set forth in Section 302(b) of the IRC enabling the redemption to be treated as a sale or exchange of the shares. The redemption for cash only will be treated as a sale or exchange if it (a) is "substantially disproportionate" with respect to the surrendering shareholder's ownership in us, (b) results in a "complete termination" of the surrendering shareholder's entire share interest in us, or (c) is "not essentially equivalent to a dividend" with respect to the surrendering shareholder, all within the meaning of Section 302(b) of the IRC. In determining whether any of these tests have been met, a shareholder must generally take into account shares considered to be owned by such shareholder by reason of constructive ownership rules set forth in the IRC, as well as shares actually owned by such shareholder. In addition, if a redemption is treated as a distribution under the preceding tests, then a shareholder's tax basis in the redeemed shares generally will be transferred to the shareholder's remaining shares in us, if any, and if such shareholder owns no other shares in us, such basis generally may be transferred to a related person or may be lost entirely. Because the determination as to whether a shareholder will satisfy any of the tests of Section 302(b) of the IRC depends upon the facts and circumstances at the time that our shares are redeemed, we urge you to consult your own tax advisor to determine the particular tax treatment of any redemption.

Taxation of Taxable U.S. Shareholders

For noncorporate U.S. shareholders, to the extent that their total adjusted income does not exceed applicable thresholds, the maximum federal income tax rate for long-term capital gains and most corporate dividends is generally 15%. For those noncorporate U.S. shareholders whose total adjusted income exceeds the applicable thresholds, the maximum federal income tax rate for long-term capital gains and most corporate dividends is generally 20%. However, because we are not generally subject to federal income tax on the portion of our "real estate investment trust taxable income" distributed to our shareholders, dividends on our shares generally are not eligible for these preferential tax rates, except that any distribution of C corporation earnings and profits and taxed built-in gain items will potentially be eligible for these preferential tax rates. As a result, our ordinary dividends generally are taxed at the higher federal income tax rates applicable to ordinary income (subject to the lower effective tax rates applicable to qualified REIT dividends via the deduction-without-outlay mechanism of Section 199A of the IRC, which is generally available to our noncorporate U.S. shareholders for taxable years before 2026). To summarize, the preferential federal income tax rates for long-term capital gains and for qualified dividends generally apply to:

(1) long-term capital gains, if any, recognized on the disposition of our shares;

(2) our distributions designated as long-term capital gain dividends (except to the extent attributable to real estate depreciation recapture, in which case the distributions are subject to a maximum 25% federal income tax rate);

(3) our dividends attributable to dividend income, if any, received by us from C corporations such as TRSs;

(4) our dividends attributable to earnings and profits that we inherit from C corporations; and

(5) our dividends to the extent attributable to income upon which we have paid federal corporate income tax (such as taxes on foreclosure property income or on built-in gains), net of the corporate income taxes thereon.

As long as we qualify for taxation as a REIT, a distribution to our U.S. shareholders that we do not designate as a capital gain dividend generally will be treated as an ordinary income dividend to the extent of our available current or accumulated earnings and profits (subject to the lower effective tax rates applicable to qualified REIT dividends via the deduction-without-outlay mechanism of Section 199A of the IRC, which is available to our noncorporate U.S. shareholders for taxable years before 2026). Distributions made out of our current or accumulated earnings and profits that we properly designate as capital gain dividends generally will be taxed as long-term capital gains, as discussed below, to the extent they do not exceed our actual net capital gain for the taxable year. However, corporate shareholders may be required to treat up to 20% of any capital gain dividend as ordinary income under Section 291 of the IRC.

In addition, we may elect to retain net capital gain income and treat it as constructively distributed. In that case:

(1) we will be taxed at regular corporate capital gains tax rates on retained amounts;

(2) each of our U.S. shareholders will be taxed on its designated proportionate share of our retained net capital gains as though that amount were distributed and designated as a capital gain dividend;

(3) each of our U.S. shareholders will receive a credit or refund for its designated proportionate share of the tax that we pay;

(4) each of our U.S. shareholders will increase its adjusted basis in our shares by the excess of the amount of its proportionate share of these retained net capital gains over the U.S. shareholder's proportionate share of the tax that we pay; and

(5) both we and our corporate shareholders will make commensurate adjustments in our respective earnings and profits for federal income tax purposes.

If we elect to retain our net capital gains in this fashion, we will notify our U.S. shareholders of the relevant tax information within 60 days after the close of the affected taxable year.

If for any taxable year we designate capital gain dividends for our shareholders, then a portion of the capital gain dividends we designate will be allocated to the holders of a particular class of shares on a percentage basis equal to the ratio of the amount of the total dividends paid or made available for the year to the holders of that class of shares to the total dividends paid or made available for the year to holders of all outstanding classes of our shares. We will similarly designate the portion of any dividend that is to be taxed to noncorporate U.S. shareholders at preferential maximum rates (including any qualified dividend income and any capital gains attributable to real estate depreciation recapture that are subject to a maximum 25% federal income tax rate) so that the designations will be proportionate among all outstanding classes of our shares.

Distributions in excess of our current or accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that they do not exceed the shareholder's adjusted tax basis in our shares, but will reduce the shareholder's basis in such shares. To the extent that these excess distributions exceed a U.S. shareholder's adjusted basis in such shares, they will be included in income as capital gain, with long-term gain generally taxed to noncorporate U.S. shareholders at preferential maximum rates. No U.S. shareholder may include on its federal income tax return any of our net operating losses or any of our capital losses. In addition, no portion of any of our dividends is eligible for the dividends received deduction for corporate shareholders.

If a dividend is declared in October, November or December to shareholders of record during one of those months and is paid during the following January, then for federal income tax purposes the dividend will be treated as having been both paid and received on December 31 of the prior taxable year.

A U.S. shareholder will generally recognize gain or loss equal to the difference between the amount realized and the shareholder's adjusted basis in our shares that are sold or exchanged. This gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the shareholder's holding period in our shares exceeds one year. In addition, any loss upon a sale or exchange of our shares held for six months or less will generally be treated as a long-term capital loss to the extent of any long-term capital gain dividends we paid on such shares during the holding period.

U.S. shareholders who are individuals, estates or trusts are generally required to pay a 3.8% Medicare tax on their net investment income (including dividends on our shares (without regard to any deduction allowed by Section 199A of the IRC) and gains from the sale or other disposition of our shares), or in the case of estates and trusts on their net investment income that is not distributed, in each case to the extent that their total adjusted income exceeds applicable thresholds. U.S. shareholders are urged to consult their tax advisors regarding the application of the 3.8% Medicare tax.

If a U.S. shareholder recognizes a loss upon a disposition of our shares in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury regulations involving "reportable transactions" could apply, with a resulting requirement to separately disclose the loss-generating transaction to the IRS. These Treasury regulations are written quite broadly, and apply to many routine and simple transactions. A reportable transaction currently includes, among other things, a sale or exchange of our shares resulting in a tax loss in excess of (a) $10 million in any single year or $20 million in a prescribed combination of taxable years in the case of our shares held by a C corporation or by a partnership with only C corporation partners or (b) $2 million in any single year or $4 million in a prescribed combination of taxable years in the case of our shares held by any other partnership or an S corporation, trust or individual, including losses that flow through pass through entities to individuals. A taxpayer discloses a reportable transaction by filing IRS Form 8886 with its federal income tax return and, in the first year of filing, a copy of Form 8886 must be sent to the IRS's Office of Tax Shelter Analysis. The annual maximum penalty for failing to disclose a reportable transaction is generally $10,000 in the case of a natural person and $50,000 in any other case.

Noncorporate U.S. shareholders who borrow funds to finance their acquisition of our shares could be limited in the amount of deductions allowed for the interest paid on the indebtedness incurred. Under Section 163(d) of the IRC, interest paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment is generally deductible only to the extent of the investor's net investment income. A U.S. shareholder's net investment income will include ordinary income dividend distributions received from us and, only if an appropriate election is made by the shareholder, capital gain dividend distributions and qualified dividends received from us; however, distributions treated as a nontaxable return of the shareholder's basis will not enter into the computation of net investment income.

Taxation of Tax-Exempt U.S. Shareholders

The rules governing the federal income taxation of tax-exempt entities are complex, and the following discussion is intended only as a summary of material considerations of an investment in our shares relevant to such investors. If you are a tax-exempt shareholder, we urge you to consult your own tax advisor to determine the impact of federal, state, local and foreign tax laws, including any tax return filing and other reporting requirements, with respect to your acquisition of or investment in our shares.

Our distributions made to shareholders that are tax-exempt pension plans, individual retirement accounts or other qualifying tax-exempt entities should not constitute UBTI, provided that the shareholder has not financed its acquisition of our shares with "acquisition indebtedness" within the meaning of the IRC, that the shares are not otherwise used in an unrelated trade or business of the tax-exempt entity, and that, consistent with our present intent, we do not hold a residual interest in a real estate mortgage investment conduit or otherwise hold mortgage assets or conduct mortgage securitization activities that generate "excess inclusion" income.

Taxation of Non-U.S. Shareholders

The rules governing the U.S. federal income taxation of non-U.S. shareholders are complex, and the following discussion is intended only as a summary of material considerations of an investment in our shares relevant to such investors. If you are a non-U.S. shareholder, we urge you to consult your own tax advisor to determine the impact of U.S. federal, state, local and foreign tax laws, including any tax return filing and other reporting requirements, with respect to your acquisition of or investment in our shares.

We expect that a non-U.S. shareholder's receipt of (a) distributions from us, and (b) proceeds from the sale of our shares, will not be treated as income effectively connected with a U.S. trade or business and a non-U.S. shareholder will therefore not be subject to the often higher federal tax and withholding rates, branch profits taxes and increased reporting and filing requirements that apply to income effectively connected with a U.S. trade or business. This expectation and a number of the determinations below are predicated on our shares being listed on a U.S. national securities exchange, such as The Nasdaq Stock Market LLC, or Nasdaq. Each class of our shares has been listed on a U.S. national securities exchange; however, we cannot be sure that our shares will continue to be so listed in future taxable years or that any class of our shares that we may issue in the future will be so listed.

Distributions. A distribution by us to a non-U.S. shareholder that is not designated as a capital gain dividend will be treated as an ordinary income dividend to the extent that it is made out of our current or accumulated earnings and profits. A distribution of this type will generally be subject to U.S. federal income tax and withholding at the rate of 30%, or at a lower rate if the non-U.S. shareholder has in the manner prescribed by the IRS demonstrated to the applicable withholding agent its entitlement to benefits under a tax treaty. Because we cannot determine our current and accumulated earnings and profits until the end of the taxable year, withholding at the statutory rate of 30% or applicable lower treaty rate will generally be imposed on the gross amount of any distribution to a non-U.S. shareholder that we make and do not designate as a capital gain dividend. Notwithstanding this potential withholding on distributions in excess of our current and accumulated earnings and profits, these excess portions of distributions are a nontaxable return of capital to the extent that they do not exceed the non-U.S. shareholder's adjusted basis in our shares, and the nontaxable return of capital will reduce the adjusted basis in these shares. To the extent that distributions in excess of our current and accumulated earnings and profits exceed the non-U.S. shareholder's adjusted basis in our shares, the distributions will give rise to U.S. federal income tax liability only in the unlikely event that the non-U.S. shareholder would otherwise be subject to tax on any gain from the sale or exchange of these shares, as discussed below under the heading "—Dispositions of Our Shares." A non-U.S. shareholder may seek a refund from the IRS of amounts withheld on distributions to it in excess of such shareholder's allocable share of our current and accumulated earnings and profits.

For so long as a class of our shares is listed on a U.S. national securities exchange, capital gain dividends that we declare and pay to a non-U.S. shareholder on those shares, as well as dividends to a non-U.S. shareholder on those shares attributable to our sale or exchange of "United States real property interests" within the meaning of Section 897 of the IRC, or USRPIs, will not be subject to withholding as though those amounts were effectively connected with a U.S. trade or business, and non-U.S. shareholders will not be required to file U.S. federal income tax returns or pay branch profits tax in respect of these dividends. Instead, these dividends will generally be treated as ordinary dividends and subject to withholding in the manner described above.

Tax treaties may reduce the withholding obligations on our distributions. Under some treaties, however, rates below 30% that are applicable to ordinary income dividends from U.S. corporations may not apply to ordinary income dividends from a REIT or may apply only if the REIT meets specified additional conditions. A non-U.S. shareholder must generally use an applicable IRS Form W-8, or substantially similar form, to claim tax treaty benefits. If the amount of tax withheld with respect to a distribution to a non-U.S. shareholder exceeds the shareholder's U.S. federal income tax liability with respect to the distribution, the non-U.S. shareholder may file for a refund of the excess from the IRS. Treasury regulations also provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, our distributions to a non-U.S. shareholder that is an entity should be treated as paid to the entity or to those owning an interest in that entity, and whether the entity or its owners are entitled to benefits under the tax treaty.

If, contrary to our expectation, a class of our shares was not listed on a U.S. national securities exchange and we made a distribution on those shares that was attributable to gain from the sale or exchange of a USRPI, then a non-U.S. shareholder holding those shares would be taxed as if the distribution was gain effectively connected with a trade or business in the United States conducted by the non-U.S. shareholder. In addition, the applicable withholding agent would be required to withhold from a distribution to such a non-U.S. shareholder, and remit to the IRS, up to 21% of the maximum amount of any distribution that was or could have been designated as a capital gain dividend. The non-U.S. shareholder also would generally be subject to the same treatment as a U.S. shareholder with respect to the distribution (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual), would be subject to fulsome U.S. federal income tax return reporting requirements, and, in the case of a corporate non-U.S. shareholder, may owe the up to 30% branch profits tax under Section 884 of the IRC (or lower applicable tax treaty rate) in respect of these amounts.

Dispositions of Our Shares. If as expected our shares are not USRPIs, then a non-U.S. shareholder's gain on the sale of these shares generally will not be subject to U.S. federal income taxation or withholding. We expect that our shares will not be USRPIs because one or both of the following exemptions will be available at all times.

First, for so long as a class of our shares is listed on a U.S. national securities exchange, a non-U.S. shareholder's gain on the sale of those shares will not be subject to U.S. federal income taxation as a sale of a USRPI. Second, our shares will not constitute USRPIs if we are a "domestically controlled" REIT. We will be a "domestically controlled" REIT if less than 50% of the value of our shares (including any future class of shares that we may issue) is held, directly or indirectly, by non-U.S. shareholders at all times during the preceding five years, after applying specified presumptions regarding the ownership of our shares as described in Section 897(h)(4)(E) of the IRC. For these purposes, we believe that the statutory ownership presumptions apply to validate our status as a "domestically controlled" REIT. Accordingly, we believe that we are and will remain a "domestically controlled" REIT.

If, contrary to our expectation, a gain on the sale of our shares is subject to U.S. federal income taxation (for example, because neither of the above exemptions were then available, *i.e.*, that class of our shares were not then listed on a U.S. national securities exchange and we were not a "domestically controlled" REIT), then (a) a non-U.S. shareholder would generally be subject to the same treatment as a U.S. shareholder with respect to its gain (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals), (b) the non-U.S. shareholder would also be subject to fulsome U.S. federal income tax return reporting requirements, and (c) a purchaser of that class of our shares from the non-U.S. shareholder may be required to withhold 15% of the purchase price paid to the non-U.S. shareholder and to remit the withheld amount to the IRS.

Information Reporting, Backup Withholding, and Foreign Account Withholding

Information reporting, backup withholding, and foreign account withholding may apply to distributions or proceeds paid to our shareholders under the circumstances discussed below. If a shareholder is subject to backup or other U.S. federal income tax withholding, then the applicable withholding agent will be required to withhold the appropriate amount with respect to a deemed or constructive distribution or a distribution in kind even though there is insufficient cash from which to satisfy the withholding obligation. To satisfy this withholding obligation, the applicable withholding agent may collect the amount of U.S. federal income tax required to be withheld by reducing to cash for remittance to the IRS a sufficient portion of the property that the shareholder would otherwise receive or own, and the shareholder may bear brokerage or other costs for this withholding procedure.

Amounts withheld under backup withholding are generally not an additional tax and may be refunded by the IRS or credited against the shareholder's federal income tax liability, provided that such shareholder timely files for a refund or credit with the IRS. A U.S. shareholder may be subject to backup withholding when it receives distributions on our shares or proceeds upon the sale, exchange, redemption, retirement or other disposition of our shares, unless the U.S. shareholder properly executes, or has previously properly executed, under penalties of perjury an IRS Form W-9 or substantially similar form that:

- provides the U.S. shareholder's correct taxpayer identification number;
- certifies that the U.S. shareholder is exempt from backup withholding because (a) it comes within an enumerated exempt category, (b) it has not been notified by the IRS that it is subject to backup withholding, or (c) it has been notified by the IRS that it is no longer subject to backup withholding; and
- certifies that it is a U.S. citizen or other U.S. person.

If the U.S. shareholder has not provided and does not provide its correct taxpayer identification number and appropriate certifications on an IRS Form W-9 or substantially similar form, it may be subject to penalties imposed by the IRS, and the applicable withholding agent may have to withhold a portion of any distributions or proceeds paid to such U.S. shareholder. Unless the U.S. shareholder has established on a properly executed IRS Form W-9 or substantially similar form that it comes within an enumerated exempt category, distributions or proceeds on our shares paid to it during the calendar year, and the amount of tax withheld, if any, will be reported to it and to the IRS.

Distributions on our shares to a non-U.S. shareholder during each calendar year and the amount of tax withheld, if any, will generally be reported to the non-U.S. shareholder and to the IRS. This information reporting requirement applies regardless of whether the non-U.S. shareholder is subject to withholding on distributions on our shares or whether the withholding was reduced or eliminated by an applicable tax treaty. Also, distributions paid to a non-U.S. shareholder on our shares will generally be subject to backup withholding, unless the non-U.S. shareholder properly certifies to the applicable withholding agent its non-U.S. shareholder status on an applicable IRS Form W-8 or substantially similar form. Information reporting and backup withholding will not apply to proceeds a non-U.S. shareholder receives upon the sale, exchange, redemption, retirement or other disposition of our shares, if the non-U.S. shareholder properly certifies to the applicable withholding agent its non-U.S. shareholder status on an applicable IRS Form W-8 or substantially similar form. Even without having executed an applicable IRS Form W-8 or substantially similar form, however, in some cases information reporting and backup withholding will not apply to proceeds that a non-U.S. shareholder receives upon the sale, exchange, redemption, retirement or other disposition of our shares if the non-U.S. shareholder receives those proceeds through a broker's foreign office.

Non-U.S. financial institutions and other non-U.S. entities are subject to diligence and reporting requirements for purposes of identifying accounts and investments held directly or indirectly by U.S. persons. The failure to comply with these additional information reporting, certification and other requirements could result in a 30% U.S. withholding tax on applicable payments to non-U.S. persons, notwithstanding any otherwise applicable provisions of an income tax treaty. In particular, a payee that is a foreign financial institution that is subject to the diligence and reporting requirements described above must enter into an agreement with the U.S. Department of the Treasury requiring, among other things, that it undertake to identify accounts held by "specified United States persons" or "United States owned foreign entities" (each as defined in the IRC and administrative guidance thereunder), annually report information about such accounts, and withhold 30% on applicable payments to noncompliant foreign financial institutions and account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States with respect to these requirements may be subject to different rules. The foregoing withholding regime generally applies to payments of dividends on our shares. In general, to avoid withholding, any non-U.S. intermediary through which a shareholder owns our shares must establish its compliance with the foregoing regime, and a non-U.S. shareholder must provide specified documentation (usually an applicable IRS Form W-8) containing information about its identity, its status, and if required, its direct and indirect U.S. owners. Non-U.S. shareholders and shareholders who hold our shares through a non-U.S. intermediary are encouraged to consult their own tax advisors regarding foreign account tax compliance.

Other Tax Considerations

Our tax treatment and that of our shareholders may be modified by legislative, judicial or administrative actions at any time, which actions may have retroactive effect. The rules dealing with federal income taxation are constantly under review by the U.S. Congress, the IRS and the U.S. Department of the Treasury, and statutory changes, new regulations, revisions to existing regulations and revised interpretations of established concepts are issued frequently. Likewise, the rules regarding taxes other than U.S. federal income taxes may also be modified. No prediction can be made as to the likelihood of passage of new tax legislation or other provisions, or the direct or indirect effect on us and our shareholders. Revisions to tax laws and interpretations of these laws could adversely affect our ability to qualify and be taxed as a REIT, as well as the tax or other consequences of an investment in our shares. We and our shareholders may also be subject to taxation by state, local or other jurisdictions, including those in which we or our shareholders transact business or reside. These tax consequences may not be comparable to the U.S. federal income tax consequences discussed above.

ERISA Plans, Keogh Plans and Individual Retirement Accounts

General Fiduciary Obligations

The Employee Retirement Income Security Act of 1974, as amended, or ERISA, the IRC and similar provisions to those described below under applicable foreign or state law, individually and collectively, impose certain duties on persons who are fiduciaries of any employee benefit plan subject to Title I of ERISA, or an ERISA Plan, or an individual retirement account or annuity, or an IRA, a Roth IRA, a tax-favored account (such as an Archer MSA, Coverdell education savings account or health savings account), a Keogh plan or other qualified retirement plan not subject to Title I of ERISA, each a Non-ERISA Plan. Under ERISA and the IRC, any person who exercises any discretionary authority or control over the administration of, or the management or disposition of the assets of, an ERISA Plan or Non-ERISA Plan, or who renders investment advice for a fee or other compensation to an ERISA Plan or Non-ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan or Non-ERISA Plan.

Fiduciaries of an ERISA Plan must consider whether:

- their investment in our shares or other securities satisfies the diversification requirements of ERISA;
- the investment is prudent in light of possible limitations on the marketability of our shares;
- they have authority to acquire our shares or other securities under the applicable governing instrument and Title I of ERISA; and
- the investment is otherwise consistent with their fiduciary responsibilities.

Fiduciaries of an ERISA Plan may incur personal liability for any loss suffered by the ERISA Plan on account of a violation of their fiduciary responsibilities. In addition, these fiduciaries may be subject to a civil penalty of up to 20% of any amount recovered by the ERISA Plan on account of a violation. Fiduciaries of any Non-ERISA Plan should consider that the Non-ERISA Plan may only make investments that are authorized by the appropriate governing instrument and applicable law.

Fiduciaries considering an investment in our securities should consult their own legal advisors if they have any concern as to whether the investment is consistent with the foregoing criteria or is otherwise appropriate. The sale of our securities to an ERISA Plan or Non-ERISA Plan is in no respect a representation by us or any underwriter of the securities that the investment meets all relevant legal requirements with respect to investments by the arrangements generally or any particular arrangement, or that the investment is appropriate for arrangements generally or any particular arrangement.

Prohibited Transactions

Fiduciaries of ERISA Plans and persons making the investment decision for Non-ERISA Plans should consider the application of the prohibited transaction provisions of ERISA and the IRC in making their investment decision. Sales and other transactions between an ERISA Plan or a Non-ERISA Plan and disqualified persons or parties in interest, as applicable, are prohibited transactions and result in adverse consequences absent an exemption. The particular facts concerning the sponsorship, operations and other investments of an ERISA Plan or Non-ERISA Plan may cause a wide range of persons to be treated as disqualified persons or parties in interest with respect to it. A non-exempt prohibited transaction, in addition to imposing potential personal liability upon ERISA Plan fiduciaries, may also result in the imposition of an excise tax under the IRC or a penalty under ERISA upon the disqualified person or party in interest. If the disqualified person who engages in the transaction is the individual on behalf of whom an IRA, Roth IRA or other tax-favored account is maintained (or his beneficiary), the IRA, Roth IRA or other tax-favored account may lose its tax-exempt status and its assets may be deemed to have been distributed to the individual in a taxable distribution on account of the non-exempt prohibited transaction, but no excise tax will be imposed. Fiduciaries considering an investment in our securities should consult their own legal advisors as to whether the ownership of our securities involves a non-exempt prohibited transaction.

“Plan Assets” Considerations

The U.S. Department of Labor has issued a regulation defining “plan assets.” The regulation, as subsequently modified by ERISA, generally provides that when an ERISA Plan or a Non-ERISA Plan otherwise subject to Title I of ERISA and/or Section 4975 of the IRC acquires an interest in an entity that is neither a “publicly offered security” nor a security issued by an investment company registered under the Investment Company Act of 1940, as amended, the assets of the ERISA Plan or Non-ERISA Plan include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established either that the entity is an operating company or that equity participation in the entity by benefit plan investors is not significant. We are not an investment company registered under the Investment Company Act of 1940, as amended.

Each class of our equity (that is, our common shares and any other class of equity that we may issue) must be analyzed separately to ascertain whether it is a publicly offered security. The regulation defines a publicly offered security as a security that is “widely held,” “freely transferable” and either part of a class of securities registered under the Exchange Act, or sold under an effective registration statement under the Securities Act of 1933, as amended, or the Securities Act, provided the securities are registered under the Exchange Act within 120 days after the end of the fiscal year of the issuer during which the offering occurred. Each class of our outstanding shares has been registered under the Exchange Act within the necessary time frame to satisfy the foregoing condition.

The regulation provides that a security is “widely held” only if it is part of a class of securities that is owned by 100 or more investors independent of the issuer and of one another. However, a security will not fail to be “widely held” because the number of independent investors falls below 100 subsequent to the initial public offering as a result of events beyond the issuer’s control. Although we cannot be sure, we believe our common shares have been and will remain widely held, and we expect the same to be true of any future class of equity that we may issue.

The regulation provides that whether a security is “freely transferable” is a factual question to be determined on the basis of all relevant facts and circumstances. The regulation further provides that, where a security is part of an offering in which the minimum investment is $10,000 or less, some restrictions on transfer ordinarily will not, alone or in combination, affect a finding that these securities are freely transferable. The restrictions on transfer enumerated in the regulation as not affecting that finding include:

- any restriction on or prohibition against any transfer or assignment that would result in a termination or reclassification for federal or state tax purposes, or would otherwise violate any state or federal law or court order;
- any requirement that advance notice of a transfer or assignment be given to the issuer and any requirement that either the transferor or transferee, or both, execute documentation setting forth representations as to compliance with any restrictions on transfer that are among those enumerated in the regulation as not affecting free transferability, including those described in the preceding clause of this sentence;
- any administrative procedure that establishes an effective date, or an event prior to which a transfer or assignment will not be effective; and
- any limitation or restriction on transfer or assignment that is not imposed by the issuer or a person acting on behalf of the issuer.

We believe that the restrictions imposed under our declaration of trust on the transfer of shares do not result in the failure of our shares to be “freely transferable.” Furthermore, we believe that there exist no other facts or circumstances limiting the transferability of our shares that are not included among those enumerated as not affecting their free transferability under the regulation, and we do not expect or intend to impose in the future, or to permit any person to impose on our behalf, any limitations or restrictions on transfer that would not be among the enumerated permissible limitations or restrictions.

Assuming that each class of our shares will be "widely held" and that no other facts and circumstances exist that restrict transferability of these shares, our counsel, Sullivan & Worcester LLP, is of the opinion that our shares will not fail to be "freely transferable" for purposes of the regulation due to the restrictions on transfer of our shares in our declaration of trust and that under the regulation each class of our currently outstanding shares is publicly offered and our assets will not be deemed to be "plan assets" of any ERISA Plan or Non-ERISA Plan that acquires our shares in a public offering. This opinion is conditioned upon certain assumptions and representations, as discussed above under the heading "Material United States Federal Income Tax Considerations—Taxation as a REIT."

Item 1A. Risk Factors

Our business is subject to a number of risks and uncertainties. Investors and prospective investors should carefully consider the risks described below, together with all of the other information in this Annual Report on Form 10-K. The risks described below may not be the only risks we face but are risks we believe may be material at this time. Additional risks that we do not yet know of, or that we currently think are immaterial, also may impair our business operations or financial results. If any of the events or circumstances described below occurs, our business, financial condition, results of operations or ability to make distributions to our shareholders, and the value of our securities could be adversely affected. Investors and prospective investors should consider the following risks, the information contained under the heading "Warning Concerning Forward Looking Statements" and the risks described elsewhere in this Annual Report on Form 10-K before deciding whether to invest in our securities.

Risks Related to Our Business

We may be unable to lease our properties when our leases expire.

The weighted average remaining term of our leases in effect as of December 31, 2019 is 5.7 years based upon annualized rental income and 6.0 years based upon occupied square footage. As of December 31, 2019, leases representing approximately 38.3% of our annualized rental income and 36.2% of our occupied square footage will expire by December 31, 2023. Our leases with government tenants typically have shorter terms than our leases with nongovernment tenants, although the terms of our leases with government contractor tenants tend to be for terms consistent with the tenants' with government contracts, which are generally three to five years. These shorter terms require more frequent lease renewal or releasing.

Although we typically will seek to renew our leases with current tenants when they expire, we cannot be sure that we will be successful in doing so. If our tenants do not renew their leases, we may be unable to obtain new tenants to maintain or increase the historical occupancy rates of, or rents from, our properties.

We may experience declining rents or incur significant costs to renew our leases or to lease our properties to new tenants.

When we renew our leases with current tenants or lease to new tenants, we may experience rent decreases, and we may have to spend substantial amounts for leasing commissions, tenant improvements or other tenant inducements. Moreover, many of our properties have been specially designed for the particular businesses of our tenants; if the current leases for such properties are terminated or are not renewed, we may be required to renovate such properties at substantial costs, decrease the rents we charge or provide other concessions in order to lease such properties to new tenants. Further, laws and regulations applicable to government leasing often require public solicitations of bids when new or renewal leases are being considered. Market conditions may require us to lower our rents to retain government or other tenants. Some of our current rents include payments to amortize the cost of tenant improvements which government or other tenants may be unwilling to pay or contractually allowed to eliminate when leases are renewed.

Current office space utilization trends may adversely impact our business.

There is a general trend in office real estate for tenants to decrease the space they occupy per employee. This increase in office utilization rates may result in our office tenants renewing their leases for less area than they currently occupy, which could increase the vacancy and decrease rental income at our properties. The need to reconfigure leased office space to increase utilization also may require us to spend increased amounts for tenant improvements. If substantial reconfiguration of the tenant's space is required to achieve the increase in space utilized, the tenant may find it more advantageous to relocate than to renew its lease and renovate the existing space.

Some of our properties depend upon a single tenant for all or a majority of their rental income; therefore, our financial condition, including our ability to make distributions to shareholders, may be adversely affected by the bankruptcy or insolvency, a downturn in the business, or a lease termination of a single tenant.

As of December 31, 2019, 46.9% of our annualized rental revenue is from our properties leased to private sector single tenants. The value of our private sector single tenant properties is materially dependent on the performance of those tenants under their respective leases. These tenants face competition within their industries and other factors that could reduce their ability to pay us rent. Lease payment defaults by such tenants could cause us to reduce the amount of distributions that we pay to our shareholders. A default by a single or major tenant, the failure of a guarantor to fulfill its obligations or other premature termination of a lease to such a tenant or such tenant's election not to extend a lease upon its expiration could have an adverse effect on our financial condition, results of operations, liquidity and ability to pay distributions to our shareholders.

Government budgetary pressures and priorities and trends in government employment and office leasing may adversely impact our business.

We believe that current government budgetary pressures, enhancements in technology and policy and administrative decisions have resulted in a decrease in government employment, in government tenants reducing their space utilization per employee and in consolidation of government tenants into existing government owned properties, thereby reducing the demand for government leased space. Our historical experience with respect to properties of the type we own that are majority leased to government tenants has been that government tenants frequently renew leases to avoid the costs and disruptions that may result from relocating their operations. However, efforts to reduce space utilization rates may result in our tenants exercising early termination rights under our leases, vacating our properties upon expiration of our leases in order to relocate, or in renewing their leases for less space than they currently occupy. Also, our government tenants' desire to reconfigure leased office space to reduce utilization per employee may require us to spend significant amounts for tenant improvements, and tenant relocations in such circumstances are more prevalent now than in our past experience. Increasing uncertainty with respect to government agency budgets and funding to implement relocations, consolidations and reconfigurations have resulted in delayed decisions by some of our government tenants and their reliance on short term lease renewals; however, recent activity suggests that the government has begun to shift its leasing strategy to include longer term leases and is actively exploring 10 to 20 year lease terms at renewal, in some instances. Although we believe the recent focus and efforts to reduce government tenant space utilization and to consolidate government tenants into government owned real estate is substantially complete, these activities may continue to impact us for some time and could again increase in the future. At present, we are unable to reasonably project what the financial impact of market conditions or changing government financial and other circumstances will be on our financial results for future periods.

We currently have a concentration of properties in the metropolitan Washington, D.C. market area and are exposed to changes in market conditions in this area.

As of December 31, 2019, approximately 24.1% of our annualized rental income is from our consolidated properties located in the metropolitan Washington, D.C. market area. In addition, the three properties owned by two joint ventures in which we own 51% and 50% interests are also located in the metropolitan Washington, D.C. market area. A downturn in economic conditions in this area could result in reduced demand from tenants for our properties or lower rents that our tenants in this area are willing to pay when our leases expire or terminate and when renewal or new terms are negotiated. Additionally, in recent years there has been a decrease in demand for new leased space by the U.S. Government in the metropolitan Washington, D.C. market area, and that could increase competition for government tenants and adversely affect our ability to retain government tenants when our leases expire.

We may also be subject to changes in the regulatory environment of the metropolitan Washington, D.C. market area (such as increases in real estate and other taxes, costs of complying with government regulations or increased regulation and other factors) or other adverse conditions or events (such as natural disasters). Thus, adverse developments and/or conditions in the metropolitan Washington, D.C. market area could reduce demand for space, impact the credit worthiness of our tenants or force our tenants to curtail operations, which could impair their ability to meet their rent obligations to us and, accordingly, could have an adverse effect on our financial condition, results of operations, liquidity and ability to pay distributions to our shareholders.

Our plans to recycle our capital by strategically and opportunistically selling properties from time to time and to use sales proceeds to acquire new properties that we believe will help us reduce the average age of our properties, increase our weighted average lease term, reduce our ongoing capital requirements and/or increase our distributions to shareholders may not be successful.

An element of our business plan involves strategically and opportunistically selling properties from time to time as part of our capital recycling program to improve our property portfolio, increase our returns and operating results, and enable us to increase our distributions to shareholders. Our ability to sell our properties we identify for sale, and the prices we receive upon a sale, may be affected by many factors, and we may be unable to execute our strategy. In particular, these factors could arise from weakness in or the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers and the availability of financing to potential purchasers on reasonable terms, the number of prospective purchasers, the number of competing properties on the market, unfavorable local, national or international economic conditions, industry trends, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. We may not succeed in selling properties that we identify for sale, the terms of any such sales may not meet our expectations and we may incur losses in connection with those sales. Further, we may not succeed in identifying and acquiring properties that improve our property portfolio, increase our returns and operating results, and enable us to increase our distributions to shareholders. As a result, our plans to strategically and opportunistically sell properties from time to time and to reinvest the proceeds from those sales in acquiring additional properties that improve our property portfolio, increase our returns and operating results, and enable us to increase our distributions to shareholders may not be successful.

We may be unable to grow our business by acquisitions of additional properties, and we might encounter unanticipated difficulties and expenditures relating to our acquired properties.

Our business plans involve the acquisition of additional properties. Our ability to make profitable acquisitions is subject to risks, including, but not limited to, risks associated with:

- competition from other investors, including publicly traded and private REITs, numerous financial institutions, individuals, foreign investors and other public and private companies;
- our long term cost of capital;
- contingencies in our acquisition agreements; and
- the availability and terms of financing.

We might encounter unanticipated difficulties and expenditures relating to our acquired properties. For example:

- we do not believe that it is possible to understand fully a property before it is owned and operated for a reasonable period of time, and, notwithstanding pre-acquisition due diligence, we could acquire a property that contains undisclosed defects in design or construction;
- the market in which an acquired property is located may experience unexpected changes that adversely affect the property's value;
- the occupancy of and rents from properties that we acquire may decline during our ownership;
- property operating costs for our acquired properties may be higher than anticipated and our acquired properties may not yield expected returns; and
- we may acquire properties subject to unknown liabilities and without any recourse, or with limited recourse, such as liability for the cleanup of undisclosed environmental contamination or for claims by tenants, vendors or other persons related to actions taken by former owners of the properties.

For these reasons, among others, we might not realize the anticipated benefits of our acquisitions and our business plan to acquire additional properties may not succeed or may cause us to experience losses.

REIT distribution requirements and limitations on our ability to access reasonably priced capital may adversely impact our ability to carry out our business plan.

To maintain our qualification for taxation as a REIT under the IRC, we are required to satisfy distribution requirements imposed by the IRC. See "Material United States Federal Income Tax Considerations—REIT Qualification Requirements—Annual Distribution Requirements" included in Part I, Item 1 of this Annual Report on Form 10-K. Accordingly, we may not be able to retain sufficient cash to fund our operations, repay our debts, invest in our properties or fund our acquisitions or development or redevelopment efforts. Our business strategies therefore depend, in part, upon our ability to raise additional capital at reasonable costs. The volatility in the availability of capital to businesses on a global basis in most debt and equity markets generally may limit our ability to raise reasonably priced capital. We may also be unable to raise reasonably priced capital because of reasons related to our business, market perceptions of our prospects, the terms of our indebtedness, the extent of our leverage or for reasons beyond our control, such as market conditions. Because the earnings we are permitted to retain are limited by the rules governing REIT qualification and taxation, if we are unable to raise reasonably priced capital, we may not be able to carry out our business plan.

We face significant competition.

We face significant competition for acquisition opportunities from other investors, including publicly traded and private REITs, numerous financial institutions, individuals, foreign investors and other public and private companies. Some of our competitors may have greater financial and other resources than us. Because of competition for acquisitions, we may be unable to acquire desirable properties or we may pay higher prices for, and realize lower net cash flows than we hope to achieve from, acquisitions.

We also face competition for tenants at our properties. Some competing properties may be newer, better located or more attractive to tenants. Competing properties may have lower rates of occupancy than our properties, which may result in competing owners offering available space at lower rents than we offer at our properties. Development activities may increase the supply of properties of the type we own in the leasing markets in which we own properties and increase the competition we face. Competition may make it difficult for us to attract and retain tenants and may reduce the rents we are able to charge. For example, government tenants are generally viewed as desirable tenants and are therefore difficult to attract and retain.

The U.S. Government's "green lease" policies may adversely affect us.

In recent years, the U.S. Government has instituted "green lease" policies which allow a government tenant to require Leadership in Energy and Environmental Design for commercial interiors, or LEED®-CI, designation in selecting new premises or renewing leases at existing premises. In addition, the Energy Independence and Security Act of 2007 allows the GSA to give preference to buildings for lease that have received an "Energy Star" label. Obtaining and maintaining such designation and labels may be costly and time consuming, but our failure to do so may result in our competitive disadvantage in acquiring new or retaining existing government tenants.

Some government tenants have the right to terminate their leases prior to their lease expiration date and changes in the U.S. Government's and state governments' requirements for leased space may adversely affect us.

As of December 31, 2019, 35.5% of our annualized rental income was from government tenants, which includes the U.S. government, state governments and municipalities. Some of our leases with government tenants allow the tenants to vacate the leased premises before the stated terms of the leases expire with little or no liability. In particular:

- Government tenants occupying approximately 4.0% of our rentable square feet and contributing approximately 3.7% of our annualized rental income as of December 31, 2019 have currently exercisable rights to terminate their leases before the stated term of their leases expire.
- In 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2028, 2030 and 2034, early termination rights become exercisable by government tenants who currently occupy an additional approximately 3.0%, 0.7%, 0.8%, 0.9%, 0.3%, 0.2%, 0.4%, 0.4%, 0.1% and 0.1%, of our rentable square feet, respectively, and contribute an additional approximately 3.8%, 0.8%, 0.9%, 1.1%, 0.6%, 0.4%, 0.6%, 0.4%, 0.1% and 0.1% of our annualized rental income, respectively, as of December 31, 2019.
- Pursuant to leases with 11 of our government tenants, these tenants have rights to terminate their leases if their respective legislature or other funding authority does not appropriate rent amounts in their respective annual budgets. These 11 tenants represent approximately 4.4% of our rentable square feet and 4.6% of our annualized rental income as of December 31, 2019.

For fiscal policy reasons, security concerns or other reasons, some or all of our government tenants may decide to exercise early termination rights under our leases or vacate our properties upon expiration of our leases. Also, the U.S. Government may continue to seek to reduce their space utilization per employee and consolidate into existing government owned properties. *See* "Risks Related to Our Business—Government budgetary pressures and priorities and trends in government employment and office leasing may adversely impact our business" included in Part I, Item1A of this Annual Report on Form 10-K. If a significant number of such events occur, our income and cash flow may materially decline and our ability to make or sustain distributions to our shareholders may be jeopardized.

Real estate construction and redevelopment creates risks.

We may develop new properties or redevelop some of our existing properties as the existing leases expire, as our tenants' needs change or to pursue any other opportunities that we believe are desirable. The development and redevelopment of new and existing buildings involves significant risks in addition to those involved in the ownership and operation of leased properties, including the risks that construction may not be completed on schedule or within budget, resulting in increased construction costs and delays in leasing such properties and generating cash flows. Development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land use, building, occupancy, and other required government permits and authorizations. Once completed, any new properties may perform below anticipated financial results. The occurrence of one or more of these circumstances in connection with our development or redevelopment activities could have an adverse effect on our financial condition, results of operations and the value of our securities.

We have debt and we may incur additional debt.

As of December 31, 2019, our consolidated indebtedness was $2.4 billion. We had $750.0 million and $415.0 million available for borrowing under our $750.0 million revolving credit facility as of December 31, 2019 and February 19, 2020, respectively. Our credit agreement includes a feature under which the maximum aggregate borrowing availability may be increased to up to $1.95 billion in certain circumstances.

We are subject to numerous risks associated with our debt, including the risk that our cash flows could be insufficient for us to make required payments on our debt. There are no limits in our organizational documents on the amount of debt we may incur, and we may incur substantial debt. Our debt obligations could have important consequences to our securityholders. Our incurrence of debt may increase our vulnerability to adverse economic, market and industry conditions, limit our flexibility in planning for, or reacting to, changes in our business, and place us at a disadvantage in relation to competitors that have lower debt levels. Our incurring debt could also increase the costs to us of incurring additional debt, increase our exposure to floating interest rates or expose us to potential events of default (if not cured or waived) under covenants contained in debt instruments that could have a material adverse effect on our business, financial condition and operating results. Excessive debt could reduce the available cash flow to fund, or limit our ability to obtain financing for, working capital, capital expenditures, acquisitions, construction projects, refinancing, lease obligations or other purposes, and hinder our ability to maintain investment grade ratings from nationally recognized credit rating agencies or to make or sustain distributions to our shareholders.

If we default under any of our debt obligations, we may be in default under the agreements governing other debt obligations of ours which have cross default provisions, including our credit agreement and our senior unsecured notes indentures and their supplements. In such case, our lenders or bondholders may demand immediate payment of any outstanding indebtedness and we could be forced to liquidate our assets for less than the values we would receive in a more orderly process.

We may fail to comply with the terms of our credit agreement and our senior unsecured notes indentures and their supplements, which could adversely affect our business and may prevent our making distributions to our shareholders.

Our credit agreement and our senior unsecured notes indentures and their supplements include various conditions, covenants and events of default. We may not be able to satisfy all of these conditions or may default on some of these covenants for various reasons, including for reasons beyond our control. For example, our credit agreement and our senior unsecured notes indentures and their supplements require us to comply with certain financial and other covenants. Our ability to comply with such covenants will depend upon the net rental income we receive from our properties. If the occupancy at our properties declines or if our rents decline, we may be unable to borrow under our revolving credit facility. Complying with these covenants may limit our ability to take actions that may be beneficial to us and our securityholders.

If we are unable to borrow under our revolving credit facility, we may be unable to meet our obligations or grow our business by acquiring additional properties. If we default under our credit agreement, our lenders may demand immediate payment and may elect not to fund future borrowings. During the continuance of any event of default under our credit agreement, we may be limited or in some cases prohibited from making distributions to our shareholders. Any default under our credit agreement that results in acceleration of our obligations to repay outstanding indebtedness or in our no longer being permitted to borrow under our revolving credit facility would likely have serious adverse consequences to us and would likely cause the value of our securities to decline.

In the future, we may obtain additional debt financing, and the covenants and conditions which apply to any such additional debt may be more restrictive than the covenants and conditions that are contained in our credit agreement or our senior unsecured notes indentures and their supplements.

Amounts recoverable under our leases with government tenants for increased operating costs may be less than the actual increased costs.

Under some of our leases with government tenants, the tenant's obligation to pay us adjusted rent for increased operating costs (e.g., the costs of cleaning services, supplies, materials, maintenance, trash removal, landscaping, snow removal, water, sewer charges, heating, electricity and certain administrative expenses) is increased annually based on a cost of living index rather than the actual amount of our costs. Accordingly, the amount of any rent adjustment may not fully offset any increased costs we may incur in providing these services.

Changes in market interest rates, including changes that may result from the expected phase out of LIBOR, may adversely affect us.

Since the most recent U.S. recession, the Board of Governors of the U.S. Federal Reserve System, or the U.S. Federal Reserve, has taken actions which have resulted in low interest rates prevailing in the marketplace for a historically long period of time. The U.S. Federal Reserve steadily increased the targeted federal funds rate over the last several years, but recently took action to decrease the federal funds rate and may continue to make adjustments in the near future. In addition, as noted in Part II, Item 7A of this Annual Report on Form 10-K, LIBOR is expected to be phased out in 2021. The interest rate under our revolving credit facility is based on LIBOR and the interest we may pay on any future debt that we may incur may also be based on LIBOR. We currently expect that the determination of interest under our revolving credit facility would be based on the alternative rates provided under our credit agreement or would be revised as provided under our credit agreement or amended as necessary to provide for an interest rate that approximates the existing interest rate as calculated in accordance with LIBOR. Despite our current expectations, we cannot be sure that, if LIBOR is phased out or transitioned, the changes to the determination of interest under our credit agreement would approximate the current calculation in accordance with LIBOR. An alternate interest rate index that may replace LIBOR may result in our paying increased interest. Interest rate increases may materially and negatively affect us in several ways, including:

- Investors may consider whether to buy or sell our common shares based upon the distribution rate on our common shares relative to the then prevailing market interest rates. If market interest rates go up, investors may expect a higher distribution rate than we are able to pay, which may increase our cost of capital, or they may sell our common shares and seek alternative investments that offer higher distribution rates. Sales of our common shares may cause a decline in the value of our common shares.
- Amounts outstanding under our revolving credit facility require interest to be paid at a floating interest rate. When interest rates increase, our interest costs will increase, which could adversely affect our cash flows, our ability to pay principal and interest on our debt, our cost of refinancing our fixed rate debts when they become due and our ability to make or sustain distributions to our shareholders.
- Property values are often determined, in part, based upon a capitalization of rental income formula. When market interest rates increase, property investors often demand higher capitalization rates and that causes property values to decline. Increases in interest rates could lower the value of our properties and cause the value of our securities to decline.

Low market interest rates, particularly if they remain over a sustained period, may increase our use of debt capital to fund property acquisitions, lower capitalization rates for property purchases and increased competition for property purchases, which may reduce our ability to acquire new properties.

Ownership of real estate is subject to environmental risks and liabilities.

Ownership of real estate is subject to risks associated with environmental hazards. Under various laws, owners as well as tenants and operators of real estate may be required to investigate and clean up or remove hazardous substances present at or migrating from properties they own, lease or operate and may be held liable for property damage or personal injuries that result from hazardous substances. These laws also expose us to the possibility that we may become liable to government agencies or third parties for costs and damages they incur in connection with hazardous substances. The costs and damages that may arise from environmental hazards may be substantial and are difficult to assess and estimate for numerous reasons, including uncertainty about the extent of contamination, alternative treatment methods that may be applied, the location of the property which subjects it to differing local laws and regulations and their interpretations, as well as the time it may take to remediate contamination. In addition, these laws also impose various requirements regarding the operation and maintenance of properties and recordkeeping and reporting requirements relating to environmental matters that require us or the tenants of our properties to incur costs to comply with. We may incur substantial liabilities and costs for environmental matters.

We may incur environmental liabilities at our leased properties and our tenants may not indemnify us for those costs.

Our leases with non-government tenants generally require our tenants to operate in compliance with applicable law and to indemnify us against any environmental liabilities arising from their activities on our properties; however, applicable law may subject us to strict liability by virtue of our property ownership interests, and our tenants may fail to indemnify us for environmental liabilities we incur. The U.S. Government is not required to indemnify us for environmental hazards they create at our properties and therefore could hold us liable for environmental hazards they create at our properties and we could have no recourse to them.

Ownership of real estate is subject to risks from adverse weather and climate events.

Severe weather may have an adverse effect on certain properties we own. Flooding caused by rising sea levels and severe weather events, including hurricanes, tornadoes and widespread fires, may have an adverse effect on properties we own and result in significant losses to us and interruption of our business. When major weather or climate-related events, such as hurricanes, floods and wildfires, occur at or near our properties, our tenants may need to suspend operations of the impacted property until the event has ended and the property is then ready for operation. We or the tenants of our properties may incur significant costs and losses as a result of these activities, both in terms of operating, preparing and repairing our properties in anticipation of, during and after a severe weather or climate-related event and in terms of potential lost business due to the interruption in operating our properties. Our insurance and our tenants' insurance may not adequately compensate us or them for these costs and losses.

Also, concerns about climate change have resulted in various treaties, laws and regulations that are intended to limit carbon emissions and address other environmental concerns. These and other laws may cause energy or other costs at our properties to increase. Laws enacted to mitigate climate change may make some of our buildings obsolete or cause us to make material investments in our properties, which could materially and adversely affect our financial condition or the financial condition of our tenants and their ability to pay rent to us and cause the value of our securities to decline. In addition, concerns about climate change and increasing storm intensities may increase the cost of our insurance for our properties or potentially render it unavailable to obtain.

Real estate ownership creates risks and liabilities.

In addition to the risks discussed above, our business is subject to other risks associated with real estate ownership, including:

- the illiquid nature of real estate markets, which limits our ability to sell our assets rapidly to respond to changing market conditions;
- the subjectivity of real estate valuations and changes in such valuations over time;
- current and future adverse national and local real estate trends, including increasing vacancy rates, declining rental rates and general deterioration of market conditions;
- costs that may be incurred relating to property maintenance and repair, and the need to make expenditures due to changes in government regulations; and
- liabilities and litigations arising from injuries on our properties or otherwise incidental to the ownership of our properties.

RMR LLC relies on information technology and systems in its operations, and any material failure, inadequacy, interruption or security failure of that technology or those systems could materially and adversely affect us.

RMR LLC relies on information technology and systems, including the Internet and cloud-based infrastructures, commercially available software and its internally developed applications, to process, transmit, store and safeguard information and to manage or support a variety of its business processes (including managing our building systems), including financial transactions and maintenance of records, which may include personal identifying information of employees and tenants and lease data. If RMR LLC experiences material security or other failures, inadequacies or interruptions of its information technology, it could incur material costs and losses and our operations could be disrupted as a result. Further, third party vendors could experience similar events with respect to their information technology and systems that impact the products and services they provide to RMR LLC or us. RMR LLC relies on commercially available systems, software, tools and monitoring, as well as its internally developed applications and internal procedures and personnel, to provide security for processing, transmitting, storing and safeguarding confidential tenant, customer and vendor information, such as personally identifiable information related to its employees and others and information regarding its and our financial accounts. RMR LLC takes various actions, and incurs significant costs, to maintain and protect the operation and security of its information technology and systems, including the data maintained in those systems. However, it is possible that these measures will not prevent the systems' improper functioning or a compromise in security, such as in the event of a cyberattack or the improper disclosure of personally identifiable information.

Security breaches, computer viruses, attacks by hackers, online fraud schemes and similar breaches can create significant system disruptions, shutdowns, fraudulent transfer of assets or unauthorized disclosure of confidential information. The cybersecurity risks to RMR LLC, us and third party vendors are heightened by, among other things, the evolving nature of the threats faced, advances in computer capabilities, new discoveries in the field of cryptography and new and increasingly sophisticated methods used to perpetrate illegal or fraudulent activities against RMR LLC, including cyberattacks, email or wire fraud and other attacks exploiting security vulnerabilities in RMR LLC's or other third parties' information technology networks and systems or operations. Any failure to maintain the security, proper function and availability of RMR LLC's information technology and systems, or certain third party vendors' failure to similarly protect their information technology and systems that are relevant to RMR LLC's or our operations, or to safeguard RMR LLC's or our business processes, assets and information could result in financial losses, interrupt RMR LLC's operations, damage RMR LLC's reputation, cause RMR LLC to be in default of material contracts and subject RMR LLC to liability claims or regulatory penalties, any of which could materially and adversely affect our business and the value of our securities.

Bankruptcy law may adversely impact us.

The occurrence of a tenant bankruptcy could reduce the rent we receive from such tenant's lease. If a tenant becomes bankrupt, federal law may prohibit us from evicting such tenant based solely upon its bankruptcy. In addition, a bankrupt tenant may be authorized to reject and terminate its lease with us. Any claims against a bankrupt tenant for unpaid future rent would be subject to statutory limitations that may be substantially less than the contractually specified rent we are owed under the lease, and any claim we have for unpaid past rent may not be paid in full.

Our use of joint ventures may limit our flexibility with jointly owned investments.

We are party to joint ventures with unrelated third parties that own three properties, and we may in the future acquire, develop or recapitalize properties in joint ventures with other persons or entities. Our participation in these joint ventures is subject to risks, including the following:

- we may share approval rights over major decisions affecting the ownership or operation of the joint venture and any property owned by the joint venture;
- we may be required to contribute additional capital if our partners fail to fund their share of any required capital contributions;
- our joint venture partners may have economic or other business interests or goals that are inconsistent with our business interests or goals and that could affect our ability to lease or release the property, operate the property or maintain our qualification for taxation as a REIT;
- our joint venture partners may be subject to different laws or regulations than us, or may be structured differently than us for tax purposes, which could create conflicts of interest and/or affect our ability to maintain our qualification for taxation as a REIT;

- our ability to sell the interest on advantageous terms when we so desire may be limited or restricted under the terms of the applicable joint venture agreements; and
- disagreements with our joint venture partners could result in litigation or arbitration that could be expensive and distracting to management and could delay important decisions.

Any of the foregoing risks could have a material adverse effect on our business, financial condition and results of operations.

Insurance may not adequately cover our losses, and the cost of obtaining such insurance may continue to increase.

We or our tenants are responsible for the costs of insurance coverage for our properties, including for casualty, liability, fire, extended coverage and rental or business interruption loss insurance. Recently, we have experienced increases in the cost of providing such insurance, and these increased costs have had an adverse effect on our financial condition and results of operations. In the future, we may acquire additional properties for which we are responsible for the costs of insurance. Losses of a catastrophic nature, such as those caused by hurricanes, flooding, volcanic eruptions and earthquakes, among other things, or losses from terrorism, may be covered by insurance policies with limitations such as large deductibles or co-payments that we may not be able to pay. Insurance proceeds may not be adequate to restore an affected property to its condition prior to a loss or to compensate us for our losses, including the loss of future revenues from an affected property. Similarly, our other insurance, including our general liability insurance, may not provide adequate insurance to cover our losses. In addition, we do not have any insurance to limit losses that we may incur as a result of known or unknown environmental conditions. Further, there is no assurance that certain types of risks that are currently insurable will continue to be insurable on an economically feasible basis, and we may discontinue certain insurance coverage on some or all of our properties in the future if we determine that the cost of premiums for any of these policies exceeds the value of the coverage. If an uninsured loss or a loss in excess of insured limits occurs, we may have to incur uninsured costs to mitigate such losses or lose all or a portion of the capital invested in a property, as well as the anticipated future revenue from the property. We might also remain obligated for any financial obligations related to the property, even if the property is irreparably damaged. In addition, future changes in the insurance industry's risk assessment approach and pricing structure could further increase the cost of insuring our properties or decrease the scope of insurance coverage, either of which could have an adverse effect on our financial condition, results of operations, liquidity and ability to pay distributions to our shareholders.

We may incur significant costs complying with the Americans with Disabilities Act and similar laws.

Under the Americans with Disabilities Act and certain similar state statutes, many commercial properties must meet specified requirements related to access and use by disabled persons. In addition, our properties are subject to various laws and regulations relating to fire, safety and other regulations. The tenants of our leased properties are generally responsible for compliance with these requirements pursuant to our lease agreements. In addition, although our tenants may be responsible for complying with these requirements for our properties, we could be held liable as the owner of the properties for our tenants' failure to comply. We may be required to make substantial capital expenditures at our properties to comply with these laws. In addition, non-compliance could result in the imposition of fines or an award of damages and costs to private litigants. Further, with respect to our leased properties, we may not be able to recoup these amounts from our tenants if they are unable or unwilling to pay.

A prolonged U.S. government shutdown may adversely impact our business and cash position.

Under our leases with the U.S. government, the tenants pay us rent monthly in arrears. If the U.S. government experiences a prolonged shutdown, these tenants may not pay us rent during the pendency of the shutdown. Although we expect that these tenants would pay us any outstanding rents after the shutdown ends, our available cash and leverage targets may be adversely impacted during the period we do not receive rents from these tenants. In addition, the impact of a prolonged government shutdown on government personnel resources could hinder our ability to renew expiring leases or initiate or complete renovation, construction and other capital maintenance of the affected properties. During the pendency of any shutdown, we may need to borrow amounts under our revolving credit facility or seek alternative financing, which we may not be able to receive timely or on reasonable terms. A failure to receive rents from our government tenants during a government shutdown may impair our ability to fund our operations and investments, pay our debt obligations, make capital expenditures and pay distributions to our shareholders. Moreover, some of our tenants are government contractors that rely on government business. If a government shutdown results in our government contractor tenants not paying us rent, the negative impact on us from a government shutdown may be compounded.

Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or our internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and our internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, we cannot guarantee that our disclosure controls and procedures and internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weaknesses, in our disclosure controls and procedures or internal control over financial reporting could result in misstatements of our results of operations or our financial statements or could otherwise materially and adversely affect our business, reputation, results of operations, financial condition or liquidity.

Risks Related to Our Relationships with RMR Inc. and RMR LLC

We are dependent upon RMR LLC to manage our business and implement our growth strategy.

We have no employees. Personnel and services that we require are provided to us by RMR LLC pursuant to our management agreements with RMR LLC. Our ability to achieve our business objectives depends on RMR LLC and its ability to effectively manage our properties, to appropriately identify and complete our acquisitions and dispositions and to execute our growth strategy. Accordingly, our business is dependent upon RMR LLC's business contacts, its ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If we lose the services provided by RMR LLC or its key personnel, our business and growth prospects may decline. We may be unable to duplicate the quality and depth of management available to us by becoming internally managed or by hiring another manager. In the event RMR LLC is unwilling or unable to continue to provide management services to us, our cost of obtaining substitute services may be greater than the fees we pay RMR LLC under our management agreements, and as a result our expenses may increase.

RMR LLC has broad discretion in operating our day to day business.

Our manager, RMR LLC, is authorized to follow broad operating and investment guidelines and therefore, has discretion in identifying the properties that will be appropriate investments for us, as well as our individual operating and investment decisions. Our Board of Trustees periodically reviews our operating and investment guidelines and our operating activities and investments but it does not review or approve each decision made by RMR LLC on our behalf. In addition, in conducting periodic reviews, our Board of Trustees relies primarily on information provided to it by RMR LLC. RMR LLC may exercise its discretion in a manner that results in investment returns that are substantially below expectations or that results in losses.

Our management structure and agreements and relationships with RMR LLC and RMR LLC's and its controlling shareholder's relationships with others may create conflicts of interest, or the appearance of such conflicts, and may restrict our investment activities.

RMR LLC is a subsidiary of RMR Inc. The Chair of our Board of Trustees and one of our Managing Trustees, Adam Portnoy, as the sole trustee of ABP Trust, is the controlling shareholder of RMR Inc. and is a managing director and the president and chief executive officer of RMR Inc. and an officer and employee of RMR LLC. RMR LLC or its subsidiary also acts as the manager for four other Nasdaq listed REITs: ILPT, which owns industrial and logistics properties; DHC, which primarily owns healthcare, senior living properties and medical office buildings; SVC, which owns a diverse portfolio of hotels, travel centers and net lease service and necessity-based retail properties; and TRMT, which primarily originates and invests in first mortgage loans secured by middle market and transitional commercial real estate. RMR LLC also provides services to other publicly and privately owned companies, including: Five Star, which operates senior living communities; TA, which operates and franchises travel centers, truck repair facilities and restaurants; and Sonesta, which operates, manages and franchises hotels, resorts and cruise boats. A subsidiary of RMR LLC is an investment adviser to the RMR Real Estate Income Fund, or RIF, a closed end investment company listed on the NYSE American, which invests in securities of real estate companies that are not managed by RMR LLC. Mr. Portnoy serves as chair of the board of trustees or board of directors, as applicable, of SVC, ILPT, DHC, Five Star and TA and as managing director, managing trustee, director or trustee, as applicable, of the companies managed by RMR LLC or its subsidiaries.

David Blackman, our other Managing Trustee and our President and Chief Executive Officer, Matthew Brown, our Chief Financial Officer and Treasurer, and Christopher Bilotto, our Vice President, are also officers and employees of RMR LLC. David Blackman is also a managing trustee, president and chief executive officer of TRMT. Messrs. Blackman, Brown and Bilotto have duties to RMR LLC, and Mr. Blackman has duties to TRMT, as well as to us, and we do not have their undivided attention. They and other RMR LLC personnel may have conflicts in allocating their time and resources between us and RMR LLC and other companies to which RMR LLC or its subsidiaries provide services. Some of our Independent Trustees also serve as independent directors or independent trustees of other public companies to which RMR LLC or its subsidiaries provide management services.

In addition, we may in the future enter into additional transactions with RMR LLC, its affiliates, or entities managed by it or its subsidiaries. In addition to his investments in RMR Inc. and RMR LLC, Adam Portnoy holds equity investments in other companies to which RMR LLC or its subsidiaries provide management services and some of these companies have significant cross ownership interests, including, for example: as of December 31, 2019, Adam Portnoy beneficially owned, in aggregate, 1.5% of our outstanding common shares, 35.3% of Five Star's outstanding common stock (6.3% as of January 1, 2020) (including through ABP Trust), 1.2% of ILPT's outstanding common shares, 1.1% of DHC's outstanding common shares, 2.3% of RIF's outstanding common shares, 1.1% of SVC's outstanding common shares, 4.0% of TA's outstanding common shares (including through RMR LLC) and 19.5% of TRMT's outstanding common shares (including through Tremont Realty Advisors LLC). Our executive officers may also own equity investments in other companies to which RMR LLC or its subsidiaries provide management services. These multiple responsibilities, relationships and cross ownerships could give rise to conflicts of interest or the perception of such conflicts of interest with respect to matters involving us, RMR Inc., RMR LLC, our Managing Trustees, the other companies to which RMR LLC or its subsidiaries provide management services and their related parties. Conflicts of interest or the perception of conflicts of interest could have a material adverse impact on our reputation, business and the market price of our common shares and other securities and we may be subject to increased risk of litigation as a result.

In our management agreements with RMR LLC, we acknowledge that RMR LLC may engage in other activities or businesses and act as the manager to any other person or entity (including other REITs) even though such person or entity has investment policies and objectives similar to our policies and objectives and we are not entitled to preferential treatment in receiving information, recommendations and other services from RMR LLC. Accordingly, we may lose investment opportunities to, and may compete for tenants with, other businesses managed by RMR LLC or its subsidiaries. We cannot be sure that our Code of Conduct or our governance guidelines, or other procedural protections we adopt will be sufficient to enable us to identify, adequately address or mitigate actual or alleged conflicts of interest or ensure that our transactions with related persons are made on terms that are at least as favorable to us as those that would have been obtained with an unrelated person.

Our management agreements were not negotiated on an arm's length basis and their fee and expense structure may not create proper incentives for RMR LLC, which may increase the risk of an investment in our common shares.

As a result of our relationships with RMR LLC and its current and former controlling shareholder(s), our management agreements were not negotiated on an arm's length basis between unrelated parties, and therefore, while such agreements were negotiated with the use of a special committee and disinterested Trustees, the terms, including the fees payable to RMR LLC, may not be as favorable to us as they would have been if they were negotiated on an arm's length basis between unrelated parties. Our property management fees are calculated based on rents we receive and construction supervision fees for construction at our properties overseen and managed by RMR LLC, and our base business management fee is calculated based upon the lower of the historical costs of our real estate investments and our market capitalization. We pay RMR LLC substantial base management fees regardless of our financial results. These fee arrangements could incentivize RMR LLC to pursue acquisitions, capital transactions, tenancies and construction projects or to avoid disposing of our assets in order to increase or maintain its management fees and might reduce RMR LLC's incentive to devote its time and effort to seeking investments that provide attractive returns for us. If we do not effectively manage our investment, disposition and capital transactions and leasing, construction and other property management activities, we may pay increased management fees without proportional benefits to us. In addition, we are obligated under our management agreements to reimburse RMR LLC for employment and related expenses of RMR LLC's employees assigned to work exclusively or partly at our properties, our share of the wages, benefits and other related costs of RMR LLC's centralized accounting personnel and our share of RMR LLC's costs for providing our internal audit function. We are also required to pay for third party costs incurred with respect to us. Our obligation to reimburse RMR LLC for certain of its costs and to pay third party costs may reduce RMR LLC's incentive to efficiently manage those costs, which may increase our costs.

The termination of our management agreements may require us to pay a substantial termination fee, including in the case of a termination for unsatisfactory performance, which may limit our ability to end our relationship with RMR LLC.

The terms of our management agreements with RMR LLC automatically extend on December 31st of each year so that such terms thereafter end on the 20th anniversary of the date of the extension. We have the right to terminate these agreements: (1) at any time on 60 days' written notice for convenience, (2) immediately upon written notice for cause, as defined in the agreements, (3) on written notice given within 60 days after the end of any applicable calendar year for a performance reason, as defined in the agreements, and (4) by written notice during the 12 months following a manager change of control, as defined in the agreements. However, if we terminate a management agreement for convenience, or if RMR LLC terminates a management agreement with us for good reason, as defined in such agreement, we are obligated to pay RMR LLC a termination fee in an amount equal to the sum of the present values of the monthly future fees, as defined in the applicable agreement, payable to RMR LLC for the term that was remaining before such termination, which, depending on the time of termination, would be between 19 and 20 years. Additionally, if we terminate a management agreement for a performance reason, as defined in the agreement, we are obligated to pay RMR LLC the termination fee calculated as described above, but assuming a remaining term of 10 years. These provisions substantially increase the cost to us of terminating the management agreements without cause, which may limit our ability to end our relationship with RMR LLC as our manager. The payment of the termination fee could have a material adverse effect on our financial condition, including our ability to pay dividends to our shareholders.

Our management arrangements with RMR LLC may discourage a change of control of us.

Our management agreements with RMR LLC have continuing 20 year terms that renew annually. As noted in the preceding risk factor, if we terminate either of these management agreements other than for cause or upon a change of control of our manager, we are obligated to pay RMR LLC a substantial termination fee. For these reasons, our management agreements with RMR LLC may discourage a change of control of us, including a change of control which might result in payment of a premium for our common shares.

We are and have been party to transactions with related parties that may increase the risk of allegations of conflicts of interest, and such allegations may impair our ability to realize the benefits we expect from these transactions.

We are and have been party to transactions with related parties, including with entities controlled by Adam Portnoy or to which RMR LLC or its subsidiaries provide or provided management services. Our agreements with related parties or in respect of transactions among related parties may not be or have been on terms as favorable to us as they would have been if they had been negotiated among unrelated parties. We are subject to the risk that our shareholders or the shareholders of RMR Inc. or other related parties may challenge any such related party transactions and the agreements entered into as part of them. If such a challenge were to be successful, we might not realize the benefits expected from the transactions being challenged. Moreover, any such challenge could result in substantial costs and a diversion of our management's attention, could have a material adverse effect on our reputation, business and growth and could adversely affect our ability to realize the benefits expected from the transactions, whether or not the allegations have merit or are substantiated.

We may be at an increased risk for dissident shareholder activities due to perceived conflicts of interest arising from our management structure and relationships.

Companies with business dealings with related persons and entities may more often be the target of dissident shareholder trustee nominations, dissident shareholder proposals and shareholder litigation alleging conflicts of interest in their business dealings. Our relationships with RMR Inc., RMR LLC, the other companies to which RMR LLC or its subsidiaries provide management services, Adam Portnoy and other related persons of RMR LLC have precipitated and may precipitate such activities, including shareholder litigation which results in substantial costs for us even if the shareholder litigation is without merit or unsuccessful. Certain proxy advisory firms which have significant influence over the voting by shareholders of public companies have, in the past, recommended, and in the future may recommend that shareholders withhold votes for the election of our incumbent Trustees, vote against our say on pay vote or other management proposals or vote for shareholder proposals that we oppose.

These recommendations by proxy advisory firms in the future may affect the outcome of future Board of Trustees elections and votes on our say on pay, which may increase shareholder activism and litigation. These activities, if instituted against us, could result in substantial costs, and diversion of our management's attention and could have a material adverse impact on our reputation and business.

Risks Related to Our Organization and Structure

Ownership limitations and certain provisions in our declaration of trust, bylaws and agreements as well as certain provisions of Maryland law, may deter, delay or prevent a change in our control or unsolicited acquisition proposals.

Our declaration of trust prohibits any shareholder other than RMR LLC and its affiliates (as defined under Maryland law) and certain persons who have been exempted by our Board of Trustees from owning, directly and by attribution, more than 9.8% of the number or value of shares (whichever is more restrictive) of any class or series of our outstanding shares of beneficial interest, including our common shares. This provision of our declaration of trust is intended to, among other purposes, assist with our REIT compliance under the IRC and otherwise promote our orderly governance. However, this provision may also inhibit acquisitions of a significant stake in us and may deter, delay or prevent a change in control of us or unsolicited acquisition proposals that a shareholder may consider favorable. Additionally, provisions contained in our declaration of trust and bylaws or under Maryland law may have a similar impact, including, for example, provisions relating to:

- the division of our Trustees into three classes, with the term of one class expiring each year, which could delay a change of control of us;
- limitations on shareholder voting rights with respect to certain actions that are not approved by our Board of Trustees;
- the authority of our Board of Trustees, and not our shareholders, to adopt, amend or repeal our bylaws and to fill vacancies on our Board of Trustees;
- shareholder voting standards which require a supermajority for approval of certain actions;
- the fact that only our Board of Trustees, or, if there are no Trustees, our officers, may call shareholder meetings and that shareholders are not entitled to act without a meeting;
- required qualifications for an individual to serve as a Trustee and a requirement that certain of our Trustees be "Managing Trustees" and other Trustees be "Independent Trustees," as defined in our governing documents;
- limitations on the ability of our shareholders to propose nominees for election as Trustees and propose other business to be considered at a meeting of our shareholders;
- limitations on the ability of our shareholders to remove our Trustees;
- the authority of our Board of Trustees to create and issue new classes or series of shares (including shares with voting rights and other rights and privileges that may deter a change in control) and issue additional common shares;
- restrictions on business combinations between us and an interested shareholder that have not first been approved by our Board of Trustees (including a majority of Trustees not related to the interested shareholder); and
- the authority of our Board of Trustees, without shareholder approval, to implement certain takeover defenses.

Our rights and the rights of our shareholders to take action against our Trustees and officers are limited.

Our declaration of trust limits the liability of our Trustees and officers to us and our shareholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our Trustees and officers will not have any liability to us and our shareholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the Trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our declaration of trust authorizes us, and our bylaws and indemnification agreements require us, to indemnify, to the maximum extent permitted by Maryland law, any present or former Trustee or officer who is made or threatened to be made a party to a proceeding by reason of his or her service in those and certain other capacities. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former Trustees and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our shareholders may have more limited rights against our present and former Trustees and officers than might otherwise exist absent the provisions in our declaration of trust, bylaws and indemnification agreements or that might exist with other companies, which could limit our shareholders' recourse in the event of actions not in their best interest.

Shareholder litigation against us or our Trustees, officers, manager, other agents or employees may be referred to mandatory arbitration proceedings, which follow different procedures than in-court litigation and may be more restrictive to shareholders asserting claims than in-court litigation.

Our shareholders agree, by virtue of becoming shareholders, that they are bound by our governing documents, including the arbitration provisions of our declaration of trust and bylaws, as they may be amended from time to time. Our governing documents provide that certain actions by one or more of our shareholders against us or any of our Trustees, officers, manager or other agents or employees, other than disputes, or any portion thereof, regarding the meaning, interpretation or validity of any provision of our declaration of trust or bylaws, will be referred to mandatory, binding and final arbitration proceedings if we, or any other party to such dispute, including any of our Trustees, officers, manager, other agents or employees unilaterally so demands. As a result, we and our shareholders would not be able to pursue litigation in state or federal court against us or our Trustees, officers, manager, other agents or employees, including, for example, claims alleging violations of federal securities laws or breach of fiduciary duties or similar director or officer duties under Maryland law, if we or any of our Trustees, officers, manager, other agents or employees against whom the claim is made unilaterally demands the matter be resolved by arbitration. Instead, our shareholders would be required to pursue such claims through binding and final arbitration.

Our governing documents provide that such arbitration proceedings would be conducted in accordance with the procedures of the Commercial Arbitration Rules of the American Arbitration Association, as modified in our bylaws. These procedures may provide materially more limited rights to our shareholders than litigation in a federal or state court. For example, arbitration in accordance with these procedures does not include the opportunity for a jury trial, document discovery is limited, arbitration hearings generally are not open to the public, there are no witness depositions in advance of arbitration hearings and arbitrators may have different qualifications or experiences than judges. In addition, although our governing documents' arbitration provisions contemplate that arbitration may be brought in a representative capacity or on behalf of a class of our shareholders, the rules governing such representation or class arbitration may be different from, and less favorable to shareholders than, the rules governing representative or class action litigation in courts. Our governing documents also generally provide that each party to such an arbitration is required to bear its own costs in the arbitration, including attorneys' fees, and that the arbitrators may not render an award that includes shifting of such costs or, in a derivative or class proceeding, award any portion of our award to any shareholder or such shareholder's attorneys. The arbitration provisions of our governing documents may discourage our shareholders from bringing, and attorneys from agreeing to represent our shareholders wishing to bring, litigation against us or our Trustees, officers, manager, other agents or employees. Our agreements with RMR LLC have similar arbitration provisions to those in our governing documents.

We believe that the arbitration provisions in our governing documents are enforceable under both state and federal law, including with respect to federal securities laws claims. We are a Maryland real estate investment trust and Maryland courts have upheld the enforceability of arbitration provisions in governing documents. In addition, the United States Supreme Court has repeatedly upheld agreements to arbitrate other federal statutory claims, including those that implicate important federal policies. However, some academics, legal practitioners and others are of the view that charter or bylaw provisions mandating arbitration are not enforceable with respect to federal securities laws claims. It is possible that the arbitration provisions of our governing documents may ultimately be determined to be unenforceable.

By agreeing to the arbitration provisions of our governing documents, shareholders will not be deemed to have waived compliance by us with federal securities laws and the rules and regulations thereunder.

Our bylaws designate the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for certain actions and proceedings that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us or our Trustees, officers, manager, agents or employees.

Our bylaws currently provide that, unless the dispute has been referred to binding arbitration, the Circuit Court for Baltimore City, Maryland will be the sole and exclusive forum for: (1) any derivative action or proceeding brought on our behalf; (2) any action asserting a claim for breach of a fiduciary duty owed by any Trustee, officer, manager, agent or employee of ours to us or our shareholders; (3) any action asserting a claim against us or any Trustee, officer, manager, agent or employee of ours arising pursuant to Maryland law, our declaration of trust or bylaws brought by or on behalf of a shareholder, either on his, her or its own behalf, on our behalf or on behalf of any series or class of shares of beneficial interest of ours or shareholders against us or any Trustee, officer, manager, agent or employee of ours, including any disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance or enforcement of the declaration of trust or these bylaws; or (4) any action asserting a claim against us or any Trustee, officer, manager, agent or employee of ours that is governed by the internal affairs doctrine. Our bylaws currently also provide that the Circuit Court for Baltimore City, Maryland will be the sole and exclusive forum for any dispute, or portion thereof, regarding the meaning, interpretation or validity of any provision of our declaration of trust or bylaws. The exclusive forum provision of our bylaws does not apply to any action for which the Circuit Court for Baltimore City, Maryland does not have jurisdiction or to a dispute that has been referred to binding arbitration in accordance with our bylaws. The exclusive forum provision of our bylaws does not establish exclusive jurisdiction in the Circuit Court for Baltimore City, Maryland for claims that arise under the Securities Act, the Exchange Act or other federal securities laws if there is exclusive or concurrent jurisdiction in the federal courts. Any person or entity purchasing or otherwise acquiring or holding any interest in our shares of beneficial interest shall be deemed to have notice of and to have consented to these provisions of our bylaws, as they may be amended from time to time. The arbitration and exclusive forum provisions of our bylaws may limit a shareholder's ability to bring a claim in a judicial forum that the shareholder believes is favorable for disputes with us or our Trustees, officers, manager, other agents or employees, which may discourage lawsuits against us and our

Trustees, officers, manager, other agents or employees. SIR's former bylaws had similar exclusive forum provisions to those in our bylaws.

We may change our operational, financing and investment policies without shareholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our Board of Trustees determines our operational, financing and investment policies and may amend or revise our policies, including our policies with respect to our intention to remain qualified for taxation as a REIT, acquisitions, dispositions, growth, operations, indebtedness, capitalization and distributions, or approve transactions that deviate from these policies, without a vote of, or notice to, our shareholders. Policy changes could adversely affect the market price of our common shares and our ability to make distributions to our shareholders. Further, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our Board of Trustees may alter or eliminate our current policy on borrowing at any time without shareholder approval. If this policy changes, we could become more highly leveraged, which could result in an increase in our debt service costs. Higher leverage also increases the risk of default on our obligations. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk.

Risks Related to Our Taxation

Our failure to remain qualified for taxation as a REIT under the IRC could have significant adverse consequences.

As a REIT, we generally do not pay federal or most state income taxes as long as we distribute all of our REIT taxable income and meet other qualifications set forth in the IRC. However, actual qualification for taxation as a REIT under the IRC depends on our satisfying complex statutory requirements, for which there are only limited judicial and administrative interpretations. We believe that we have been organized and have operated, and will continue to be organized and to operate, in a manner that qualified and will continue to qualify us to be taxed as a REIT under the IRC. However, we cannot be sure that the IRS, upon review or audit, will agree with this conclusion. Furthermore, we cannot be sure that the federal government, or any state or other taxation authority, will continue to afford favorable income tax treatment to REITs and their shareholders.

Maintaining our qualification for taxation as a REIT under the IRC will require us to continue to satisfy tests concerning, among other things, the nature of our assets, the sources of our income and the amounts we distribute to our shareholders. In order to meet these requirements, it may be necessary for us to sell or forgo attractive investments.

If we cease to qualify for taxation as a REIT under the IRC, then our ability to raise capital might be adversely affected, we will be in breach under our credit agreement, we may be subject to material amounts of federal and state income taxes, our cash available for distribution to our shareholders could be reduced, and the market price of our common shares could decline. In addition, if we lose or revoke our qualification for taxation as a REIT under the IRC for a taxable year, we will generally be prevented from requalifying for taxation as a REIT for the next four taxable years.

Distributions to shareholders generally will not qualify for reduced tax rates applicable to "qualified dividends."

Dividends payable by U.S. corporations to noncorporate shareholders, such as individuals, trusts and estates, are generally eligible for reduced federal income tax rates applicable to "qualified dividends." Distributions paid by REITs generally are not treated as "qualified dividends" under the IRC and the reduced rates applicable to such dividends do not generally apply. However, for tax years beginning before 2026, REIT dividends paid to noncorporate shareholders are generally taxed at an effective tax rate lower than applicable ordinary income tax rates due to the availability of a deduction under the IRC for specified forms of income from passthrough entities. More favorable rates will nevertheless continue to apply to regular corporate "qualified" dividends, which may cause some investors to perceive that an investment in a REIT is less attractive than an investment in a non-REIT entity that pays dividends, thereby reducing the demand and market price of our common shares.

REIT distribution requirements could adversely affect us and our shareholders.

We generally must distribute annually at least 90% of our REIT taxable income, subject to specified adjustments and excluding any net capital gain, in order to maintain our qualification for taxation as a REIT under the IRC. To the extent that we satisfy this distribution requirement, federal corporate income tax will not apply to the earnings that we distribute, but if we distribute less than 100% of our REIT taxable income, then we will be subject to federal corporate income tax on our undistributed taxable income. We intend to make distributions to our shareholders to comply with the REIT requirements of the IRC. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with U.S. generally accepted accounting principles, or GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. If we do not have other funds available in these situations, among other things, we may borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions in order to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our shareholders' equity. Thus, compliance with the REIT distribution requirements may hinder our ability to grow, which could cause the market price of our common shares to decline.

Even if we remain qualified for taxation as a REIT under the IRC, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT under the IRC, we may be subject to federal, state and local taxes on our income and assets, including taxes on any undistributed income, excise taxes, state or local income, property and transfer taxes, and other taxes. Also, some jurisdictions may in the future limit or eliminate favorable income tax deductions, including the dividends paid deduction, which could increase our income tax expense. In addition, in order to meet the requirements for qualification and taxation as a REIT under the IRC, prevent the recognition of particular types of non-cash income, or avert the imposition of a 100% tax that applies to specified gains derived by a REIT from dealer property or inventory, we may hold or dispose of some of our assets and conduct some of our operations through our TRSs or other subsidiary corporations that will be subject to corporate level income tax at regular rates. In addition, while we intend that our transactions with our TRSs will be conducted on arm's length bases, we may be subject to a 100% excise tax on a transaction that the IRS or a court determines was not conducted at arm's length. Any of these taxes would decrease cash available for distribution to our shareholders.

We may incur adverse tax consequences as a result of our merger and acquisition transactions.

We received opinions of counsel that each of SIR and FPO, respectively, were organized and operated in conformity with the requirements for qualification and taxation as a REIT under the IRC prior to the time that we acquired those entities. If, contrary to those opinions, either SIR or FPO failed to qualify for taxation as a REIT under the IRC, then we may inherit significant tax liabilities as a result of those transactions because, as the successor by merger to SIR and FPO, we would generally inherit any corporate income tax liabilities of those entities, including penalties and interest.

If it is determined that one or both of SIR and FPO failed to satisfy one or more of the REIT qualification requirements before the applicable merger into us, the IRS might allow us, as successor, to utilize remedial provisions under the IRC to remediate the REIT compliance failure. However, if and to the extent remedial provisions are available to us to address any REIT qualification matter stemming from the periods before we acquired SIR or FPO, we may have to expend significant resources in connection with such remediation, including, among other things, (a) required distribution payments to shareholders and associated interest payments to the IRS, and (b) tax and interest payments to the IRS and state and local tax authorities.

The failure of SIR or FPO to qualify for taxation as a REIT under the IRC for the applicable periods prior to or including the time we acquired these entities and our efforts to remedy any such failure could have a material adverse effect on our financial condition and results of operations.

Legislative or other actions affecting REITs could materially and adversely affect us and our shareholders.

The rules dealing with U.S. federal, state, and local taxation are constantly under review by persons involved in the legislative process and by the IRS, the U.S. Department of the Treasury, and other taxation authorities. Changes to the tax laws, with or without retroactive application, could materially and adversely affect us and our shareholders. We cannot predict how changes in the tax laws might affect us or our shareholders. New legislation, Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to remain qualified for taxation as a REIT or the tax consequences of such qualification to us and our shareholders.

Risks Related to Our Securities

Our distributions to our shareholders may decline.

We intend to continue to make regular quarterly distributions to our shareholders. However:

- our ability to make or sustain the rate of distributions will be adversely affected if any of the risks described in this Annual Report on Form 10-K occur;
- our making of distributions is subject to compliance with restrictions contained in our credit agreement and may be subject to restrictions in future debt obligations we may incur;
- our ability to make future distributions is dependent on a number of factors, including our future earnings, the capital costs we incur to lease our properties and our working capital requirements; and
- our Board of Trustees sets and resets our distribution rate from time to time after considering many factors, including cash available for distribution. Accordingly, future distribution rates may be increased or decreased and there is no assurance as to the rate at which future distributions will be paid.

For the above reasons, among others, our distribution rate may decline or we may cease making distributions to our shareholders.

Changes in market conditions could adversely affect the value of our securities.

As with other publicly traded equity securities and REIT securities, the value of our common shares and other securities depends on various market conditions that are subject to change from time to time, including:

- the extent of investor interest in our securities;
- the general reputation of REITs and externally managed companies and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate based companies or by other issuers less sensitive to rises in interest rates;
- our underlying asset value;
- investor confidence in the stock and bond markets, generally;
- market interest rates;
- economic conditions;
- changes in tax laws;
- changes in our credit ratings; and
- general market conditions.

We believe that one of the factors that investors consider important in deciding whether to buy or sell equity securities of a REIT is the distribution rate, considered as a percentage of the price of the equity securities, relative to market interest rates. Interest rates have been at historically low levels for an extended period of time. There is a general market perception that REIT shares outperform in low interest rate environments and underperform in rising interest rate environments when compared to the broader market. The U.S. Federal Reserve steadily increased the targeted federal funds rate over the last several years, but recently took action to decrease the federal funds rate and may continue to make adjustments in the near future. If the U.S. Federal Reserve increases interest rates or if there is a market expectation of such increases, prospective purchasers of REIT equity securities may want to achieve a higher distribution rate. Thus, higher market interest rates, or the expectation of higher interest rates, could cause the value of our securities to decline.

Further issuances of equity securities may be dilutive to current shareholders.

The interests of our existing shareholders could be diluted if we issue additional equity securities to finance future acquisitions, to repay indebtedness or for other reasons. For example, in the SIR Merger, we issued a significant number of additional common shares of beneficial interest. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, which may include secured and unsecured debt, and equity financing, which may include common and preferred shares.

The Notes are structurally subordinated to the payment of all indebtedness and other liabilities and any preferred equity of our subsidiaries.

We are the sole obligor on our outstanding senior unsecured notes, and our outstanding senior unsecured notes and any notes or other debt securities we may issue in the future, or, together with our outstanding senior unsecured notes, or the Notes, and such Notes are not, and any Notes we may issue in the future may not be guaranteed by any of our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due on the Notes, or to make any funds available therefor, whether by dividend, distribution, loan or other payments. The rights of holders of Notes to benefit from any of the assets of our subsidiaries are subject to the prior satisfaction of claims of our subsidiaries' creditors and any preferred equity holders. As a result, the Notes are, and, except to the extent that future Notes are guaranteed by our subsidiaries, will be, structurally subordinated to all of the debt and other liabilities and obligations of our subsidiaries, including guarantees of other indebtedness of ours, payment obligations under lease agreements, trade payables and preferred equity. As of December 31, 2019, our subsidiaries had total indebtedness and other liabilities (excluding security and other deposits and guaranties) of $404.9 million.

The Notes are unsecured and effectively subordinated to all of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness.

The outstanding Notes are not secured and any Notes we may issue in the future may not be secured. Upon any distribution to our creditors in a bankruptcy, liquidation, reorganization or similar proceeding relating to us or our property, the holders of our secured debt will be entitled to exercise the remedies available to a secured lender under applicable law and pursuant to the instruments governing such debt and to be paid in full from the assets securing that secured debt before any payment may be made with respect to Notes that are not secured by those assets. In that event, because such Notes will not be secured by any of our assets, it is possible that there will be no assets from which claims of holders of such Notes can be satisfied or, if any assets remain, that the remaining assets will be insufficient to satisfy those claims in full. If the value of such remaining assets is less than the aggregate outstanding principal amount of such Notes and accrued interest and all future debt ranking equally with such Notes, we will be unable to fully satisfy our obligations under such Notes. In addition, if we fail to meet our payment or other obligations under our secured debt, the holders of that secured debt would be entitled to foreclose on our assets securing that secured debt and liquidate those assets. Accordingly, we may not have sufficient funds to pay amounts due on such Notes. As a result, noteholders may lose a portion or the entire value of their investment in such Notes. Further, the terms of the outstanding Notes permit, and the terms of any Notes we may issue in the future may permit us to incur additional secured indebtedness subject to compliance with certain debt ratios. The Notes that are not secured will be effectively subordinated to any such additional secured indebtedness. As of December 31, 2019, we had $326.2 million in secured mortgage debt.

There may be no public market for certain of the Notes, and one may not develop, be maintained or be liquid.

We have not applied for listing of certain of the Notes on any securities exchange or for quotation on any automatic dealer quotation system, and we may not do so for Notes issued in the future. We cannot be sure that the liquidity of any market that may develop for such Notes, the ability of any holder to sell such Notes or the price at which holders would be able to sell such Notes. If a market for such Notes does not develop, holders may be unable to resell such Notes for an extended period of time, if at all. If a market for such Notes does develop, it may not continue or it may not be sufficiently liquid to allow holders to resell such Notes. Consequently, holders of the Notes may not be able to liquidate their investment readily, and lenders may not readily accept such Notes as collateral for loans.

The Notes may trade at a discount from their initial issue price or principal amount, depending upon many factors, including prevailing interest rates, the ratings assigned by rating agencies, the market for similar securities and other factors, including general economic conditions and our financial condition, performance and prospects. Any decline in market prices, regardless of cause, may adversely affect the liquidity and trading markets for the Notes.

A downgrade in credit ratings could materially adversely affect the market price of the Notes and may increase our cost of capital.

The outstanding Notes are rated by two rating agencies and any Notes we may issue in the future may be rated by one or more rating agencies. These credit ratings are continually reviewed by rating agencies and may change at any time based upon, among other things, our results of operations and financial condition. In September 2018, following our announcement that we had entered into the merger agreement with SIR for the SIR Merger, Standard & Poor's Global, or S&P, affirmed our credit ratings and revised its outlook on our debt to stable, and Moody's Investors Service, or Moody's, affirmed our credit ratings and maintained its negative outlook on our debt. In October 2019, S&P reaffirmed our credit ratings with a stable outlook on our debt. In December 2019, Moody's reaffirmed our credit ratings and adjusted our outlook from negative to stable on our debt. Negative changes in the ratings assigned to our debt securities could have an adverse effect on the market price of the Notes and our cost and availability of capital, including the interest rate on our revolving credit facility, which could in turn have a material adverse effect on our results of operations and our ability to satisfy our debt service obligations.

Redemption may adversely affect noteholders' return on the Notes.

We have the right to redeem some or all of the outstanding Notes prior to maturity and may have such a right with respect to any Notes we issue in the future. We may redeem such Notes at times when prevailing interest rates may be relatively low compared to the interest rate of such Notes. Accordingly, noteholders may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2019, our wholly owned properties were comprised of 189 properties located in 35 states and the District of Columbia containing approximately 25.7 million rentable square feet and we had a noncontrolling ownership interest in three properties containing approximately 0.4 million rentable square feet through two unconsolidated joint ventures in which we own 51% and 50%

interests. The following table provides certain information about our properties as of December 31, 2019 (dollars in thousands):

State	Number of Properties	Undepreciated Carrying Value[1]	Depreciated Carrying Value[1]	Annualized Rental Income
Alabama	7	$ 88,398	$ 83,146	$ 16,631
Arizona	5	29,450	27,779	6,440
California	24	475,992	408,716	71,011
Colorado	7	97,731	77,572	20,123
District of Columbia	7	535,471	474,843	62,317
Florida	3	56,630	46,959	9,846
Georgia	10	203,568	167,007	30,392
Hawaii[2]	1	2,008	2,008	—
Idaho	3	33,351	27,667	4,647
Illinois	4	93,577	88,903	28,513
Indiana	5	98,864	82,711	13,131
Iowa	1	10,646	10,425	3,283
Kentucky	2	17,442	15,288	3,858
Maryland	14	249,873	223,770	39,492
Massachusetts	7	110,264	92,250	17,957
Michigan	2	27,570	23,026	4,235
Minnesota	1	8,243	4,484	1,126
Mississippi	1	26,156	21,396	3,986
Missouri	3	83,761	75,431	23,134
Nebraska	2	19,477	19,131	4,223
New Jersey	3	48,434	47,485	14,433
New York	4	37,418	31,668	9,223
North Carolina	2	21,796	21,209	6,619
Ohio	1	1,034	1,024	765
Oregon	1	31,141	25,237	4,908
Pennsylvania	1	28,259	27,630	6,897
South Carolina	1	3,778	3,696	793
Tennessee	1	14,710	11,714	3,001
Texas	16	252,978	242,415	47,514
Utah	3	64,339	62,762	12,626
Vermont	1	9,256	7,166	1,141
Virginia	31	567,671	528,858	88,769
Washington	7	126,880	111,039	20,078
Wisconsin	1	5,587	4,589	807
Wyoming	1	11,478	6,571	2,003
Subtotal	183	3,493,231	3,105,575	583,922
Properties Held for Sale				
Connecticut	1	2,016	2,003	1,281
Illinois	1	5,316	5,305	1,693
New Jersey	1	27,917	27,917	6,653
Virginia	3	26,651	23,122	4,264
Subtotal	6	61,900	58,347	13,891
Grand Total	189	$3,555,131	$3,163,922	$597,813

(1) Excludes value assigned to real estate intangibles in purchase price allocations.

(2) Property is a leasable land parcel.

At December 31, 2019, 11 of our properties with an aggregate undepreciated carrying value of $513.7 million were encumbered by mortgages totaling $323.1 million. One of these properties with an undepreciated carrying value of $16.3 million is included in assets of properties held for sale in our consolidated balance sheet as of December 31, 2019. Accordingly, the carrying value of the mortgage encumbering that property totaling $13.1 million is included in liabilities of properties held for sale in our consolidated balance sheet as of December 31, 2019. The three properties owned by our two unconsolidated joint ventures in which we own 51% and 50% interests were encumbered by two mortgages totaling $82.0 million at December 31, 2019. For more information regarding our mortgages and our two unconsolidated joint ventures, see Notes 3 and 7 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings

From time to time, we may become involved in litigation matters incidental to the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, we are currently not a party to any litigation which we expect to have a material adverse effect on our business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares are traded on Nasdaq (symbol: OPI).

As of February 11, 2020, there were 2,191 shareholders of record of our common shares.

Issuer purchases of equity securities. The following table provides information about our purchases of our equity securities during the quarter ended December 31, 2019:

Calendar Month	Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
December 2019	131	$31.54	—	$—
Total	131	$31.54	—	$—

(1) These common share withholdings and purchases were made to satisfy tax withholding and payment obligations of certain former employees of RMR LLC in connection with the vesting of awards of our common shares. We withheld and purchased these shares at their fair market value based upon the trading price of our common shares at the close of trading on Nasdaq on the purchase date.

Item 6. Selected Financial Data

The following tables set forth selected financial data for the periods and dates indicated. This data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Item 7 of this Annual Report on Form 10-K and the Consolidated Financial Statements and accompanying notes included in Part IV, Item 15 of this Annual Report on Form 10-K (amounts are in thousands, except per share data).

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Income Statement Data:					
Rental income	$ 678,404	$426,560	$316,532	$258,180	$ 248,549
Expenses:					
Real estate taxes	73,717	49,708	37,942	30,703	29,906
Utility expenses	34,302	26,425	20,998	17,269	17,916
Other operating expenses	120,943	89,610	65,349	54,290	50,425
Depreciation and amortization	289,885	162,488	109,588	73,153	68,696
Loss on impairment of real estate	22,255	8,630	9,490	—	—
Acquisition and transaction related costs	682	14,508	—	1,191	811
General and administrative	32,728	24,922	18,847	14,897	14,826
Total expenses	574,512	376,291	262,214	191,503	182,580
Gain on sale of real estate	105,131	20,661	—	79	—
Dividend income	1,960	1,337	1,216	971	811
Loss on equity securities, net	(44,007)	(7,552)	—	—	—
Interest income	1,045	639	1,962	158	14
Interest expense	(134,880)	(89,865)	(65,406)	(45,060)	(37,008)
Gain (loss) on early extinguishment of debt	(769)	(709)	(1,715)	104	34
Loss on distribution to common shareholders of The RMR Group Inc. common stock	—	—	—	—	(12,368)
Income (loss) from continuing operations before income tax expense and equity in net earnings (losses) of investees	32,372	(25,220)	(9,625)	22,929	17,452
Income tax expense	(778)	(117)	(101)	(101)	(86)
Equity in net earnings (losses) of investees	(1,259)	(2,269)	(13)	137	20
Income (loss) from continuing operations	30,335	(27,606)	(9,739)	22,965	17,386
Income (loss) from discontinued operations	—	5,722	21,829	34,878	(227,347)
Net income (loss)	30,335	(21,884)	12,090	57,843	(209,961)
Preferred units of limited partnership distributions	—	(371)	(275)	—	—
Net income (loss) available for common shareholders	$ 30,335	$(22,255)	$ 11,815	$ 57,843	$(209,961)
Weighted average common shares outstanding (basic)	48,062	24,830	21,158	17,763	17,675
Weighted average common shares outstanding (diluted)	48,062	24,830	21,158	17,768	17,675
Per common share amounts (basic and diluted):					
Income (loss) from continuing operations	$ 0.63	$ (1.13)	$ (0.47)	$ 1.29	$ 0.98
Income (loss) from discontinued operations	$ —	$ 0.23	$ 1.03	$ 1.96	$ (12.86)
Net income (loss) available for common shareholders	$ 0.63	$ (0.90)	$ 0.56	$ 3.26	$ (11.88)
Common distributions paid	$ 2.20	$ 6.88	$ 6.88	$ 6.88	$ 6.88[(1)]

(1) Excludes a non-cash distribution of $0.5136 per share related to the distribution of shares of RMR Inc. class A common stock to our shareholders on December 14, 2015.

	As of December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data:					
Total real estate investments, gross[1]	$3,493,231	$3,944,636	$2,975,721	$1,888,760	$1,696,132
Real estate investments, net[1]	3,105,575	3,569,489	2,633,873	1,591,956	1,440,253
Total assets	4,193,136	5,238,583	3,703,565	2,385,066	2,168,510
Debt, net[2]	2,327,325	3,254,890	2,245,092	1,381,852	1,145,598
Shareholders' equity	1,705,754	1,778,968	1,330,043	935,004	956,651

(1) Excludes properties classified as assets held for sale or discontinued operations at the end of each respective period and properties owned by unconsolidated joint ventures.

(2) Excludes one mortgage with a carrying value of $13,128 net of unamortized issuance costs totaling $38 that is included in liabilities of properties held for sale in our consolidated balance sheet as of December 31, 2019.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with our Consolidated Financial Statements and accompanying notes included in Part IV, Item 15 of this Annual Report on Form 10-K.

OVERVIEW (dollars in thousands, except per share and per square foot data)

We are a REIT organized under Maryland law. As of December 31, 2019, our wholly owned properties were comprised of 189 properties and we had a noncontrolling ownership interest in three properties totaling 0.4 million rentable square feet through two unconsolidated joint ventures in which we own 51% and 50% interests. As of December 31, 2019, our properties are located in 35 states and the District of Columbia and contain approximately 25.7 million rentable square feet. As of December 31, 2019, our properties were leased to 374 different tenants, with a weighted average remaining lease term (based on annualized rental income) of approximately 5.7 years. The U.S. Government is our largest tenant, representing approximately 25.0% of our annualized rental income as of December 31, 2019.

Merger with Select Income REIT

On December 31, 2018, we completed the SIR Merger, as a result of which we acquired 99 properties with approximately 16.5 million rentable square feet. The aggregate transaction value for the SIR Merger was $2,409,740, excluding closing costs of $27,497 ($14,508 of which was paid by us and $12,989 of which was paid by SIR) and including the repayment or assumption of $1,719,772 of SIR debt.

As a condition of the SIR Merger, on October 9, 2018, we completed the Secondary Sale, raising net proceeds of $435,125, after deducting underwriting discounts and offering expenses. As a result of the Secondary Sale, our former investment in SIR that was accounted for under the equity method, is classified in discontinued operations in our consolidated statements of comprehensive income (loss).

The completion of the SIR Merger significantly increased our property portfolio as of December 31, 2018 and the operating results of the properties we acquired in the SIR Merger are reflected in our results of operations beginning in 2019. Accordingly, our financial results reported for the year ended December 31, 2019 do not provide a meaningful comparison to our results reported in prior periods.

For more information regarding the SIR Merger and the other SIR Transactions, see Notes 1, 3, 5, 10 and 11 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Property Operations

Unless otherwise noted, the data presented in this section includes properties classified as held for sale as of December 31, 2019 and excludes three properties owned by two unconsolidated joint ventures in which we own 51% and 50% interests. For more information regarding our properties classified as held for sale and our two unconsolidated joint ventures, see Note 3 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

As of December 31, 2019, 92.4% of our rentable square feet was leased, compared to 91.0% of our rentable square feet as of December 31, 2018. Occupancy data for our properties as of December 31, 2019 and 2018 was as follows (square feet in thousands):

	All Properties[1] December 31,		Comparable Properties[2] December 31,	
	2019	2018	2019	2018
Total properties[3]	189	247	96	96
Total rentable square feet[4]	25,726	31,900	11,515	11,507
Percent leased[5]	92.4%	91.0%	92.9%	94.0%

(1) Based on properties we owned on December 31, 2019 and 2018, respectively.

(2) Based on properties we owned continuously since January 1, 2018; excludes properties classified as held for sale, properties undergoing significant redevelopment, if any, and three properties owned by two unconsolidated joint ventures in which we own 51% and 50% interests.

(3) Includes one leasable land parcel as of December 31, 2019 and two leasable land parcels as of December 31, 2018.

(4) Subject to changes when space is remeasured or reconfigured for tenants.

(5) Percent leased includes (i) space being fitted out for tenant occupancy pursuant to our lease agreements, if any, and (ii) space which is leased, but is not occupied or is being offered for sublease by tenants, if any, as of the measurement date.

The average effective rental rate per square foot for our properties for the years ended December 31, 2019 and 2018 are as follows:

	Year Ended December 31,	
	2019	2018
Average effective rental rate per square foot[1]:		
All properties[2]	$27.02	$29.23
Comparable properties[3]	$29.55	$29.71

(1) Average effective rental rate per square foot represents total rental income during the period specified divided by the average rentable square feet leased during the period specified.

(2) Based on properties we owned on December 31, 2019 and 2018, respectively.

(3) Based on properties we owned continuously since January 1, 2018; excludes properties classified as held for sale, properties undergoing significant redevelopment, if any, and three properties owned by two unconsolidated joint ventures in which we own 51% and 50% interests.

During the year ended December 31, 2019, changes in rentable square feet leased and available for lease at our properties were as follows (square feet in thousands):

	Year Ended December 31, 2019		
	Leased	Available for Lease	Total
Beginning of year	29,024	2,876	31,900
Changes resulting from:			
Disposition of properties	(4,422)	(1,756)	(6,178)
Lease expirations	(3,777)	3,777	—
Lease renewals[1]	2,555	(2,555)	—
New leases[1]	379	(379)	—
Remeasurements[2]	2	2	4
End of year	23,761	1,965	25,726

(1) Based on leases entered during the year ended December 31, 2019.

(2) Rentable square feet are subject to changes when space is remeasured or reconfigured for tenants.

Leases at our properties totaling approximately 3.8 million rentable square feet expired during the year ended December 31, 2019. During the year ended December 31, 2019, we entered leases totaling 2.9 million rentable square feet, including lease renewals of 2.6 million rentable square feet and new leases of approximately 0.4 million rentable square feet. The weighted (by rentable square feet) average rents were 4.2% above prior rents for the same space and the weighted (by rentable square feet) average lease term for new and renewal leases entered during the year ended December 31, 2019 was 8.6 years.

During the year ended December 31, 2019, changes in effective rental rates per square foot achieved for new leases and lease renewals at our properties that commenced during the year ended December 31, 2019, when compared to prior effective rental rates per square foot in effect for the same space (and excluding space acquired vacant), were as follows (square feet in thousands):

	Year Ended December 31, 2019		
	Old Effective Rent Per Square Foot[1]	New Effective Rent Per Square Foot[1]	Rentable Square Feet
New leases	$30.86	$30.94	266
Lease renewals	$29.90	$31.30	2,529
Total leasing activity	$29.99	$31.27	2,795

(1) Effective rental rate includes contractual base rents from our tenants pursuant to our lease agreements, plus straight line rent adjustments and estimated expense reimbursements to be paid to us, and excluding lease value amortization.

During the year ended December 31, 2019, commitments made for expenditures, such as tenant improvements and leasing costs, in connection with leasing space at our properties were as follows (square feet in thousands):

	Year Ended December 31, 2019		
	New Leases	Renewals	Total
Rentable square feet leased	379	2,555	2,934
Tenant leasing costs and concession commitments[1]	$32,746	$44,795	$77,541
Tenant leasing costs and concession commitments per rentable square foot[1]	$ 86.59	$ 17.52	$ 26.43
Weighted (by square feet) average lease term (years)	8.3	8.6	8.6
Total leasing costs and concession commitments per rentable square foot per year[1]	$ 10.44	$ 2.03	$ 3.08

(1) Includes commitments made for leasing expenditures and concessions, such as tenant improvements, leasing commissions, tenant reimbursements and free rent.

During the years ended December 31, 2019 and 2018, amounts capitalized at our properties for tenant improvements, leasing costs, building improvements and development and redevelopment activities were as follows:

	Year Ended December 31,	
	2019	2018
Tenant improvements[1]	$25,590	$14,440
Leasing costs[2]	26,769	11,078
Building improvements[3]	33,383	24,712
Recurring capital expenditures	85,742	50,230
Development, redevelopment and other activities[4]	5,880	3,962
Total capital expenditures	$91,622	$54,192

(1) Tenant improvements include capital expenditures used to improve tenants' space or amounts paid directly to tenants to improve their space.

(2) Leasing costs include leasing related costs, such as brokerage commissions and other tenant inducements.

(3) Building improvements generally include expenditures to replace obsolete building components and expenditures that extend the useful life of existing assets.

(4) Development, redevelopment and other activities generally include capital expenditure projects that reposition a property or result in new sources of revenue.

As of December 31, 2019, we have estimated unspent leasing related obligations of $55,984.

As of December 31, 2019, we had leases at our properties totaling 1.9 million rentable square feet that were scheduled to expire during 2020. As of February 19, 2020, tenants with leases totaling 0.6 million rentable square feet that are scheduled to expire during 2020 have notified us that they do not plan to renew their leases upon expiration and we cannot be sure as to whether other tenants may or may not renew their leases upon expiration. Based upon current market conditions and tenant negotiations for leases scheduled to expire through December 31, 2020, we expect that the rental rates we are likely to achieve on new or renewed leases for space under leases expiring through December 31, 2020 will, in the aggregate and on a weighted (by annualized revenues) average basis, be higher than the rates currently being paid, thereby generally resulting in higher rent from the same space. We cannot be sure of the rental rates which will result from our ongoing negotiations regarding lease renewals or any new or renewed leases we may enter; also, we may experience material declines in our rental income due to vacancies upon lease expirations or early terminations. Prevailing market conditions and government and other tenants' needs at the time we negotiate and enter leases or lease renewals will generally determine rental rates and demand for leased space at our properties, and market conditions and our tenants' needs are beyond our control. Whenever we extend, renew or enter into new leases for our properties, we intend to seek rents which are equal to or higher than our historical rents for the same properties; however, our ability to maintain or increase the rents for our current properties will depend in large part upon market conditions, which are beyond our control.

As of December 31, 2019, our lease expirations by year are as follows (square feet in thousands):

Year[(1)]	Number of Leases Expiring	Leased Square Feet Expiring[(2)]	Percent of Total	Cumulative Percent of Total	Annualized Rental Income Expiring	Percent of Total	Cumulative Percent of Total
2020	81	1,896	8.0%	8.0%	$ 55,982	9.4%	9.4%
2021	56	1,692	7.1%	15.1%	39,660	6.6%	16.0%
2022	82	2,378	10.0%	25.1%	64,085	10.7%	26.7%
2023	62	2,624	11.1%	36.2%	69,639	11.6%	38.3%
2024	54	3,692	15.5%	51.7%	96,072	16.1%	54.4%
2025	42	2,045	8.6%	60.3%	44,264	7.4%	61.8%
2026	30	1,711	7.2%	67.5%	45,754	7.7%	69.5%
2027	29	1,953	8.2%	75.7%	48,872	8.2%	77.7%
2028	12	872	3.7%	79.4%	24,724	4.1%	81.8%
2029 and thereafter	47	4,897	20.6%	100.0%	108,761	18.2%	100.0%
Total	495	23,760	100.0%		$597,813	100.0%	
Weighted average remaining lease term (in years)		6.0			5.7		

(1) The year of lease expiration is pursuant to current contract terms. Some of our leases allow the tenants to vacate the leased premises before the stated expirations of their leases with little or no liability. As of December 31, 2019, tenants occupying approximately 9.4% of our rentable square feet and responsible for approximately 5.5% of our annualized rental income as of December 31, 2019, currently have exercisable rights to terminate their leases before the stated terms of their leases expire. Also, in 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2030, and 2034 early termination rights become exercisable by other tenants who currently occupy an additional approximately 4.5%, 1.5%, 2.1%, 1.0%, 1.0%, 2.1%, 0.9%, 0.5%, 1.0%, 0.1% and 0.1% of our rentable square feet, respectively, and contribute an additional approximately 6.3%, 1.7%, 2.2%, 1.2%, 1.6%, 3.5%, 1.2%, 0.6%, 1.2%, 0.3% and 0.1% of our annualized rental income, respectively, as of December 31, 2019. In addition, as of December 31, 2019, pursuant to leases with 13 of our tenants, these tenants have rights to terminate their leases if their respective legislature or other funding authority does not appropriate rent amounts in their respective annual budgets. These 13 tenants occupy approximately 5.0% of our rentable square feet and contribute approximately 5.3% of our annualized rental income as of December 31, 2019.

(2) Leased square feet is pursuant to leases existing as of December 31, 2019, and includes (i) space being fitted out for tenant occupancy pursuant to our lease agreements, if any, and (ii) space which is leased, but is not occupied or is being offered for sublease by tenants, if any. Square feet measurements are subject to changes when space is remeasured or reconfigured for new tenants.

We generally will seek to renew or extend the terms of leases in our single tenant properties when they expire. Because of the capital many of the tenants in these properties have invested in the properties and because many of these properties appear to be of strategic importance to the tenants' businesses, we believe that it is likely that these tenants will renew or extend their leases prior to when they expire. If we are unable to extend or renew our leases, it may be time consuming and expensive to relet some of these properties.

We believe that current government budgetary methodology, spending priorities and the current U.S. presidential administration's views on the size and scope of government employment have resulted in a decrease in government employment. Furthermore, for the past six years, government tenants have reduced their space utilization per employee and consolidated government tenants into existing government owned properties. This activity has reduced the demand for government leased space. Our historical experience with respect to properties of the type we own that are majority leased to government tenants has been that government tenants frequently renew leases to avoid the costs and disruptions that may result from relocating their operations. However, efforts to reduce space utilization rates may result in our tenants exercising early termination rights under our leases, vacating our properties upon expiration of our leases in order to relocate, or renewing their leases for less space than they currently occupy. Also, our government tenants' desires to reconfigure leased office space to reduce utilization per employee may require us to spend significant amounts for tenant improvements, and tenant relocations have become more prevalent than our past experiences in instances where efforts by government tenants to reduce their space utilization require a significant reconfiguration of currently leased space. Increasing uncertainty with respect to government agency budgets and funding to implement relocations, consolidations and reconfigurations has resulted in delayed decisions by some of our government tenants and their reliance on short term lease renewals; however, recent activity suggests that the government has begun to shift its leasing strategy to include longer term leases and is actively exploring 10 to 20 year lease terms at renewal, in some instances. We believe the reduction in government tenant space utilization and the consolidation of government tenants into government owned real estate is substantially complete; however, these activities may impact us for some time into the future. At present, we are unable to reasonably project what the financial impact of market conditions or changing government circumstances will be on our financial results for future periods.

As of December 31, 2019, we derive 24.1% of our annualized rental income from our properties located in the metropolitan Washington, D.C. market area, which includes Washington, D.C., Northern Virginia and suburban Maryland. A downturn in economic conditions in this area could result in reduced demand from tenants for our properties or reduce the rents that our tenants in this area are willing to pay when our leases expire or terminate and when renewal or new terms are negotiated. Additionally, in recent years there has been a decrease in demand for new leased space by the U.S. Government in the metropolitan Washington, D.C. market area, and that could increase competition for government tenants and adversely affect our ability to retain government tenants when our leases expire.

Our manager, RMR LLC, employs a tenant review process for us. RMR LLC assesses tenants on an individual basis based on various applicable credit criteria. In general, depending on facts and circumstances, RMR LLC evaluates the creditworthiness of a tenant based on information concerning the tenant that is provided by the tenant and, in some cases, information that is publicly available or obtained from third party sources. RMR LLC also often uses a third party service to monitor the credit ratings of debt securities of our existing tenants whose debt securities are rated by a nationally recognized credit rating agency. We consider investment grade tenants to include: (a) investment grade rated tenants; (b) tenants with investment grade rated parent entities that guarantee the tenant's lease obligations; and/or (c) tenants with investment grade rated parent entities that do not guarantee the tenant's lease obligations. As of December 31, 2019, tenants contributing 53.4% of annualized rental income were investment grade rated (or their payment obligations were guaranteed by an investment grade rated parent) and tenants contributing an additional 9.5% of annualized rental income were subsidiaries of an investment grade rated parent (although these parent entities were not liable for the payment of rents).

As of December 31, 2019, tenants representing 1% or more of our total annualized rental income were as follows:

	Tenant	Credit Rating	Annualized Rental Income	% of Total Annualized Rental Income
1	U.S. Government	Investment Grade	$149,491	25.0%
2	State of California	Investment Grade	19,092	3.2%
3	Shook, Hardy & Bacon L.L.P.	Not Rated	18,854	3.2%
4	Bank of America Corporation	Investment Grade	16,604	2.8%
5	F5 Networks, Inc.	Not Rated	14,416	2.4%
6	WestRock Company	Investment Grade	12,865	2.2%
7	CareFirst Inc.	Non Investment Grade	11,619	1.9%
8	Northrop Grumman Corporation	Investment Grade	11,346	1.9%
9	Tyson Foods, Inc.	Investment Grade	10,253	1.7%
10	Technicolor SA	Non Investment Grade	10,034	1.7%
11	Commonwealth of Massachusetts	Investment Grade	9,693	1.6%
12	Micro Focus International plc	Non Investment Grade	8,710	1.5%
13	CommScope Holding Company Inc	Non Investment Grade	7,931	1.3%
14	PNC Bank	Investment Grade	6,897	1.2%
15	State of Georgia	Investment Grade	6,790	1.1%
16	ServiceNow, Inc.	Not Rated	6,335	1.1%
17	Allstate Insurance Co.	Investment Grade	6,270	1.0%
18	Compass Group plc	Investment Grade	6,264	1.0%
19	Church & Dwight Co., Inc.	Investment Grade	6,018	1.0%
			$339,482	56.8%

Investment and Acquisition Activities

On July 1, 2019, we sold all of the shares of class A common stock of RMR Inc. we owned in an underwritten public offering at a price to the public of $40.00 per share pursuant to an underwriting agreement among us, RMR Inc., certain other REITs managed by RMR LLC that also sold their class A common stock of RMR Inc. in the offering and the underwriters named therein. We received net proceeds of $104,674 from this sale, after deducting underwriting discounts and commissions and other offering expenses, that we used to repay amounts outstanding under our term loan due in 2020.

On November 8, 2019, we acquired a land parcel for $2,900, excluding acquisition related costs, and in January 2020, we entered into an agreement to acquire a property for $11,500, excluding acquisition related costs, both of which are adjacent to a property we own in Boston, MA.

Disposition Activities

During the year ended December 31, 2019, we sold 58 properties with a combined 6.2 million rentable square feet for an aggregate sales price of $848,853, excluding closing costs. Since January 1, 2020, we have sold three of the six properties classified as held for sale as of December 31, 2019 for an aggregate sales price of $21,063, excluding closing costs. In addition, we are currently marketing for sale four properties containing approximately 0.2 million rentable square feet. We cannot be sure we will sell any properties we are marketing for prices in excess of their carrying values or otherwise. With our disposition program substantially completed, we expect to pursue accretively growing our property portfolio through our capital recycling program. Pursuant to our capital recycling program, we plan to sell certain properties from time to time to fund future acquisitions and to maintain leverage consistent with our current investment grade ratings with a goal of (1) improving the asset quality of our portfolio by reducing the average age of our properties, lengthening the weighted average term of our leases and increasing the likelihood of retaining our tenants and (2) increasing our distributions to shareholders.

For more information about our disposition activities, see “Business—Disposition Policies” in Part 1, Item 1 of this Annual Report on Form 10-K and Note 3 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Financing Activities

In March 2019, we repaid at maturity, at par plus accrued interest, a mortgage note secured by one property with an outstanding principal balance of $7,890 using cash on hand.

During the year ended December 31, 2019, we repaid, without penalty, (i) the remaining principal balance of $88,000 then outstanding on our $250,000 term loan due in 2022 and (ii) the entire principal balance outstanding on our $300,000 term loan due in 2020 using cash on hand, proceeds from property sales and proceeds from the sale of our shares of class A common stock of RMR Inc.

In July 2019, we redeemed, at par plus accrued interest, all $350,000 of our 3.75% senior unsecured notes due 2019 using cash on hand and borrowings under our revolving credit facility.

In January 2020, we redeemed, at par plus accrued interest, all $400,000 of our 3.60% senior unsecured notes due 2020 using cash on hand, proceeds from property sales and borrowings under our revolving credit facility.

Segment Information

We operate in one business segment: ownership of real estate properties.

RESULTS OF OPERATIONS *(amounts in thousands, except per share amounts)*

Year Ended December 31, 2019, Compared to Year Ended December 31, 2018

	Comparable Properties Results[1] Year Ended December 31,				Non-Comparable Properties Results Year Ended December 31,		Consolidated Results Year Ended December 31,			
	2019	2018	$ Change	% Change	2019	2018	2019	2018	$ Change	% Change
Rental income	$311,664	$315,845	$(4,181)	(1.3)%	$366,740	$110,715	$ 678,404	$426,560	$251,844	59.0%
Operating expenses:										
Real estate taxes	38,517	36,689	1,828	5.0%	35,200	13,019	73,717	49,708	24,009	48.3%
Utility expenses	19,909	20,337	(428)	(2.1)%	14,393	6,088	34,302	26,425	7,877	29.8%
Other operating expenses	69,055	66,291	2,764	4.2%	51,888	23,319	120,943	89,610	31,333	35.0%
Total operating expenses	127,481	123,317	4,164	3.4%	101,481	42,426	228,962	165,743	63,219	38.1%
Property net operating income[2]	$184,183	$192,528	$(8,345)	(4.3)%	$265,259	$ 68,289	449,442	260,817	188,625	72.3%
Other expenses:										
Depreciation and amortization							289,885	162,488	127,397	78.4%
Loss on impairment of real estate							22,255	8,630	13,625	157.9%
Acquisition and transaction related costs							682	14,508	(13,826)	(95.3)%
General and administrative							32,728	24,922	7,806	31.3%
Total other expenses							345,550	210,548	135,002	64.1%
Gain on sale of real estate							105,131	20,661	84,470	n/m
Dividend income							1,960	1,337	623	46.6%
Loss on equity securities, net							(44,007)	(7,552)	(36,455)	n/m
Interest income							1,045	639	406	63.5%
Interest expense							(134,880)	(89,865)	(45,015)	50.1%
Loss on early extinguishment of debt							(769)	(709)	(60)	8.5%
Income (loss) from continuing operations before income tax expense and equity in net losses of investees							32,372	(25,220)	57,592	n/m
Income tax expense							(778)	(117)	(661)	n/m
Equity in net losses of investees							(1,259)	(2,269)	1,010	(44.5)%
Income (loss) from continuing operations							30,335	(27,606)	57,941	n/m
Income from discontinued operations							—	5,722	(5,722)	n/m
Net income (loss)							30,335	(21,884)	52,219	n/m
Preferred units of limited partnership distributions							—	(371)	371	n/m
Net income (loss) available for common shareholders							$ 30,335	$ (22,255)	$ 52,590	n/m
Weighted average common shares outstanding (basic and diluted)							48,062	24,830	23,232	93.6%
Per common share amounts (basic and diluted):										
Income (loss) from continuing operations							$ 0.63	$ (1.13)	$ 1.76	(155.8)%
Income from discontinued operations							$ —	$ 0.23	$ (0.23)	n/m
Net income (loss) available for common shareholders							$ 0.63	$ (0.90)	$ 1.53	(170.0)%

n/m—not meaningful

(1) Comparable properties consists of 96 properties we owned on December 31, 2019 and which we owned continuously since January 1, 2018; excludes properties classified as held for sale, properties undergoing significant redevelopment, if any, and three properties owned by two unconsolidated joint ventures in which we own 51% and 50% interests.

(2) Our definition of Property net operating income, or NOI, and our reconciliation of net income (loss) available for common shareholders to Property NOI are included below under the heading "Non-GAAP Financial Measures."

References to changes in the income and expense categories below relate to the comparison of consolidated results for the year ended December 31, 2019, compared to the year ended December 31, 2018. For a comparison of consolidated results for the year ended December 31, 2018 compared to the year ended December 31, 2017, see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Rental income. The increase in rental income primarily reflects an increase in rental income associated with the properties acquired in the SIR Merger of $284,790, partially offset by a decrease in rental income of $28,506 as a result of property dispositions as well as a decline in rental income for comparable properties of $4,181. The decrease in rental income for comparable properties is primarily due to reductions in occupied space at certain of our properties in 2019. Rental income includes non-cash straight line rent adjustments totaling $27,507 in 2019 and $10,164 in 2018, and amortization of acquired leases and assumed lease obligations totaling ($2,710) in 2019 and ($2,903) in 2018.

Real estate taxes. The increase in real estate taxes reflects the increase in real estate taxes associated with the properties acquired in the SIR Merger of $26,417 as well as an increase for comparable properties of $1,828, partially offset by a decrease in real estate taxes as a result of property dispositions of $3,326 and a decrease of $977 at one property classified as held for sale resulting from a successful real estate tax appeal. Real estate taxes for comparable properties increased primarily due to the effect of higher real estate tax valuation assessments at certain of our properties in 2019.

Utility expenses. The increase in utility expenses reflects an increase in utility expenses associated with the properties acquired in the SIR Merger of $9,412, partially offset by a decrease in utility expenses for comparable properties of $428, as well as a decrease as a result of property dispositions of $1,176. Utility expenses for comparable properties declined primarily due to a decrease in electricity and water usage as a result of energy savings initiatives at certain of our properties in 2019.

Other operating expenses. Other operating expenses consist of salaries and benefit costs of property level personnel, repairs and maintenance expense, cleaning expense, other direct costs of operating our properties and property management fees. The increase in other operating expenses reflects an increase in expenses associated with the properties acquired in the SIR Merger of $36,858 and an increase for comparable properties of $2,764, partially offset by a decrease in other operating expenses as a result of property dispositions of $8,108. Other operating expenses for comparable properties increased primarily as a result of higher repairs and maintenance and snow removal costs at certain of our properties in 2019.

Depreciation and amortization. The increase in depreciation and amortization primarily reflects the increase in depreciation and amortization related to properties acquired in the SIR Merger of $154,365, partially offset by a decrease for comparable properties of $10,961 and a decrease related to property dispositions of $16,772. Depreciation and amortization for comparable properties declined due to certain leasing related assets becoming fully depreciated in 2019, partially offset by depreciation and amortization of improvements made to certain of our properties after January 1, 2019.

Loss on impairment of real estate. We recorded a $22,255 loss on impairment of real estate in 2019 to reduce the carrying value of 45 properties to their estimated fair value less costs to sell. We recorded an $8,630 loss on impairment of real estate in 2018 to reduce the carrying value of 37 properties to their estimated fair value less costs to sell.

Acquisition and transaction related costs. Acquisition and transaction related costs include costs incurred in connection with the SIR Merger and the other SIR Transactions, including certain post-merger activity costs incurred during 2019. For more information regarding the SIR Merger and the other SIR Transactions, see Notes 1, 3, 10 and 11 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

General and administrative. General and administrative expenses consist of fees pursuant to our business management agreement, equity compensation expense, legal and accounting fees, Trustees' fees and expenses, securities listing and transfer agency fees and other costs relating to our status as a publicly traded company. The increase in general and administrative expenses is primarily the result of an increase in business management fees in 2019 as a result of the SIR Merger and increased equity compensation expenses, legal fees, including fees associated with the execution of our leases required to be expensed beginning January 1, 2019 in accordance with GAAP, and other professional services costs.

Gain on sale of real estate. We recorded a $105,131 gain on sale of real estate in 2019, resulting from the sale of 17 properties in 2019. We recorded a $20,661 gain on sale of real estate in 2018 resulting from the sale of 17 properties in 2018.

Dividend income. The increase in dividend income in 2019 is a result of the additional shares of class A common stock of RMR Inc. SIR owned which we acquired as a result of the SIR Merger and a higher dividend rate paid by RMR Inc., partially offset by the sale of our investment in RMR Inc. on July 1, 2019. As a result of this sale, we did not record any dividend income during the period beginning July 1, 2019 through December 31, 2019.

Loss on equity securities, net. Loss on equity securities, net represents a realized loss in 2019 for the sale of our 2.8 million shares of class A common stock of RMR Inc. on July 1, 2019, and an unrealized loss in 2018 to adjust our former investment in RMR Inc. to its fair value.

Interest income. The increase in interest income is primarily the result of the combination of higher cash balances and higher stated interest rates in 2019 compared to 2018.

Interest expense. The increase in interest expense is primarily due to higher average outstanding debt balances as a result of the debt assumed in conjunction with the SIR Merger and the associated additional interest expense of $74,233 during 2019, which was partially offset by decreases in interest expense resulting from debt repayment activity in 2019, including the repayment of the remaining $388,000 outstanding on our term loans and the redemption of our $350,000 3.75% senior unsecured notes in July 2019, resulting in decreases in interest expense of $14,304 and $6,633, respectively. In addition, we had a lower average balance outstanding on our revolving credit facility of $161,903 in 2019 compared to $418,511 in 2018 at average interest rates of 3.3% and 3.0%, respectively, resulting in a decrease in interest expense of $7,341.

Loss on early extinguishment of debt. We recorded a loss on early extinguishment of debt of $769 in 2019 from the write-off of unamortized debt issuance costs and discounts associated with the repayments of our term loans and redemption of our senior unsecured notes due 2019. We recorded a loss on early extinguishment of debt of $709 in 2018 from the write-off of debt issuance costs associated with the partial paydown of one of our term loans and the amendment to our revolving credit facility in December 2018.

Income tax expense. Income tax expense increased as a result of properties acquired in the SIR Merger, reflecting higher operating income in certain jurisdictions in 2019 that was subject to state income taxes.

Equity in net losses of investees. Equity in net losses of investees represents our proportionate share of earnings and losses from our investments in AIC and our two unconsolidated joint ventures.

Income from discontinued operations. Income from discontinued operations in 2018 consists of our proportionate share of earnings from our former equity method investment in SIR, the loss on the Secondary Sale and the gain on issuance of shares by SIR as a result of the issuance of common shares by SIR at prices which were in the aggregate above the then per share carrying value of our SIR common shares. For more information about our equity method investment in SIR, see Notes 1, 10 and 11 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Preferred units of limited partnership distributions. Preferred units of limited partnership distributions in 2018 represent distributions to the holders of the previously outstanding 5.5% Series A Cumulative Preferred Units of one of our subsidiaries that were fully redeemed in May 2018.

Net income (loss) and net income (loss) available for common shareholders. Our net income (loss), net income (loss) available for common shareholders and net income (loss) available for common shareholders per basic and diluted common share increased in 2019 compared to 2018 primarily as a result of the changes noted above.

Weighted average common shares outstanding (basic and diluted). The increase in weighted average common shares outstanding (basic and diluted) is primarily a result of our issuance of 23,281,738 shares to SIR shareholders on December 31, 2018 in connection with the SIR Merger.

Non-GAAP Financial Measures

We present certain "non-GAAP financial measures" within the meaning of applicable SEC rules, including the calculations below of Property NOI, as well as funds from operations, or FFO, available for common shareholders, normalized funds from operations, or Normalized FFO, available for common shareholders, for the years ended December 31, 2019 and 2018. These measures do not represent cash generated by operating activities in accordance with GAAP and should not be considered alternatives to income (loss) from continuing operations, net income (loss) or net income (loss) available for common shareholders as indicators of our operating performance or as measures of our liquidity. These measures should be considered in conjunction with income (loss) from continuing operations, net income (loss) and net income (loss) available for common shareholders as presented in our consolidated statements of comprehensive income (loss). We consider these non-GAAP measures to be appropriate supplemental measures of operating performance for a REIT, along with income (loss) from continuing operations, net income (loss) and net income (loss) available for common shareholders. We believe these measures provide useful information to investors because by excluding the effects of certain historical amounts, such as depreciation and amortization expense, they may facilitate a comparison of our operating performance between periods and with other REITs and, in the case of Property NOI, reflecting only those income and expense items that are generated and incurred at the property level may help both investors and management to understand the operations of our properties.

Property Net Operating Income

The calculation of Property NOI excludes certain components of net income (loss) available for common shareholders in order to provide results that are more closely related to our property level results of operations. We calculate Property NOI as shown below. We define Property NOI as income from our rental of real estate less our property operating expenses. Property NOI excludes amortization of capitalized tenant improvement costs and leasing commissions that we record as depreciation and amortization expense. We use Property NOI to evaluate individual and company-wide property level performance. Other real estate companies and REITs may calculate Property NOI differently than we do.

The following table presents the reconciliation of net income (loss) available for common shareholders to Property NOI for the years ended December 31, 2019 and 2018.

	Year Ended December 31,	
	2019	2018
Net income (loss) available for common shareholders	$ 30,335	$ (22,255)
Preferred units of limited partnership distributions	—	371
Net income (loss)	30,335	(21,884)
Income from discontinued operations	—	(5,722)
Income (loss) from continuing operations	30,335	(27,606)
Equity in net losses of investees	1,259	2,269
Income tax expense	778	117
Loss on early extinguishment of debt	769	709
Interest expense	134,880	89,865
Interest income	(1,045)	(639)
Loss on equity securities, net	44,007	7,552
Dividend income	(1,960)	(1,337)
Gain on sale of real estate	(105,131)	(20,661)
General and administrative	32,728	24,922
Acquisition and transaction related costs	682	14,508
Loss on impairment of real estate	22,255	8,630
Depreciation and amortization	289,885	162,488
Property NOI	$ 449,442	$260,817

Funds From Operations Available for Common Shareholders and Normalized Funds From Operations Available for Common Shareholders

We calculate FFO available for common shareholders and Normalized FFO available for common shareholders as shown below. FFO available for common shareholders is calculated on the basis defined by The National Association of Real Estate Investment Trusts, which is net income (loss) available for common shareholders, calculated in accordance with GAAP, plus real estate depreciation and amortization of consolidated properties and our proportionate share of the real estate depreciation and amortization of unconsolidated joint venture properties, and the difference between FFO attributable to an equity investment and equity in earnings of SIR included in discontinued operations, but excluding impairment charges on and increases in the carrying value of real estate assets, any gain or loss on sale of real estate and equity securities, as well as certain other adjustments currently not applicable to us. In calculating Normalized FFO available for common shareholders, we adjust for the difference between Normalized FFO attributable to an equity investment and FFO attributable to an equity investment and for the other items shown below and include business management incentive fees, if any, only in the fourth quarter versus the quarter when they are recognized as an expense in accordance with GAAP due to their quarterly volatility not necessarily being indicative of our core operating performance and the uncertainty as to whether any such business management incentive fees will be payable when all contingencies for determining such fees are known at the end of the calendar year. FFO available for common shareholders and Normalized FFO available for common shareholders are among the factors considered by our Board of Trustees when determining the amount of distributions to our shareholders. Other factors include, but are not limited to, requirements to maintain our qualification for taxation as a REIT, limitations in our credit agreement and public debt covenants, the availability to us of debt and equity capital, our expectation of our future capital requirements and operating performance and our expected needs for and availability of cash to pay our obligations. Other real estate companies and REITs may calculate FFO available for common shareholders and Normalized FFO available for common shareholders differently than we do.

The following table presents the reconciliation of net income (loss) available for common shareholders to FFO available for common shareholders and Normalized FFO available for common shareholders for the years ended December 31, 2019 and 2018.

	Year Ended December 31,	
	2019	2018
Net income (loss) available for common shareholders	$ 30,335	$ (22,255)
Add (less): Depreciation and amortization:		
Consolidated properties	289,885	162,488
Unconsolidated joint venture properties	5,903	8,203
FFO attributable to Select Income REIT	—	51,773
Loss on impairment of real estate	22,255	8,630
Equity in earnings from Select Income REIT included in discontinued operations	—	(24,358)
Gain on sale of real estate	(105,131)	(20,661)
Loss on equity securities, net	44,007	7,552
FFO available for common shareholders	287,254	171,372
Add (less): Acquisition and transaction related costs	682	14,508
Loss on early extinguishment of debt	769	709
Normalized FFO attributable to Select Income REIT	—	44,006
FFO attributable to Select Income REIT	—	(51,773)
Net gain on issuance of shares by Select Income REIT included in discontinued operations	—	(29)
Loss on sale of Select Income REIT shares included in discontinued operations	—	18,665
Normalized FFO available for common shareholders	$ 288,705	$197,458
FFO available for common shareholders per common share (basic and diluted)	$ 5.98	$ 6.90
Normalized FFO available for common shareholders per common share (basic and diluted)	$ 6.01	$ 7.95

LIQUIDITY AND CAPITAL RESOURCES

Our Operating Liquidity and Resources (dollar amounts in thousands)

Our principal sources of funds to meet operating and capital expenses, pay debt service obligations and make distributions to our shareholders are the operating cash flows we generate from our properties, net proceeds from property sales and borrowings under our revolving credit facility. We believe that these sources of funds will be sufficient to meet our operating and capital expenses, pay debt service obligations and make distributions to our shareholders for the next 12 months and for the foreseeable future thereafter.

As of December 31, 2018, including certain assets acquired from SIR in the SIR Merger, we had identified certain assets to be sold by us. Since that date, we have sold 61 properties for an aggregate sales price of $869,916, excluding closing costs. In addition, on July 1, 2019, we sold all of the 2.8 million shares of class A common stock of RMR Inc. we owned, raising net proceeds of $104,674, after deducting underwriting discounts and commissions and other offering expenses. As of February 19, 2020, we have entered agreements to sell three properties for $64,300, excluding closing costs, and we are actively marketing for sale an additional four properties. With our disposition program substantially complete, we expect to pursue accretively growing our property portfolio through our capital recycling program. Pursuant to our capital recycling program, we plan to sell certain properties from time to time to fund future acquisitions and to maintain leverage consistent with our current investment grade ratings with a goal of (1) improving the asset quality of our portfolio by reducing the average age of our properties, lengthening the weighted average term of our leases and increasing the likelihood of retaining our tenants and (2) increasing our distributions to shareholders. Our future cash flows from operating activities will depend primarily upon:

- our ability to maintain or increase the occupancy of, and the rental rates at, our properties;
- our ability to control operating and capital expenses at our properties;
- our ability to successfully complete our pending property sales and to sell properties that we market for sale; and
- our ability to purchase additional properties which produce cash flows from operations in excess of our cost of acquisition capital and property operating expenses and capital expenses.

Following the SIR Merger, we announced a regular quarterly distribution of $0.55 per common share ($2.20 per common share per year), based on a target payout ratio of 75% of projected cash available for distribution. We determine our distribution payout ratio with consideration for our expected capital expenditures, as well as cash flows from operations and debt obligations.

Our future purchases of properties cannot be accurately projected because such purchases depend upon purchase opportunities which come to our attention and our ability to successfully complete the acquisitions. We generally do not intend to purchase "turn around" properties, or properties which do not generate positive cash flows.

Our changes in cash flows for the year ended December 31, 2019 compared to the prior year were as follows: (i) cash provided by operating activities increased from $144,916 in 2018 to $215,329 in 2019; (ii) cash flows provided by investing activities increased from $738,656 in 2018 to $877,819 in 2019; and (iii) cash flows used in financing activities increased from $864,309 in 2018 to $1,031,395 in 2019.

The increase in cash provided by operating activities for the year ended December 31, 2019 compared to the prior year was due to an increase in Property NOI primarily due to the SIR Merger, partially offset by unfavorable changes in working capital in 2019 as we assumed operations and paid outstanding liabilities, including $25,817 of the SIR business management incentive fee, as a result of the SIR Merger. The increase in cash provided by investing activities for the year ended December 31, 2019 compared to the prior year was primarily due to our receipt of cash proceeds from the sale of 58 properties and the sale of 2.8 million shares of class A common stock of RMR Inc. in 2019, in excess of the cash proceeds received from our sale of properties and our sale of SIR shares in 2018. The increase in cash used in financing activities for the year ended December 31, 2019 compared to the prior year is primarily due to an increase in debt repayments, including the repayment of $388,000 of term loans and $350,000 of senior unsecured notes in 2019 and net repayment activity on our revolving credit facility, partially offset by a decrease in distributions paid to common shareholders in 2019 and the redemption of the preferred units of one of our subsidiaries in 2018.

Our Investment and Financing Liquidity and Resources (dollar amounts in thousands, except per share and per square foot amounts)

In order to fund acquisitions and to meet cash needs that may result from our desire or need to make distributions or pay operating or capital expenses, we maintain a $750,000 revolving credit facility. The maturity date of our revolving credit facility is January 31, 2023 and, subject to our payment of an extension fee and meeting certain other conditions, we have the option to extend the stated maturity date of our revolving credit facility by two additional six month periods. We can borrow, repay and reborrow funds available under our revolving credit facility until maturity, and no principal repayment is due until maturity. We are required to pay interest at a rate of LIBOR plus a premium, which was 110 basis points per annum at December 31, 2019, on the amount outstanding under our revolving credit facility, if any. We also pay a facility fee on the total amount of lending commitments under our revolving credit facility, which was 25 basis points per annum at December 31, 2019. Both the interest rate premium and facility fee are subject to adjustment based upon changes to our credit ratings. As of December 31, 2019, the annual interest rate payable on borrowings under our revolving credit facility was 2.7%. As of December 31, 2019, we had no amounts outstanding under our revolving credit facility and $750,000 available for borrowing. As of February 19, 2020, we had $335,000 outstanding under our revolving credit facility and $415,000 available for borrowing under our revolving credit facility.

Our revolving credit facility is governed by our credit agreement, which is with a syndicate of institutional lenders, and which also governed our former term loans:

- During the year ended December 31, 2019, we repaid in full our $300,000 term loan, which was scheduled to mature on March 31, 2020, without penalty, using cash on hand, proceeds from property sales and proceeds from the sale of our shares of class A common stock of RMR Inc.
- During the year ended December 31, 2019, we repaid the remaining $88,000 outstanding on our $250,000 term loan, which was scheduled to mature on March 31, 2022, without penalty, using proceeds from the sale of a property portfolio.

Our credit agreement includes a feature under which the maximum borrowing availability may be increased to up to $1,950,000 in certain circumstances.

Our credit agreement provides that, with certain exceptions, a subsidiary of ours is required to guaranty our obligations under our $750,000 revolving credit facility only if that subsidiary has separately incurred debt (other than nonrecourse debt), within the meaning specified in our credit agreement, or provided a guarantee of debt incurred by us or any of our other subsidiaries.

In July 2019, we redeemed, at par plus accrued interest, all $350,000 of our 3.75% senior unsecured notes due 2019, using cash on hand, proceeds from property sales and borrowings under our revolving credit facility.

As of December 31, 2019, our debt maturities (other than our revolving credit facility which had no amounts outstanding), consisting of senior unsecured notes and mortgage notes, are as follows:

Year	Debt Maturities
2020	$ 475,707
2021	14,420
2022	625,518
2023	143,784
2024	350,000
2025 and thereafter	776,780
Total	$2,386,209

In January 2020, we redeemed, at par plus accrued interest, all $400,000 of our 3.60% senior unsecured notes due 2020 using cash on hand, proceeds from property sales and borrowings under our revolving credit facility.

None of our unsecured debt obligations require sinking fund payments prior to their maturity dates. Our $326,209 in mortgage debts, including one mortgage note with an outstanding principal balance of $13,166 classified in liabilities of properties held for sale in our consolidated balance sheet as of December 31, 2019, generally require monthly payments of principal and interest through maturity.

In addition to our debt obligations, as of December 31, 2019, we have estimated unspent leasing related obligations of $55,984.

We currently expect to use cash balances, borrowings under our revolving credit facility, net proceeds from property sales, incurrences or assumptions of mortgage debt and net proceeds from offerings of debt or equity securities to fund our future operations, capital expenditures, distributions to our shareholders and property acquisitions. When significant amounts are outstanding under our revolving credit facility or the maturities of our indebtedness approach, we expect to explore refinancing alternatives. Such alternatives may include incurring term debt, issuing debt or equity securities, extending the maturity date of our revolving credit facility and entering into a new revolving credit facility. We may assume additional mortgage debt in connection with our acquisitions or elect to place new mortgages on properties we own as a source of financing. We may also seek to participate in additional joint venture or other arrangements that may provide us with additional sources of financing. Although we cannot be sure that we will be successful in consummating any particular type of financing, we believe that we will have access to financing, such as debt and equity offerings, to fund future acquisitions and capital expenditures and to pay our obligations. We currently have an effective shelf registration statement that allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for such securities.

Our ability to obtain, and the costs of, our future debt financings will depend primarily on credit market conditions and our creditworthiness. We have no control over market conditions. Potential investors and lenders likely will evaluate our ability to pay distributions to shareholders, fund required debt service and repay debts when they become due by reviewing our business practices and plans to balance our use of debt and equity capital so that our financial profile and leverage ratios afford us flexibility to withstand any reasonably anticipated adverse changes. Similarly, our ability to raise equity capital in the future will depend primarily upon equity capital market conditions and our ability to conduct our business to maintain and grow our operating cash flows. We intend to conduct our business in a manner that will afford us reasonable access to capital for investment and financing activities, but we cannot be sure that we will be able to successfully carry out this intention.

In September 2018, following our announcement that we entered into a merger agreement for the SIR Merger, S&P affirmed our credit ratings and revised its outlook on our debt to stable. At the time, Moody's affirmed our credit ratings and maintained its negative outlook on our debt. With the substantial completion of our disposition program and successful reduction of our leverage levels, S&P reaffirmed our credit ratings with a stable outlook on our debt in October 2019 and Moody's reaffirmed our credit ratings and revised its outlook on our debt to stable in December 2019.

During the year ended December 31, 2019, we paid quarterly cash distributions to our shareholders totaling $105,868 using cash on hand and borrowings under our revolving credit facility. On January 16, 2020, we declared a regular quarterly distribution payable to common shareholders of record on January 27, 2020 in the amount of $0.55 per share, or approximately $26,511. We expect to pay this distribution on or about February 20, 2020 using cash on hand and borrowings under our revolving credit facility. For more information regarding the distributions we paid during 2019, see Note 9 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

As of December 31, 2019, our contractual obligations were as follows:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
Long term debt obligations	$2,386,209	$475,707	$639,938	$493,784	$ 776,780
Tenant related obligations[1]	55,984	28,252	12,858	3,610	11,264
Operating lease[2]	1,766	1,627	139	—	—
Projected interest expense[3]	750,211	88,395	152,850	100,855	408,111
Total	$3,194,170	$593,981	$805,785	$598,249	$1,196,155

(1) Committed tenant related obligations includes leasing commissions and tenant improvements and are based on leases in effect as of December 31, 2019.

(2) Reflects the lease obligation we assumed related to FPO's former corporate headquarters, net of sublease income.

(3) Projected interest expense is attributable to only our debt obligations at existing rates as of December 31, 2019 and is not intended to project future interest costs which may result from debt prepayments, additional borrowings under our revolving credit facility, new debt issuances or changes in interest rates.

Off Balance Sheet Arrangements (dollars in thousands)

We own 51% and 50% interests in two unconsolidated joint ventures which own three properties. The properties owned by these joint ventures are encumbered by an aggregate $82,000 principal amount of mortgage indebtedness. We do not control the activities that are most significant to these joint ventures and, as a result, we account for our investments in these joint ventures under the equity method of accounting. For more information on the financial condition and results of operations of these joint ventures, see Note 3 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. Other than these joint ventures, as of December 31, 2019, we had no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Debt Covenants (dollars in thousands)

Our principal debt obligations at December 31, 2019 consisted of an aggregate outstanding principal balance of $2,060,000 of public issuances of senior unsecured notes and mortgage notes with an aggregate outstanding principal balance of $326,209, including one mortgage note with an outstanding principal balance of $13,166 classified in liabilities of properties held for sale in our consolidated balance sheet as of December 31, 2019, that were assumed in connection with certain of our acquisitions. Also, the three properties owned by two joint ventures in which we own 51% and 50% interests secure two additional mortgage notes. Our publicly issued senior unsecured notes are governed by indentures and their supplements. Our credit agreement and our senior unsecured notes indentures and their supplements provide for acceleration of payment of all amounts outstanding upon the occurrence and continuation of certain events of default, such as, in the case of our credit agreement, a change of control of us, which includes RMR LLC ceasing to act as our business and property manager. Our credit agreement and our senior unsecured notes indentures and their supplements also contain a number of covenants, including those that restrict our ability to incur debts, including debts secured by mortgages on our properties, in excess of calculated amounts, require us to comply with certain financial and other covenants and, in the case of our credit agreement, restrict our ability to make distributions to our shareholders under certain circumstances. As of December 31, 2019, we believe we were in compliance with the terms and conditions of our respective covenants under our credit agreement and senior unsecured notes indentures and their supplements. Our mortgage notes are non-recourse, subject to certain limited exceptions, and do not contain any material financial covenants.

Neither our credit agreement nor our senior unsecured notes indentures and their supplements contain provisions for acceleration which could be triggered by our credit ratings. However, under our credit agreement our highest senior credit rating is used to determine the fees and interest rates we pay. Accordingly, if that credit rating is downgraded, our interest expense and related costs under our credit agreement would increase.

Our credit agreement has cross default provisions to other indebtedness that is recourse of $25,000 or more and indebtedness that is non-recourse of $50,000 or more. Similarly, our senior unsecured notes indentures and their supplements contain cross default provisions to any other debts of more than $25,000 (or up to $50,000 in certain circumstances).

Related Person Transactions

We have relationships and historical and continuing transactions with RMR LLC, RMR Inc. and others related to them. For example: we have no employees and the personnel and various services we require to operate our business are provided to us by RMR LLC pursuant to our business and property management agreements with RMR LLC; RMR Inc. is the managing member of RMR LLC; Adam Portnoy, the Chair of our Board of Trustees and one of our Managing Trustees, is the sole trustee, an officer and the controlling shareholder of ABP Trust, which is the controlling shareholder of RMR Inc., a managing director, the president and chief executive officer of RMR Inc. and an officer and employee of RMR LLC; David Blackman, our other Managing Trustee and our President and Chief Executive Officer, also serves as an officer and employee of RMR LLC, and each of our other officers is also an officer and employee of RMR LLC; and, until July 1, 2019 we owned shares of class A common stock of RMR Inc. We have relationships and historical and continuing transactions with other companies to which RMR LLC or its subsidiaries provide management services and some of which have trustees, directors or officers who are also trustees, directors or officers of us, RMR LLC or RMR Inc.

For more information about these and other such relationships and related person transactions, see Notes 1, 4, 5 and 10 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, which are incorporated herein by reference and our other filings with the SEC, including our definitive Proxy Statement for our 2020 Annual Meeting of Shareholders, or our definitive Proxy Statement, to be filed with the SEC within 120 days after the fiscal year ended December 31, 2019. For more information about the risks that may arise as a result of these and other related person transactions and relationships, see elsewhere in this Annual Report on Form 10-K, including "Warning Concerning Forward Looking Statements," Part I, Item 1, "Business" and Part I, Item 1A, "Risk Factors." Our filings with the SEC and copies of certain of our agreements with these related persons, including our business and property management agreements with RMR LLC and our merger agreement with SIR for the SIR Merger, are available as exhibits to our public filings with the SEC and accessible at the SEC's website, www.sec.gov. We may engage in additional transactions with related persons, including businesses to which RMR LLC or its subsidiaries provide management services.

Critical Accounting Policies

Our critical accounting policies are those that will have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates.

We believe that our judgments and estimates have been and will be consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in real property. These policies affect our:

- allocation of purchase prices between various asset categories, including allocations to above and below market leases and the related impact on the recognition of rental income and depreciation and amortization expenses; and
- assessment of the carrying values and impairments of long lived assets.

We allocate the acquisition cost of each property investment to various property components such as land, buildings and improvements and intangibles based on their fair values, and each component generally has a different useful life. For acquired real estate, we record building, land and improvements, and, if applicable, the value of in place leases, the fair market value of above or below market leases and tenant relationships at fair value. For transactions that qualify as business combinations, we allocate the excess, if any, of the consideration over the fair value of assets acquired to goodwill. We base purchase price allocations and the determination of useful lives on our estimates and, under some circumstances, studies from independent real estate appraisers to provide market information and evaluations, which may involve estimated cash flows that are based on a number of factors, including capitalization rates and discount rates, among others, that are relevant to our purchase price allocations and determinations of useful lives; however, our management is ultimately responsible for the purchase price allocations and determination of useful lives.

We compute depreciation expense using the straight line method over estimated useful lives of up to 40 years for buildings and improvements, and up to 12 years for personal property. We do not depreciate the allocated cost of land. We amortize capitalized above market lease values as a reduction to rental income over the terms of the respective leases. We amortize capitalized below market lease values as an increase to rental income over the terms of the respective leases. We amortize the value of acquired in place leases exclusive of the value of above market and below market acquired leases to expense over the periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. Purchase price allocations require us to make certain assumptions and estimates. Incorrect assumptions and estimates may result in inaccurate depreciation and amortization charges over future periods.

We periodically evaluate our properties for impairment. Impairment indicators may include declining tenant occupancy, our concerns about a tenant's financial condition (which may be endangered by a rent default or other information which comes to our attention) or our decision to dispose of an asset before the end of its estimated useful life and legislative, as well as market or industry changes that could permanently reduce the value of a property. If indicators of impairment are present, we evaluate the carrying value of the related property by comparing it to the expected future undiscounted cash flows to be generated from that property. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to its fair value. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. The future net undiscounted cash flows are subjective and are based in part on assumptions regarding hold periods, market rents and terminal capitalization rates. If we misjudge or estimate incorrectly or if future tenant operations, market or industry factors differ from our expectations we may record an impairment charge that is inappropriate or fail to record a charge when we should have done so, or the amount of any such charges may be inaccurate.

These accounting policies involve significant judgments made based upon our experience and the experience of our management and our Board of Trustees, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual value, the ability and willingness of our tenants to perform their obligations to us, current and future economic conditions and competitive factors in the markets in which our properties are located. Competition, economic conditions, changing government priorities and other factors may cause occupancy declines in the future. In the future, we may need to revise our carrying value assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense related to properties we own or decrease the carrying values of our assets.

Impact of Inflation

Inflation in the past several years in the United States has been modest, but recently there have been indications of inflation in the U.S. economy and some market forecasts indicate an expectation of increased inflation in the near to intermediate term. Future inflation might have both positive and negative impacts on our business. Inflation might cause the value of our real estate assets to increase. Our government leases generally provide for annual rent increases based on a cost of living index calculation which may mitigate the impact upon us of increased costs as a result of inflation. Further, inflation may permit us to increase rents upon renewal or enter new leases for the leased space for increased rent amounts.

Increases in operating costs as a result of inflation are likely to have modest, if any, impacts on our operating results. This is because most of the operating costs arising in our business are incurred at our properties and our tenants pay most of the property operating cost increases directly or indirectly when we pass through such costs as additional rent under our leases. Increased debt capital costs as a result of inflation are not directly or immediately paid by, or passed through, to our tenants; therefore, such cost increases are more likely to impact our financial results. Over time, however, inflationary debt capital cost increases may be mitigated as leases at our properties expire and new leases are entered which reflect inflationary increases in market rents.

To mitigate the adverse impact of any increased cost of debt capital in the event of material inflation, we may enter into interest rate hedge arrangements in the future. The decision to enter into these agreements will be based on various factors, including the amount of our floating rate debt outstanding, our belief that material interest rate increases are likely to occur, the costs of, and our expected benefit from, these agreements and upon possible requirements of our borrowing arrangements.

Generally, we do not expect inflation to have a material impact on our financial results for the next 12 months or for the current foreseeable future thereafter.

Impact of Climate Change

Concerns about climate change have resulted in various treaties, laws and regulations that are intended to limit carbon emissions and address other environmental concerns. These and other laws may cause energy or other costs at our properties to increase. We do not expect the direct impact of these increases to be material to our results of operations, because the increased costs either would be the responsibility of our tenants directly or in the longer term, passed through and paid by tenants of our properties. Although we do not believe it is likely in the foreseeable future, laws enacted to mitigate climate change may make some of our properties obsolete or cause us to make material investments in our properties, which could materially and adversely affect our financial condition or the financial condition of our tenants and their ability to pay rent to us.

In an effort to reduce the effects of any increased energy costs in the future, we continuously study ways to improve the energy efficiency at all of our properties. Our property manager, RMR LLC, is a member of the ENERGY STAR program, a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy that is focused on promoting energy efficiency at commercial properties through its "ENERGY STAR" program, and a member of the U.S. Green Building Council, a nonprofit organization focused on promoting energy efficiency at commercial properties through its LEED® green building program.

Some observers believe severe weather in different parts of the world over the last few years is evidence of global climate change. Severe weather may have an adverse effect on certain properties we own. Rising sea levels could cause flooding at some of our properties, which may have an adverse effect on individual properties we own. We mitigate these risks by procuring, or requiring our tenants to procure, insurance coverage we believe adequate to protect us from material damages and losses resulting from the consequences of losses caused by climate change. However, we cannot be sure that our mitigation efforts will be sufficient or that future storms, rising sea levels or other changes that may occur due to future climate change could not have a material adverse effect on our financial results.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk *(dollar amounts in thousands, except per share data)*

We are exposed to risks associated with market changes in interest rates. We manage our exposure to this market risk by monitoring available financing alternatives. Other than as described below, we do not currently foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

Fixed Rate Debt

At December 31, 2019, our outstanding fixed rate debt consisted of the following:

Debt	Principal Balance[(1)]	Annual Interest Rate[(1)]	Annual Interest Expense[(1)]	Maturity	Interest Payments Due
Senior unsecured notes[(2)]	$ 400,000	3.600%	$ 14,400	2020	Semi-annually
Senior unsecured notes	300,000	4.150%	12,450	2022	Semi-annually
Senior unsecured notes	300,000	4.000%	12,000	2022	Semi-annually
Senior unsecured notes	350,000	4.250%	14,875	2024	Semi-annually
Senior unsecured notes	400,000	4.500%	18,000	2025	Semi-annually
Senior unsecured notes	310,000	5.875%	18,213	2046	Quarterly
Mortgage note (one property in Washington, D.C.)	32,888	5.720%	1,881	2020	Monthly
Mortgage note (one property in Philadelphia, PA)	40,062	3.690%	1,478	2020	Monthly
Mortgage note (one property in Lakewood, CO)	1,683	8.150%	137	2021	Monthly
Mortgage note (one property in Fairfax, VA)[(3)]	13,166	5.877%	774	2021	Monthly
Mortgage note (one property in Washington, DC)	26,522	4.220%	1,119	2022	Monthly
Mortgage note (three properties in Seattle, WA)	71,000	3.550%	2,521	2023	Monthly
Mortgage note (one property in Chicago, IL)	50,000	3.700%	1,850	2023	Monthly
Mortgage note (one property in Washington, D.C.)	24,108	4.800%	1,157	2023	Monthly
Mortgage note (one property in Washington, D.C.)	66,780	4.050%	2,705	2030	Monthly
	$2,386,209		$103,560		

(1) The principal balances and interest rates are the amounts stated in the contracts. In accordance with GAAP, our carrying values and recorded interest expense may differ from these amounts because of market conditions at the time we issued or assumed these debts. For more information, see Notes 7 and 8 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

(2) In January 2020, we redeemed, at par plus accrued interest, all $400,000 of our 3.60% senior unsecured notes due 2020 using cash on hand, proceeds from property sales and borrowings under our revolving credit facility.

(3) This mortgage debt is included in liabilities of properties held for sale in our consolidated balance sheet as of December 31, 2019.

Our senior unsecured notes require semi-annual or quarterly interest payments through maturity. Our mortgages generally require principal and interest payments through maturity pursuant to amortization schedules. Because these debts require interest to be paid at a fixed rate, changes in market interest rates during the term of these debts will not affect our interest obligations. If these debts were refinanced at interest rates which are one percentage point higher or lower than shown above, our annual interest cost would increase or decrease by approximately $23,862.

Changes in market interest rates also would affect the fair value of our fixed rate debt obligations; increases in market interest rates decrease the fair value of our fixed rate debt, while decreases in market interest rates increase the fair value of our fixed rate debt. Based on the balances outstanding at December 31, 2019, and discounted cash flow analyses through the respective maturity dates, and assuming no other changes in factors that may affect the fair value of our fixed rate debt obligations, a hypothetical immediate one percentage point increase in interest rates would change the fair value of those obligations by approximately $72,888.

Some of our fixed rate secured debt arrangements allow us to make repayments earlier than the stated maturity date. In some cases, we are not allowed to make early repayment prior to a cutoff date and we are generally allowed to make prepayments only at a premium equal to a make whole amount, as defined, which is generally designed to preserve a stated yield to the note holder. These prepayment rights may afford us opportunities to mitigate the risk of refinancing our debts at maturity at higher rates by refinancing prior to maturity.

At December 31, 2019, we owned 51% and 50% interests in two joint venture arrangements which own three properties that are secured by fixed rate debt consisting of the following mortgage notes:

Debt	Our JV Ownership Interest	Principal Balance(1)(2)	Annual Interest Rate(1)	Annual Interest Expense(1)	Maturity	Interest Payments Due
Mortgage note (two properties in Fairfax, VA)	51%	$50,000	4.090%	$2,045	2029	Monthly
Mortgage note (one property in Washington, D.C.)	50%	32,000	3.690%	1,181	2024	Monthly
		$82,000		$3,226		

(1) The principal balances, annual interest rates and annual interest expense are the amounts stated in the applicable contracts. In accordance with GAAP, recorded interest expense may differ from these amounts because of market conditions at the time they incurred the debt.

(2) Reflects the entire balance of the debt secured by the properties and is not adjusted to reflect the part of the joint venture arrangement interests we do not own.

Floating Rate Debt

At December 31, 2019, we had no outstanding floating rate debt. Our $750,000 revolving credit facility matures on January 31, 2023 and, subject to the payment of an extension fee and meeting certain other conditions, we have the option to extend the stated maturity date of the facility by two six month periods. No principal repayments are required under our revolving credit facility prior to maturity, and we can borrow, repay and reborrow funds available under our revolving credit facility, subject to conditions, at any time without penalty.

Borrowings under our $750,000 revolving credit facility are in U.S. dollars and require interest to be paid at a rate of LIBOR plus premiums that are subject to adjustment based upon changes to our credit ratings. Accordingly, we are vulnerable to changes in U.S. dollar based short term rates, specifically LIBOR, and to changes in our credit ratings. In addition, upon renewal or refinancing of our revolving credit facility, we are vulnerable to increases in interest rate premiums due to market conditions or our perceived credit characteristics. Generally, a change in interest rates would not affect the value of our floating rate debt but would affect our operating results.

The following table presents the impact a one percentage point increase in interest rates would have on our annual floating rate interest expense as of December 31, 2019 if we were fully drawn on our revolving credit facility:

	Impact of an Increase in Interest Rates			
	Annual Interest Rate(1)	Outstanding Debt	Total Interest Expense Per Year	Annual Earnings Per Share Impact(2)
At December 31, 2019	2.7%	$750,000	$20,250	$0.42
One percentage point increase	3.7%	$750,000	$27,750	$0.58

(1) Based on LIBOR plus a premium, which was 110 basis points per annum, at December 31, 2019.

(2) Based on the weighted average shares outstanding (diluted) for the year ended December 31, 2019.

The foregoing table shows the impact of an immediate increase in floating interest rates as of December 31, 2019. If interest rates were to increase gradually over time, the impact would be spread over time. Our exposure to fluctuations in floating interest rates will increase or decrease in the future with increases or decreases in the outstanding amount under our revolving credit facility or our other floating rate debt, if any. Although we have no present plans to do so, we may in the future enter into hedge arrangements from time to time to mitigate our exposure to changes in interest rates.

LIBOR Phase Out

LIBOR is currently expected to be phased out in 2021. We are required to pay interest on borrowings under our revolving credit facility at floating rates based on LIBOR. Future debt that we may incur may also require that we pay interest based upon LIBOR. We currently expect that the determination of interest under our revolving credit facility would be revised as provided under our credit agreement or amended as necessary to provide for an interest rate that approximates the existing interest rate as calculated in accordance with LIBOR. Despite our current expectations, we cannot be sure that, if LIBOR is phased out or transitioned, the changes to the determination of interest under our agreements would approximate the current calculation in accordance with LIBOR. We do not know what standard, if any, will replace LIBOR if it is phased out or transitioned.

Item 8. Financial Statements and Supplementary Data

The information required by this item is included in Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer and Treasurer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer and Treasurer concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Assessment of Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in *Internal Control—Integrated Framework*. Based on this assessment, we believe that, as of December 31, 2019, our internal control over financial reporting is effective.

Ernst & Young LLP, the independent registered public accounting firm that audited our 2019 Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting. Its report appears elsewhere herein.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We have a Code of Conduct that applies to our officers and Trustees, RMR Inc. and RMR LLC, senior level officers of RMR LLC, senior level officers and directors of RMR Inc. and certain other officers and employees of RMR LLC. Our Code of Conduct is posted on our website, www.opireit.com. A printed copy of our Code of Conduct is also available free of charge to any person who requests a copy by writing to our Secretary, Office Properties Income Trust, Two Newton Place, 255 Washington Street, Suite 300, Newton, MA 02458-1634. We intend to satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of any amendments to, or waivers from, our Code of Conduct that apply to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our website.

The remainder of the information required by Item 10 is incorporated by reference to our definitive Proxy Statement.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information. We may grant common shares to our officers and other employees of RMR LLC under our 2009 Incentive Share Award Plan, or the 2009 Plan. In addition, each of our Trustees receives common shares as part of his or her annual compensation for serving as a Trustee and such shares are awarded under the 2009 Plan. The terms of awards made under the 2009 Plan are determined by the Compensation Committee of our Board of Trustees, at the time of the awards. The following table is as of December 31, 2019.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by securityholders—2009 Plan	None.	None.	211,334[1]
Equity compensation plans not approved by securityholders	None.	None.	None.
Total	None.	None.	211,334[1]

[1] Consists of common shares available for issuance pursuant to the terms of the 2009 Plan. Share awards that are repurchased or forfeited will be added to the common shares available for issuance under the 2009 Plan.

Payments by us to RMR LLC employees are described in Notes 5 and 9 to the Notes to Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. The remainder of the information required by Item 12 is incorporated by reference to our definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated by reference to our definitive Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated by reference to our definitive Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) *Index to Financial Statements and Financial Statement Schedules*

The following consolidated financial statements and financial statement schedule of Office Properties Income Trust are included on the pages indicated:

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, or are inapplicable, and therefore have been omitted.

(b) *Exhibits*

Exhibits to our Annual Report on Form 10-K for the year ended December 31, 2019 have been included only with the version of that Annual Report on Form 10-K filed with the SEC.

A copy of our Annual Report on Form 10-K for the year ended December 31, 2019, including a list of exhibits, is available free of charge upon written request to Investor Relations, Office Properties Income Trust, Two Newton Place, 255 Washington Street, Suite 300, Newton, MA 02458-1634, telephone (617) 219-1440.

Item 16. Form 10-K Summary

None.

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of Office Properties Income Trust

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Office Properties Income Trust (the Company) as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the financial statement schedule listed in the Index at item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 20, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

	Impairment of Real Estate Properties
Description of the Matter	The Company's net real estate properties totaled $3.1 billion as of December 31, 2019. As discussed in Note 2 to the consolidated financial statements, the Company evaluates their properties for impairment quarterly, or whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Auditing management's property impairment analysis was complex and involved a high degree of subjectivity due to the significant estimation required in determining the future undiscounted net cash flows expected to be generated from those assets with indicators of impairment. The future net undiscounted cash flows are sensitive to significant assumptions, such as hold periods, market rents, and terminal capitalization rates, which are forward-looking and could be affected by future economic and market conditions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process for assessing impairment of real estate properties. For example, we tested controls over management's review of the future net undiscounted cash flows calculations, including the significant assumptions and data inputs used to develop the undiscounted cash flows. Our testing of the Company's impairment assessment included, among other procedures, evaluating the assumptions used to develop the estimated undiscounted cash flows used to assess the recoverability of real estate properties. Specifically, we evaluated the significant assumptions used to estimate the property cash flows, including market rents and terminal capitalization rates through comparison to current industry and economic trends and tested the completeness and accuracy of the underlying data supporting the significant assumptions. We compared the projected forecasted amounts to past performance of the properties and the Company's history related to similar properties and other forecasted financial information prepared by the Company. We also held discussions with management about the current status of potential transactions and about management's judgments to understand the probability of future events that could affect the hold period and other cash flow assumptions for the properties. We searched for and evaluated information that corroborated or contradicted the Company's assumptions.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2008.

Boston, Massachusetts
February 20, 2020

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of Office Properties Income Trust

Opinion on Internal Control over Financial Reporting

We have audited Office Properties Income Trust's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Office Properties Income Trust (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at item 15(a), and our report dated February 20, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 20, 2020

OFFICE PROPERTIES INCOME TRUST

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	December 31, 2019	December 31, 2018
ASSETS		
Real estate properties:		
Land	$ 840,550	$ 924,164
Buildings and improvements	2,652,681	3,020,472
Total real estate properties, gross	3,493,231	3,944,636
Accumulated depreciation	(387,656)	(375,147)
Total real estate properties, net	3,105,575	3,569,489
Assets of properties held for sale	70,877	253,501
Investments in unconsolidated joint ventures	39,756	43,665
Acquired real estate leases, net	732,382	1,056,558
Cash and cash equivalents	93,744	35,349
Restricted cash	6,952	3,594
Rents receivable	83,556	72,051
Deferred leasing costs, net	40,107	25,672
Other assets, net	20,187	178,704
Total assets	$ 4,193,136	$5,238,583
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unsecured revolving credit facility	$ —	$ 175,000
Unsecured term loans, net	—	387,152
Senior unsecured notes, net	2,017,379	2,357,497
Mortgage notes payable, net	309,946	335,241
Liabilities of properties held for sale	14,693	4,271
Accounts payable and other liabilities	125,048	145,536
Due to related persons	7,141	34,887
Assumed real estate lease obligations, net	13,175	20,031
Total liabilities	2,487,382	3,459,615
Commitments and contingencies		
Shareholders' equity:		
Common shares of beneficial interest, $.01 par value: 200,000,000 shares authorized, 48,201,941 and 48,082,903 shares issued and outstanding, respectively	482	481
Additional paid in capital	2,612,425	2,609,801
Cumulative net income	177,217	146,882
Cumulative other comprehensive income (loss)	(200)	106
Cumulative common distributions	(1,084,170)	(978,302)
Total shareholders' equity	1,705,754	1,778,968
Total liabilities and shareholders' equity	$ 4,193,136	$5,238,583

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

OFFICE PROPERTIES INCOME TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(amounts in thousands, except per share data)

	Year Ended December 31,		
	2019	2018	2017
Rental income	$ 678,404	$426,560	$316,532
Expenses:			
Real estate taxes	73,717	49,708	37,942
Utility expenses	34,302	26,425	20,998
Other operating expenses	120,943	89,610	65,349
Depreciation and amortization	289,885	162,488	109,588
Loss on impairment of real estate	22,255	8,630	9,490
Acquisition and transaction related costs	682	14,508	—
General and administrative	32,728	24,922	18,847
Total expenses	574,512	376,291	262,214
Gain on sale of real estate	105,131	20,661	—
Dividend income	1,960	1,337	1,216
Loss on equity securities, net	(44,007)	(7,552)	—
Interest income	1,045	639	1,962
Interest expense (including net amortization of debt premiums, discounts and issuance costs of $10,740, $3,626 and $3,420, respectively)	(134,880)	(89,865)	(65,406)
Loss on early extinguishment of debt	(769)	(709)	(1,715)
Income (loss) from continuing operations before income tax expense and equity in net losses of investees	32,372	(25,220)	(9,625)
Income tax expense	(778)	(117)	(101)
Equity in net losses of investees	(1,259)	(2,269)	(13)
Income (loss) from continuing operations	30,335	(27,606)	(9,739)
Income from discontinued operations	—	5,722	21,829
Net income (loss)	30,335	(21,884)	12,090
Other comprehensive income (loss):			
Unrealized gain on equity securities	—	—	24,042
Unrealized loss on financial instrument	(200)	—	—
Equity in unrealized gain (loss) of investees	(106)	(40)	9,428
Other comprehensive income (loss)	(306)	(40)	33,470
Comprehensive income (loss)	$ 30,029	$ (21,924)	$ 45,560
Net income (loss)	$ 30,335	$ (21,884)	$ 12,090
Preferred units of limited partnership distributions	—	(371)	(275)
Net income (loss) available for common shareholders	$ 30,335	$ (22,255)	$ 11,815
Weighted average common shares outstanding (basic and diluted)	48,062	24,830	21,158
Per common share amounts (basic and diluted):			
Income (loss) from continuing operations	$ 0.63	$ (1.13)	$ (0.47)
Income from discontinued operations	$ —	$ 0.23	$ 1.03
Net income (loss) available for common shareholders	$ 0.63	$ (0.90)	$ 0.56

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

OFFICE PROPERTIES INCOME TRUST
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(dollars in thousands)

	Number of Shares	Common Shares	Additional Paid In Capital	Cumulative Net Income	Cumulative Other Comprehensive Income (Loss)	Cumulative Common Distributions	Total
Balance at December 31, 2016	17,794,477	$178	$1,474,067	$ 96,329	$ 26,957	$ (662,527)	$ 935,004
Issuance of shares, net	6,976,757	70	493,796	—	—	—	493,866
Share grants	18,836	—	1,361	—	—	—	1,361
Share repurchases	(3,591)	—	(264)	—	—	—	(264)
Equity in unrealized gain of investees	—	—	—	—	9,428	—	9,428
Unrealized gain on equity securities	—	—	—	—	24,042	—	24,042
Net income available for common shareholders	—	—	—	11,815	—	—	11,815
Distributions to common shareholders	—	—	—	—	—	(145,209)	(145,209)
Balance at December 31, 2017	24,786,479	248	1,968,960	108,144	60,427	(807,736)	1,330,043
Cumulative adjustment upon adoption of ASU No. 2016-01	—	—	—	60,281	(60,281)	—	—
Adjustment upon adoption of ASU No. 2014-09	—	—	—	712	—	—	712
Balance at January 1, 2018	24,786,479	248	1,968,960	169,137	146	(807,736)	1,330,755
Issuance of shares, net	23,281,738	233	639,550	—	—	—	639,783
Share grants	19,925	—	1,523	—	—	—	1,523
Share forfeitures or repurchases	(5,239)	—	(232)	—	—	—	(232)
Equity in unrealized loss of investees	—	—	—	—	(40)	—	(40)
Net loss available for common shareholders	—	—	—	(22,255)	—	—	(22,255)
Distributions to common shareholders	—	—	—	—	—	(170,566)	(170,566)
Balance at December 31, 2018	48,082,903	481	2,609,801	146,882	106	(978,302)	1,778,968
Share grants	136,100	1	3,097	—	—	—	3,098
Share forfeitures or repurchases	(17,062)	—	(473)	—	—	—	(473)
Amounts reclassified from cumulative other comprehensive income to net income	—	—	—	—	(196)	—	(196)
Equity in unrealized gain of investees	—	—	—	—	90	—	90
Unrealized loss on financial instrument	—	—	—	—	(200)	—	(200)
Net income available for common shareholders	—	—	—	30,335	—	—	30,335
Distributions to common shareholders	—	—	—	—	—	(105,868)	(105,868)
Balance at December 31, 2019	48,201,941	$482	$2,612,425	$177,217	$ (200)	$(1,084,170)	$1,705,754

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

OFFICE PROPERTIES INCOME TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 30,335	$ (21,884)	$ 12,090
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	89,400	66,685	52,427
Net amortization of debt premiums, discounts and issuance costs	10,740	3,626	3,420
Amortization of acquired real estate leases	197,978	94,375	56,174
Amortization of deferred leasing costs	5,973	4,833	3,802
Gain on sale of real estate	(105,131)	(20,661)	—
Loss on impairment of real estate	22,255	8,630	9,490
Loss on early extinguishment of debt	769	709	1,715
Straight line rental income	(27,507)	(10,164)	(5,582)
Other non-cash expenses, net	2,011	250	300
Loss on equity securities, net	44,007	7,552	—
Increase in carrying value of property included in discontinued operations	—	—	(619)
Equity in net losses of investees	1,259	2,269	13
Distribution of earnings from Affiliates Insurance Company	2,438	—	—
Equity in earnings of Select Income REIT included in discontinued operations	—	(20,873)	(21,584)
Net gain on issuance of shares by Select Income REIT included in discontinued operations	—	(29)	(72)
Loss on sale of Select Income REIT shares included in discontinued operations	—	15,180	—
Distributions of earnings from Select Income REIT	—	20,873	21,584
Change in assets and liabilities:			
Rents receivable	12,586	5,021	(4,990)
Deferred leasing costs	(27,971)	(9,203)	(5,017)
Other assets	3,266	1,127	1,368
Accounts payable and other liabilities	(19,333)	(3,303)	11,696
Due to related persons	(27,746)	(97)	1,339
Net cash provided by operating activities	215,329	144,916	137,554
CASH FLOWS FROM INVESTING ACTIVITIES:			
Real estate acquisitions	(2,905)	25,221	(1,187,012)
Real estate improvements	(62,676)	(47,500)	(45,940)
Distributions in excess of earnings from Select Income REIT	—	17,251	29,248
Distributions in excess of earnings from unconsolidated joint ventures	2,370	3,751	482
Distributions in excess of earnings from Affiliates Insurance Company	6,562	—	—
Proceeds from sale of properties, net	829,794	304,808	15,083
Proceeds from sale of Select Income REIT shares	—	435,125	—
Proceeds from sale of The RMR Group Inc. common shares, net	104,674	—	—
Net cash provided by (used in) investing activities	877,819	738,656	(1,188,139)

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

OFFICE PROPERTIES INCOME TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of mortgage notes payable	(12,054)	(3,708)	(11,909)
Repayment of unsecured term loans	(388,000)	(162,000)	—
Repayment of senior unsecured notes	(350,000)	—	—
Proceeds from issuance of senior notes, after discounts	—	—	297,954
Proceeds from issuance of common shares, net	—	—	493,866
Borrowings on unsecured revolving credit facility	430,000	238,000	645,000
Repayments on unsecured revolving credit facility	(605,000)	(741,000)	(235,000)
Payment of debt issuance costs	—	(3,936)	(4,644)
Repurchase of common shares	(473)	(232)	(264)
Redemption of preferred units of limited partnership	—	(20,221)	—
Preferred units of limited partnership distributions	—	(646)	—
Distributions to common shareholders	(105,868)	(170,566)	(145,209)
Net cash (used in) provided by financing activities	(1,031,395)	(864,309)	1,039,794
Increase (decrease) in cash, cash equivalents and restricted cash	61,753	19,263	(10,791)
Cash, cash equivalents and restricted cash at beginning of period	38,943	19,680	30,471
Cash, cash equivalents and restricted cash at end of period	$ 100,696	$ 38,943	$ 19,680

	Year Ended December 31,		
	2019	2018	2017
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$131,735	$ 65,188	$ 55,048
Income taxes paid	$ 491	$ 68	$ 117
NON-CASH INVESTING ACTIVITIES:			
Working capital assumed	$ —	$ 25,170	$ (1,596)
Real estate and investment acquired by issuance of common shares	$ —	$ (639,809)	$ —
Real estate and investment acquired by assumption of debt	$ —	$(1,719,772)	$ —
NON-CASH FINANCING ACTIVITIES:			
Select Income REIT unsecured revolving credit facility	$ —	$ 108,000	$ —
Assumption of mortgage notes payable	$ —	$ 161,772	$167,548
Assumption of senior unsecured notes	$ —	$ 1,450,000	$ —
Preferred units of limited partnership issued	$ —	$ —	$ 20,221
Issuance of common shares	$ —	$ 639,809	$ —

SUPPLEMENTAL DISCLOSURE OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH:

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the amounts shown in the consolidated statements of cash flows:

	As of December 31,		
	2019	2018	2017
Cash and cash equivalents	$ 93,744	$35,349	$16,569
Restricted cash	6,952	3,594	3,111
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	$100,696	$38,943	$19,680

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

Note 1. Organization

Office Properties Income Trust, or OPI, we, us or our, is a real estate investment trust, or REIT, formed in 2009 under Maryland law.

As of December 31, 2019, our wholly owned properties were comprised of 189 properties located in 35 states and the District of Columbia containing approximately 25.7 million rentable square feet and we had a noncontrolling ownership interest in three properties totaling approximately 0.4 million rentable square feet through two unconsolidated joint ventures in which we own 51% and 50% interests.

Merger with Select Income REIT

On December 31, 2018, we completed our acquisition of Select Income REIT, or SIR, a REIT that owned properties primarily net leased to single tenants, pursuant to a merger transaction, or the SIR Merger. As a result of the SIR Merger, we acquired SIR's property portfolio of 99 properties with approximately 16.5 million rentable square feet.

The aggregate transaction value, based on the closing price of our common shares on December 31, 2018 of $6.87 per share (prior to the Reverse Share Split, as defined below), was approximately $2,409,740, excluding closing costs of approximately $27,497 ($14,508 of which was paid by us and $12,989 of which was paid by SIR) and including the repayment or assumption of approximately $1,719,772 of SIR debt. In connection with the SIR Merger, SIR shareholders received 1.04 of our newly issued common shares for each common share of SIR, with cash paid in lieu of fractional shares.

As a condition of the SIR Merger, on October 9, 2018, we sold all of the 24,918,421 common shares of SIR we then owned, or the Secondary Sale, in an underwritten public offering at a price of $18.25 per share, raising net proceeds of $435,125 after deducting underwriting discounts and offering expenses. We used the net proceeds from the Secondary Sale to repay amounts then outstanding under our revolving credit facility.

In addition, as a condition of the SIR Merger, on December 27, 2018, SIR paid a pro rata distribution to SIR's shareholders of record as of the close of business on December 20, 2018 of all 45,000,000 common shares of beneficial interest of Industrial Logistics Properties Trust, or ILPT, that SIR owned, or the ILPT Distribution.

The SIR Merger and the other transactions in connection with the SIR Merger, including the Secondary Sale and the ILPT Distribution, are collectively referred to herein as the SIR Transactions.

Following completion of the SIR Merger and the other SIR Transactions, on December 31, 2018, we effected a reverse share split of our common shares, or the Reverse Share Split, pursuant to which every four of our common shares issued and outstanding as of the effective time of the Reverse Share Split were converted and reclassified into one of our common shares. All impacted amounts and share information included in the consolidated financial statements and notes hereto for the periods presented prior to January 1, 2019 have been retroactively adjusted for the Reverse Share Split as if the Reverse Share Split occurred on the first day of the first period presented.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation. These consolidated financial statements include the accounts of us and our subsidiaries, all of which are wholly owned directly or indirectly by us. All intercompany transactions and balances with or among our consolidated subsidiaries have been eliminated.

Real Estate Properties. We record our properties at cost and provide depreciation on real estate investments on a straight line basis over estimated useful lives generally ranging from 7 to 40 years. In some circumstances, we engage independent real estate appraisal firms to provide market information and evaluations which are relevant to our purchase price allocations and determinations of useful lives; however, we are ultimately responsible for the purchase price allocations and determinations of useful lives.

We allocate the purchase prices of our properties to land, building and improvements based on determinations of the relative fair values of these assets assuming the properties are vacant. We determine the fair value of each property using methods similar to those used by independent appraisers, which may involve estimated cash flows that are based on a number of factors, including capitalization rates and discount rates, among others. We allocate a portion of the purchase price of our properties to above market and below market leases based on the present value (using an interest rate which reflects the risks associated with acquired in place leases at the time each property was acquired by us) of the difference, if any, between (i) the contractual amounts to be paid pursuant to the acquired in place leases and (ii) our estimates of fair market lease rates for the corresponding leases, measured over a period equal to the terms of the respective leases. We allocate a portion of the purchase price to acquired in place leases and tenant relationships based upon market estimates to lease up the property based on the leases in place at the time of purchase. We allocate this aggregate value between acquired in place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease. However, we have not separated the value of tenant relationships from the value of acquired in place leases because such value and related amortization expense is immaterial to the accompanying consolidated financial statements. In making these allocations, we consider factors such as estimated carrying costs during the expected lease up periods, including real estate taxes, insurance and other operating income and expenses and costs, such as leasing commissions, legal and other related expenses, to execute similar leases in current market conditions at the time a property was acquired by us. If the value of tenant relationships becomes material in the future, we may separately allocate those amounts and amortize the allocated amounts over the estimated life of the relationships. For transactions that qualify as business combinations, we allocate the excess, if any, of the consideration over the fair value of the assets acquired to goodwill.

We amortize capitalized above market lease values (included in acquired real estate leases, net in our consolidated balance sheets) and below market lease values (presented as assumed real estate lease obligations, net in our consolidated balance sheets) as a reduction or increase, respectively, to rental income over the terms of the associated leases. Such amortization resulted in net decreases to rental income of $2,710, $2,903 and $2,764 during the years ended December 31, 2019, 2018 and 2017, respectively. We amortize the value of acquired in place leases (included in acquired real estate leases, net in our consolidated balance sheets), exclusive of the value of above market and below market acquired in place leases, over the terms of the associated leases. Such amortization, which is included in depreciation and amortization expense, amounted to $195,268, $91,472 and $53,410 during the years

(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

ended December 31, 2019, 2018 and 2017, respectively. If a lease is terminated prior to its stated expiration, we write off the unamortized amounts relating to that lease.

As of December 31, 2019 and 2018, our acquired real estate leases and assumed real estate obligations, excluding properties classified as held for sale, were as follows:

	December 31, 2019	December 31, 2018
Acquired real estate leases:		
Capitalized above market lease values	$ 61,971	$ 62,260
Less: accumulated amortization	(29,927)	(20,956)
Capitalized above market lease values, net	32,044	41,304
Lease origination value	1,032,769	1,168,979
Less: accumulated amortization	(332,431)	(153,725)
Lease origination value, net	700,338	1,015,254
Acquired real estate leases, net	$ 732,382	$1,056,558
Assumed real estate lease obligations:		
Capitalized below market lease values	$ 28,118	$ 31,091
Less: accumulated amortization	(14,943)	(11,060)
Assumed real estate lease obligations, net	$ 13,175	$ 20,031

As of December 31, 2019, the weighted average amortization periods for capitalized above market leases, lease origination value and capitalized below market lease values were 4.7 years, 6.2 years and 5.8 years, respectively. Future amortization of net intangible lease assets and liabilities, to be recognized over the current terms of the associated leases as of December 31, 2019 are estimated to be $162,586 in 2020, $135,002 in 2021, $118,465 in 2022, $97,087 in 2023, $71,836 in 2024 and $134,231 thereafter.

We regularly evaluate whether events or changes in circumstances have occurred that could indicate an impairment in the value of long lived assets. If there is an indication that the carrying value of an asset is not recoverable, we estimate the projected undiscounted cash flows to determine if an impairment loss should be recognized. The future net undiscounted cash flows are subjective and are based in part on assumptions regarding hold periods, market rents and terminal capitalization rates. We determine the amount of any impairment loss by comparing the historical carrying value to estimated fair value. We estimate fair value through an evaluation of recent financial performance and projected discounted cash flows using standard industry valuation techniques. In addition to consideration of impairment upon the events or changes in circumstances described above, we regularly evaluate the remaining lives of our long lived assets. If we change our estimate of the remaining lives, we allocate the carrying value of the affected assets over their revised remaining lives.

Cash and Cash Equivalents. We consider highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Note 2. Summary of Significant Accounting Policies (Continued)

Restricted Cash. Restricted cash consists of amounts escrowed for future real estate taxes, insurance, leasing costs, capital expenditures and debt service, as required by certain of our mortgage debts.

Deferred Leasing Costs. Deferred leasing costs include brokerage costs, inducements and, until January 1, 2019, legal fees associated with our entering leases. We amortize those costs, which are included in depreciation and amortization expense, on a straight line basis over the terms of the respective leases. Effective January 1, 2019, in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, No. 2016-02, *Leases*, legal costs associated with the execution of our leases, which were previously capitalized and amortized over the life of their respective leases, are expensed as incurred and included in general and administrative expenses in our consolidated statements of comprehensive income (loss). Deferred leasing costs, excluding properties classified as held for sale, totaled $55,716 and $38,840 at December 31, 2019 and 2018, respectively, and accumulated amortization of deferred leasing costs totaled $15,609 and $13,168 at December 31, 2019 and 2018, respectively. Future amortization of deferred leasing costs to be recognized during the current terms of our existing leases as of December 31, 2019 are estimated to be $5,949 in 2020, $5,419 in 2021, $4,591 in 2022, $3,973 in 2023, $3,536 in 2024 and $16,639 thereafter.

Debt Issuance Costs. Debt issuance costs include capitalized issuance or assumption costs related to borrowings, which are amortized to interest expense over the terms of the respective loans. Debt issuance costs, net of accumulated amortization, for our revolving credit facility are included in other assets in our consolidated balance sheets. As of December 31, 2019 and 2018, debt issuance costs for our revolving credit facility were $4,125 and accumulated amortization of debt issuance costs for our revolving credit facility were $1,059 and $49, respectively. Debt issuance costs, net of accumulated amortization, for our former term loans, senior unsecured notes and mortgage notes payable are presented as a direct deduction from the associated debt liability in our consolidated balance sheets. As of December 31, 2019 and 2018, debt issuance costs, net of accumulated amortization, for our former term loans, senior unsecured notes and mortgage notes payable totaled $10,631 and $12,888, respectively. Future amortization of debt issuance costs to be recognized with respect to our revolving credit facility, senior unsecured notes and mortgage notes as of December 31, 2019 are estimated to be $1,948 in 2020, $1,934 in 2021, $1,703 in 2022, $407 in 2023, $344 in 2024 and $7,361 thereafter.

Mortgage Notes Receivable. In connection with a property we sold in July 2016, we provided $3,600 of mortgage financing to the buyer. The mortgage note requires interest to be paid at an annual rate of LIBOR plus 4.0%, subject to a minimum annual interest rate of 5.0%, and requires monthly payments of interest only until maturity on June 30, 2021. The mortgage note receivable of $3,600 is included in other assets in our consolidated balance sheets at December 31, 2019 and 2018.

Equity Securities. We previously owned 2,801,060 common shares of class A common stock of The RMR Group Inc., or RMR Inc., including 1,586,836 common shares acquired from SIR on December 31, 2018 in connection with the SIR Merger, that we sold on July 1, 2019 for net proceeds of $104,674, after deducting underwriting discounts and commissions and other offering expenses. Prior to the sale of our shares of RMR Inc. class A common stock on July 1, 2019, our equity securities were recorded at fair value based on their quoted market price at the end of each reporting period. Effective January 1, 2018, changes in the fair value of our equity securities were recorded through earnings in

Note 2. Summary of Significant Accounting Policies (Continued)

accordance with ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. Prior to January 1, 2018, unrealized gains and losses on equity securities were recorded as a component of cumulative comprehensive income (loss) in shareholders' equity. See Note 5 for more information regarding the sale of our RMR Inc. class A common stock.

Equity Method Investments. We account for our investments in Affiliates Insurance Company, or AIC, until AIC was dissolved as described in Note 5, and SIR, until we sold the SIR common shares we owned as described in Note 1, using the equity method of accounting. Significant influence was present through common representation on the boards of trustees or directors of us, AIC, until February 13, 2020, and, SIR, until December 31, 2018. See Notes 5, 10 and 11 for more information of our investments in AIC and SIR.

We also own 51% and 50% interests in two unconsolidated joint ventures which own three properties. The properties owned by these joint ventures are encumbered by an aggregate $82,000 of mortgage indebtedness. We do not control the activities that are most significant to these joint ventures and, as a result, we account for our investment in these joint ventures under the equity method of accounting. See Note 3 for more information regarding our unconsolidated joint ventures.

We periodically evaluate our equity method investments for possible indicators of other than temporary impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. These indicators may include the length of time and the extent to which the market value of our investment is below our carrying value, the financial condition of our investees, our intent and ability to be a long term holder of the investment and other considerations. If the decline in fair value is judged to be other than temporary, we record an impairment charge to adjust the basis of the investment to its estimated fair value.

Other Liabilities. We initially acquired 1,541,201 shares of class A common stock of RMR Inc. on June 5, 2015 for cash and share consideration of $17,462. We concluded, for accounting purposes, that the cash and share consideration we paid for our investment in these shares represented a discount to the fair value of these shares. We initially accounted for this investment under the cost method of accounting and recorded this investment at its estimated fair value of $39,833 as of June 5, 2015 using Level 3 inputs, as defined in the fair value hierarchy under U.S. generally accepted accounting principles, or GAAP. As a result, we recorded a liability for the amount by which the estimated fair value of these shares exceeded the price we paid for these shares. This liability is included in accounts payable and other liabilities in our consolidated balance sheets. This liability is being amortized on a straight line basis through December 31, 2035 as an allocated reduction to our business management and property management fee expense. We amortized $1,087 of this liability during each of the years ended December 31, 2019, 2018 and 2017. These amounts are included in the net business management and property management fee amounts for such periods. As of December 31, 2019, the remaining unamortized amount of this liability was $17,406. Future amortization of this liability as of December 31, 2019 is estimated to be $1,087 in 2020 through 2024 and $11,971 thereafter.

Revenue Recognition. We are a lessor of commercial office properties. Our leases provide our tenants with the contractual right to use and economically benefit from all of the physical space specified in the leases; therefore, we have determined to evaluate our leases as lease arrangements.

Note 2. Summary of Significant Accounting Policies (Continued)

In February 2016, FASB issued ASU No. 2016-02, *Leases*. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. In December 2018, the FASB issued ASU No. 2018-20 *Leases (Topic 842), Narrow-Scope Improvements for Lessors*. Collectively, these standards set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU No. 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. ASU No. 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales type leases, direct financing leases and operating leases. These standards were effective as of January 1, 2019. Upon adoption, we applied the package of practical expedients that has allowed us to not reassess (i) whether any expired or existing contracts are or contain leases, (ii) lease classification for any expired or existing leases and (iii) initial direct costs for any expired or existing leases. Furthermore, we applied the optional transition method in ASU No. 2018-11, which has allowed us to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the adoption period, although we did not have an adjustment. Additionally, our leases met the criteria in ASU No. 2018-11 to not separate non-lease components from the related lease component; therefore, the accounting for these leases remained largely unchanged from the previous standard. The adoption of ASU No. 2016-02 and the related improvements did not have a material impact in our consolidated financial statements. Upon adoption, (i) allowances for bad debts are now recognized as a direct reduction of rental income, and (ii) legal costs associated with the execution of our leases, which were previously capitalized and amortized over the life of their respective leases, are expensed as incurred. Subsequent to January 1, 2019, provisions for credit losses are now included in rental income in our consolidated statements of comprehensive income (loss). Provisions for credit losses prior to January 1, 2019 were previously included in other operating expenses in our consolidated financial statements and prior periods are not reclassified to conform to the current presentation.

Our leases provide for base rent payments and in addition may include variable payments. Rental income from operating leases, including any payments derived by index or market-based indices, is recognized on a straight line basis over the lease term when we have determined that the collectability of substantially all of the lease payments is probable. Some of our leases have options to extend or terminate the lease exercisable at the option of our tenants, which are considered when determining the lease term.

We increased rental income by $27,507, $10,164 and $5,582 to record revenue on a straight line basis during the years ended December 31, 2019, 2018 and 2017, respectively. Rents receivable, excluding properties classified as held for sale, include $54,837 and $34,006 of straight line rent receivables at December 31, 2019 and 2018, respectively.

We do not include in our measurement of our lease receivables certain variable payments, including payments determined by changes in the index or market-based indices after the inception of the lease, certain tenant reimbursements and other income until the specific events that trigger the variable payments have occurred. Such payments totaled $91,076, $45,261 and $30,998 for the years

(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

ended December 31, 2019, 2018 and 2017, respectively, of which tenant reimbursements totaled $86,353, $40,764 and $27,146, respectively.

Certain of our leases contain non-lease components, such as property level operating expenses and capital expenditures reimbursed by our tenants as well as other required lease payments. We have determined that all of our leases qualify for the practical expedient to not separate the lease and non-lease components because (i) the lease components are operating leases and (ii) the timing and pattern of recognition of the non-lease components are the same as those of the lease components. We apply Accounting Standards Codification 842, *Leases*, to the combined component. Income derived by our leases is recorded in rental income in our consolidated statements of comprehensive income (loss).

Certain tenants are obligated to pay directly their obligations under their leases for insurance, real estate taxes and certain other expenses. These obligations, which have been assumed by the tenants under the terms of their respective leases, are not reflected in our consolidated financial statements. To the extent any tenant responsible for any such obligations under the applicable lease defaults on such lease or if it is deemed probable that the tenant will fail to pay for such obligations, we would record a liability for such obligations.

The following operating lease maturity analysis presents the future contractual lease payments to be received by us through 2039 as of December 31, 2019:

Year	Amount
2020	$ 489,420
2021	466,210
2022	428,149
2023	381,164
2024	313,456
Thereafter	1,052,669
Total	$3,131,068

In certain circumstances, some leases provide the tenant with the right to terminate if the legislature or other funding authority does not appropriate the funding necessary for the tenant to meet its lease obligations; we have determined the fixed non-cancelable lease term of these leases to be the full term of the lease because we believe the occurrence of early terminations to be a remote contingency based on both our historical experience and our assessments of the likelihood of lease cancellation on a separate lease basis. As of December 31, 2019, tenants who currently represent approximately 6.7% of our total operating lease maturities have currently exercisable rights to terminate their leases before the stated terms of their leases expire. In 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2030 and 2034, early termination rights become exercisable by other tenants who currently represent an additional approximately 4.8%, 1.6%, 2.7%, 1.1%, 2.0%, 5.2%, 2.6%, 1.1%, 2.6%, 0.8% and 0.2% of our total operating lease maturities, respectively. In addition, as of December 31, 2019, 13 of our tenants have the right to terminate their leases if the respective legislature or other funding authority does not appropriate the funding necessary for the tenant to meet its obligation. These 13 tenants represent approximately 6.4% of our total operating lease maturities as of December 31, 2019.

(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

Right of use asset and lease liability. In connection with our acquisition of First Potomac Realty Trust, or FPO, in 2017, we assumed the lease for FPO's former corporate headquarters, which expires on January 31, 2021. We sublease a portion of the space, which sublease expires on January 31, 2021. For leases where we are the lessee, we are required to record a right of use asset and lease liability for all leases with a term greater than 12 months. The value of the right of use asset and related liability representing our future obligation under the lease arrangement for which we are the lessee were $2,149 and $2,179, respectively, as of December 31, 2019. The right of use asset and related lease liability are included within other assets, net and accounts payable and other liabilities, respectively, within our consolidated balance sheets.

Rent expense incurred under the lease, net of sublease revenue, was $1,670, $1,707 and $374 for the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019, our lease provides for contractual minimum rent payments to a third party during the remaining lease term as summarized below:

Year	Contractual Minimum Rent Payments
2020	$2,049
2021	175
Total lease payments	2,224
Less: imputed interest	(45)
Present value of lease liabilities	$2,179

Income Taxes. We have elected to be taxed as a REIT under the United States Internal Revenue Code of 1986, as amended, and, accordingly, we generally will not be subject to federal income taxes provided we distribute our taxable income and meet certain other requirements to qualify for taxation as a REIT. We are, however, subject to certain state and local taxes.

Cumulative Other Comprehensive Income (Loss). Cumulative other comprehensive income (loss) represents our share of the cumulative comprehensive income and losses of our equity method investees and, prior to the adoption of ASU No. 2016-01 on January 1, 2018, unrealized gains and losses related to our former investment in RMR Inc. See Notes 3 and 5 for more information regarding these investments.

Per Common Share Amounts. We calculate basic earnings per common share by dividing net income (loss) available for common shareholders by the weighted average number of our common shares of beneficial ownership, $.01 par value, or our common shares, outstanding during the period. We calculate diluted earnings per share using the more dilutive of the two class method or the treasury stock method. Unvested share awards and other potentially dilutive common shares and the related impact on earnings, are considered when calculating diluted earnings per share. For the years ended December 31, 2019, 2018 and 2017, 12, four and five unvested common shares, respectively, were not included in the calculation of diluted earnings per share because to do so would have been antidilutive.

Note 2. Summary of Significant Accounting Policies (Continued)

Use of Estimates. Preparation of these financial statements in conformity with GAAP requires us to make estimates and assumptions that may affect the amounts reported in these consolidated financial statements and related notes. The actual results could differ from these estimates.

Reclassifications. Reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation.

Segment Reporting. We operate in one business segment: direct ownership of real estate properties.

New Accounting Pronouncements. In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires that entities use a new forward looking "expected loss" model that generally will result in the earlier recognition of allowance for credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU No. 2016-13 is effective as of January 1, 2020. We adopted this standard using the modified retrospective approach. The implementation of this standard did not have a material impact in our consolidated financial statements.

Note 3. Real Estate Properties

As of December 31, 2019, our wholly owned properties were comprised of 189 properties with approximately 25.7 million rentable square feet, with an aggregate undepreciated carrying value of $3,555,131, including $61,900 classified as held for sale, and we had a noncontrolling ownership interest in three properties totaling approximately 0.4 million rentable square feet through two unconsolidated joint ventures in which we own 51% and 50% interests. We generally lease space at our properties on a gross lease, modified gross lease or net lease basis pursuant to fixed term contracts expiring between 2020 and 2039. Some of our leases generally require us to pay all or some property operating expenses and to provide all or most property management services. During the year ended December 31, 2019, we entered into 107 leases for 2.9 million rentable square feet for a weighted (by rentable square feet) average lease term of 8.6 years and we made commitments for approximately $77,541 of leasing related costs. As of December 31, 2019, we have estimated unspent leasing related obligations of $55,984.

Merger with Select Income REIT

As described in Note 1, on December 31, 2018, we completed the SIR Merger, pursuant to which we acquired SIR's property portfolio of 99 properties with approximately 16.5 million rentable square feet. The total consideration transferred and assumed debt for the SIR Merger was $2,409,740, including the assumption of $1,719,772 of debt and excluding acquisition related costs.

(dollars in thousands, except per share amounts)

Note 3. Real Estate Properties (Continued)

The following table summarizes the consideration transferred and liabilities assumed:

Total Purchase Price (excluding acquisition costs):	
OPI common shares issued	23,282,704
Closing price of OPI common shares on December 31, 2018	$ 27.48
Value of consideration transferred	$ 639,809
Cash consideration for fractional shares	8
Equity issuance costs	(239)
Value of consideration transferred	639,578
Assumed working capital	50,390
Assumed senior unsecured notes, principal balance	1,450,000
Assumed mortgage notes payable, principal balance	161,772
Select Income REIT unsecured revolving credit facility repaid at closing	108,000
Non-cash portion of purchase price	1,770,162
Total consideration transferred and liabilities assumed	$ 2,409,740

As of December 31, 2019, we finalized the purchase price allocation for the SIR Merger from the preliminary amounts reported as of December 31, 2018. The adjustments made during the year ended December 31, 2019 to the fair value of acquired assets and liabilities assumed did not have a significant impact on our consolidated balance sheets or our consolidated statements of comprehensive income

(dollars in thousands, except per share amounts)

Note 3. Real Estate Properties (Continued)

(loss). The following table summarizes the purchase price allocation for SIR based on estimated fair values as of the December 31, 2018:

Purchase Price Allocation:	
Land	$ 477,977
Buildings and improvements	956,801
Assets of properties held for sale	6,846
Acquired real estate leases	854,431
Cash	24,744
Restricted cash	476
Rents receivable	11,370
Other assets[(1)]	88,658
Total assets	2,421,303
Unsecured revolving credit facility[(2)]	(108,000)
Senior unsecured notes[(3)]	(1,410,947)
Mortgage notes payable[(4)]	(159,490)
Accounts payable and other liabilities	(61,289)
Assumed real estate lease obligations	(11,879)
Due to related persons	(30,120)
Net assets acquired	639,578
Assumed working capital	50,390
Select Income REIT unsecured revolving credit facility repaid at closing[(2)]	108,000
Assumed senior unsecured notes, principal balance	1,450,000
Assumed mortgage notes payable, principal balance	161,772
Consideration transferred and liabilities assumed[(5)]	$ 2,409,740

(1) Other assets include $84,229 for SIR's investment in shares of class A common stock of RMR Inc. which was recorded at fair value as of December 31, 2018.

(2) We repaid the outstanding balance under SIR's revolving credit facility at the closing of the SIR Merger with borrowings under our revolving credit facility.

(3) The aggregate principal balance of the senior unsecured notes was $1,450,000 as of December 31, 2018.

(4) The aggregate principal balance of the mortgage notes payable was $161,772 as of December 31, 2018.

(5) Purchase price excludes acquisition related costs.

We were the accounting acquirer of SIR and accounted for the SIR Merger as a business combination because substantially all of the fair value of the gross assets acquired was not concentrated in a single identifiable asset or a group of similar identifiable assets and we acquired inputs and a substantive process that together significantly contributed to the ability to create outputs. Although we have and SIR had no employees, the personnel and various services required to operate our and SIR's businesses are and were provided pursuant to business and property management agreements with

Note 3. Real Estate Properties (Continued)

RMR LLC. These agreements were in effect before, and, in our case, remain in effect after, the SIR Merger. As a result, our acquisition of SIR included a substantive process for accounting purposes.

The assets acquired and liabilities assumed were recorded at their respective fair values and added to our consolidated balance sheet as of December 31, 2018. We allocated the purchase price based on the estimated fair values of the acquired assets and liabilities assumed in a manner consistent with our purchase price allocation accounting policy described in Note 2. We engaged an independent real estate consulting firm to assist us with determining the purchase price allocations and to provide market information and evaluations which are relevant to purchase price allocations and determinations of useful lives. As of the date acquired, the weighted average amortization periods for capitalized above market lease values, lease origination value and capitalized below market lease values were 5.8 years, 7.2 years and 5.7 years, respectively.

FPO Transaction

On October 2, 2017, we completed our acquisition of FPO, as a result of which we acquired 72 properties with 6.0 million rentable square feet, and FPO's 51% and 50% interests in two joint ventures that own three properties with 0.4 million rentable square feet, or collectively, the FPO Transaction. The aggregate value we paid for FPO was $1,370,888, including $651,696 in cash to FPO's shareholders, the repayment of $483,000 of FPO debt and the assumption of $167,548 of mortgage debt; this amount excludes the $82,000 of mortgage debt that encumber the three properties owned by the two joint ventures and the payment of certain transaction fees and expenses, net of FPO cash on hand. We financed the cash payments for the FPO Transaction with borrowings under our revolving credit facility and with cash on hand, including net proceeds from our public offerings of common shares and senior unsecured notes. We accounted for the FPO Transaction as an asset acquisition. Our allocation of the purchase price was based on estimates of the relative fair value of the acquired assets and assumed liabilities.

(dollars in thousands, except per share amounts)

Note 3. Real Estate Properties (Continued)

The following table summarizes the total consideration paid and the estimated fair values of the assets acquired and liabilities assumed in the FPO Transaction:

Total Purchase Price:	
Cash consideration	$1,175,140
Acquisition related costs	9,575
Total cash consideration	1,184,715
Preferred units of limited partnership issued[(1)]	20,221
Acquired net working capital	(1,596)
Assumed mortgage notes	167,548
Non-cash portion of purchase price	186,173
Gross purchase price	$1,370,888
Purchase Price Allocation:	
Land	$ 360,909
Buildings and improvements	681,340
Acquired real estate leases[(2)]	283,498
Investment in unconsolidated joint ventures	51,305
Cash	11,191
Restricted cash	1,018
Rents receivable	2,672
Other assets	3,640
Total assets	1,395,573
Mortgage notes payable[(3)]	(167,936)
Assumed real estate lease obligations[(2)]	(5,776)
Accounts payable and accrued expenses	(10,640)
Rents collected in advance	(1,436)
Security deposits	(4,849)
Net assets acquired	1,204,936
Assumed working capital	(1,596)
Assumed principal balance of debt	167,548
Gross purchase price	$1,370,888

(1) Pursuant to the terms of the FPO Transaction, each unit of limited partnership interest in FPO's operating partnership that was not liquidated on the closing date was exchanged on a one-for-one basis for 5.5% Series A Cumulative Preferred Units of the surviving subsidiary. As of December 31, 2017, the carrying value of these Series A Cumulative Preferred Units was $20,496 and was recorded as temporary equity on our consolidated balance sheet. On May 1, 2018, we redeemed all 1,813,504 of the outstanding 5.5% Series A Cumulative Preferred Units for $11.15 per unit (plus accrued and unpaid distributions) for an aggregate of $20,310.

(dollars in thousands, except per share amounts)

Note 3. Real Estate Properties (Continued)

(2) As of the date acquired, the weighted average amortization periods for capitalized above market lease values, lease origination value and capitalized below market lease values were 3.2 years, 3.1 years and 3.8 years, respectively.

(3) Includes fair value adjustments totaling $388 on $167,936 principal amount of mortgage notes we assumed in connection with the FPO Transaction.

Pro Forma Information (Unaudited)

The following table presents our pro forma results of operations for the year ended December 31, 2018 as if the SIR Transactions and related financing activities, had occurred on January 1, 2018. The SIR results of operations included in this pro forma financial information have been adjusted to remove ILPT's results of operations for the year ended December 31, 2018. The effect of these adjustments was to decrease pro forma rental income and pro forma net income by $152,735 and $46,237, respectively, for the year ended December 31, 2018.

This pro forma financial information is not necessarily indicative of what our actual financial position or results of operations would have been for the period presented or for any future period. Differences could result from numerous factors, including future changes in our portfolio of investments, capital structure, property level operating expenses and revenues, including rents expected to be received on our existing leases, leases we entered since December 31, 2018, or leases we may enter in the future, changes in interest rates and other reasons. Actual future results are likely to be different from amounts presented in this pro forma financial information and such differences could be significant.

	Year Ended December 31, 2018
Rental income	$758,596
Net loss	$(87,240)
Net loss per common share	$ (1.82)

During the year ended December 31, 2018, we did not recognize any revenue or operating income from the assets acquired and liabilities assumed in the SIR Merger.

(dollars in thousands, except per share amounts)

Note 3. Real Estate Properties (Continued)

Unconsolidated Joint Ventures

We own interests in two joint ventures that own three properties. We account for these investments under the equity method of accounting. As of December 31, 2019 and 2018, our investment in unconsolidated joint ventures consisted of the following:

Joint Venture	OPI Ownership	OPI Carrying Value of Investment at December 31, 2019	OPI Carrying Value of Investment at December 31, 2018	Number of Properties	Location	Square Feet
Prosperity Metro Plaza	51%	$22,483	$23,969	2	Fairfax, VA	328,456
1750 H Street, NW	50%	17,273	19,696	1	Washington, D.C.	115,411
Total		$39,756	$43,665	3		443,867

The following table provides a summary of the mortgage debt of our two unconsolidated joint ventures:

Joint Venture	Interest Rate[(1)]	Maturity Date	Principal Balance at December 31, 2019 and 2018
Prosperity Metro Plaza	4.09%	12/1/2029	$50,000
1750 H Street, NW	3.69%	8/1/2024	32,000
Weighted Average/Total	3.93%		$82,000

(1) Includes the effect of mark to market purchase accounting.

At December 31, 2019, the aggregate unamortized basis difference of our two unconsolidated joint ventures of $7,951 is primarily attributable to the difference between the amount for which we purchased our interest in the joint ventures, including transaction costs, and the historical carrying value of the net assets of the joint ventures. This difference will be amortized over the remaining useful life of the related properties and included in the reported amount of equity in net earnings (losses) of investees.

2019 Disposition Activities

During the year ended December 31, 2019, we sold 58 properties with a combined 6.2 million rentable square feet for an aggregate sales price of $848,853, excluding closing costs. The sales of these properties, as presented in the following table (except for the March 2019 sale), do not represent significant dispositions individually or in the aggregate nor do they represent a strategic shift. As a

(dollars in thousands, except per share amounts)

Note 3. Real Estate Properties (Continued)

result, the results of operations of these properties are included in continuing operations through the date of sale in our consolidated statements of comprehensive income (loss).

Date of Sale	Number of Properties	Location	Square Feet	Gross Sale Price[1]	Gain (Loss) on Sale of Real Estate	Loss on Impairment of Real Estate
February 2019	34	Northern Virginia and Maryland	1,635,868	$198,500	$ —	$ 732
March 2019	1	Washington, D.C.	129,035	70,000	22,075	—
May 2019	1	Buffalo, NY	121,711	16,900	—	5,137
May 2019	1	Maynard, MA	287,037	5,000	(227)	—
June 2019	1	Kapolei, HI	416,956	7,100	—	—
July 2019	1	San Jose, CA	71,750	14,000	(270)	—
July 2019	1	Nashua, NH	321,800	25,000	8,401	—
August 2019	1	Arlington, TX	182,630	14,900	187	—
August 2019	1	Rochester, NY	94,800	4,765	(104)	—
August 2019	1	Hanover, PA	502,300	5,500	(417)	—
August 2019	1	San Antonio, TX	618,017	198,000	3,869	—
September 2019	1	Topeka, KS	143,934	15,600	36	—
September 2019	1	Falling Waters, WV	40,348	650	—	2,179
September 2019	1	San Diego, CA	43,918	8,950	3,062	—
October 2019	3	Columbia, SC	180,703	10,750	—	3,581
November 2019	3	Metro DC—MD	372,605	61,938	1,177	—
December 2019	1	San Diego, CA	148,488	23,750	6,823	—
December 2019	1	Phoenix, AZ	122,646	12,850	860	—
December 2019	1	Houston, TX	497,477	130,000	59,992	—
December 2019	1	Kansas City, KS	170,817	11,700	—	1,172
December 2019	1	San Jose, CA	75,621	13,000	(333)	—
	58		6,178,461	$848,853	$105,131	$12,801

(1) Gross sale price is the gross contract price, includes purchase price adjustments, if any, and excludes closing costs.

As of December 31, 2019, we had six properties with an aggregate undepreciated carrying value of $61,900 under agreements to sell, as presented in the following table. We have classified these properties as held for sale in our consolidated balance sheet at December 31, 2019.

Date of Sale Agreement	Number of Properties	Location	Square Feet	Gross Sale Price[1]
October 2019[2]	2	Stafford, VA	64,656	$14,063
October 2019	1	Fairfax, VA	83,130	22,200
October 2019[2]	1	Windsor, CT	97,256	7,000
November 2019[3]	1	Trenton, NJ	267,025	30,100
November 2019	1	Lincolnshire, IL	222,717	12,000
	6		734,784	$85,363

(1) Gross sale price is the gross contract price, includes purchase price adjustments, if any, and excludes closing costs.

(2) The sale of these properties was completed in January 2020.

(dollars in thousands, except per share amounts)

Note 3. Real Estate Properties (Continued)

(3) We recorded a $9,454 loss on impairment of real estate during the year ended December 31, 2019 to adjust the carrying value of this property to its estimated fair value less costs to sell.

2018 Disposition Activities

During the year ended December 31, 2018, we sold 19 properties with a combined 2.2 million rentable square feet for an aggregate purchase price of $320,255, excluding closing costs. The sales of these properties, as presented in the following table, do not represent significant dispositions individually or in the aggregate nor do they represent a strategic shift. As a result, the results of operations of these properties are included in continuing operations through the date of sale in our consolidated statements of comprehensive income (loss).

Date of Sale	Number of Properties	Location	Square Feet	Gross Sale Price(1)	Gain on Sale of Real Estate	Loss on Impairment of Real Estate
March 2018	1	Minneapolis, MN	193,594	$ 20,000	$ —	$ 640
May 2018	1	New York, NY	187,060	118,500	17,249	—
May 2018	1	Sacramento, CA	110,500	10,755	—	3,029
November 2018	1	Golden, CO	43,231	4,000	54	—
December 2018	15	Southern Virginia	1,640,252	167,000	3,358	—
	19		2,174,637	$320,255	$20,661	$3,669

(1) Gross sale price is the gross contract price, includes purchase price adjustments, if any, and excludes closing costs.

In February 2018, we entered an agreement to sell an office property located in Safford, AZ with 36,139 rentable square feet for $8,250. We recorded a $2,453 loss on impairment of real estate to reduce the carrying value of the property to its estimated fair value less costs to sell in the three months ended March 31, 2018. In April 2018, the buyer terminated the sale agreement and we removed this property from held for sale status. We recorded a $322 adjustment to impairment of real estate to increase the carrying value of the property to its estimated fair value during the year ended December 31, 2018. During the year ended December 31, 2018, we also recorded a $2,830 loss on impairment of real estate to reduce the carrying value of a portfolio of 34 properties, which was classified as held for sale as of December 31, 2018, to its estimated fair value less costs to sell.

2017 Disposition Activities—Continuing Operations

In October 2017, we sold one vacant office property located in Albuquerque, NM with 29,045 rentable square feet and a net book value of $1,885 as of the date of sale, for $2,000, excluding closing costs. During the year ended December 31, 2017, we recorded a $230 loss on impairment of real estate to reduce the carrying value of this property to its estimated fair value.

(dollars in thousands, except per share amounts)

Note 3. Real Estate Properties (Continued)

2017 Disposition Activities—Discontinued Operations

In August 2017, we sold one vacant office property in Falls Church, VA with 0.2 million rentable square feet and a net book value of $12,901 as of the date of sale for $13,523, excluding closing costs. Results of operations for this property, which qualified as held for sale prior to our adoption in 2014 of ASU No. 2014-8, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, are classified as discontinued operations in our consolidated financial statements. During the year ended December 31, 2017, we recorded an adjustment of $619 to increase the carrying value of this property to its estimated fair value less costs to sell.

Summarized income statement information for this property is as follows:

Statements of Income (Loss)	Year Ended December 31, 2017
Rental income	$ 17
Real estate taxes	(88)
Utility expenses	(97)
Other operating expenses	(202)
General and administrative	(76)
Increase in carrying value of property included in discontinued operations	619
Income from discontinued operations	$ 173

2019 and 2020 Acquisition Activities

In November 2019, we acquired a land parcel for $2,900, excluding acquisition related costs, and in January 2020, we entered into an agreement to acquire a property for $11,500, excluding acquisition related costs, both of which are adjacent to a property we own in Boston, MA.

Other 2017 Acquisition Activities

During the year ended December 31, 2017, we acquired one property located in Manassas, VA with 0.1 million rentable square feet. This property was 100% leased to Prince William County on the date of acquisition. This transaction was accounted for as an asset acquisition. The purchase price was $12,657, including capitalized acquisition costs of $37. Our allocation of the purchase price of this acquisition is based on the relative estimated fair value of the acquired assets and assumed liabilities is presented in the following table.

Acquisition Date	Location	Number of Properties	Square Feet	Purchase Price	Land	Building and Improvements	Other Assumed Assets
Jan 2017	Manassas, VA	1	69,374	$12,657	$1,562	$8,253	$2,842

In September 2017, we acquired transferable development rights that allow us to expand a property we own in Washington, D.C. for a purchase price of $2,030, excluding acquisition costs.

Note 4. Business and Property Management Agreements with RMR LLC

We have no employees. The personnel and various services we require to operate our business are provided to us by The RMR Group LLC, or RMR LLC. We have two agreements with RMR LLC to provide management services to us: (1) a business management agreement, which relates to our business generally, and (2) a property management agreement, which relates to our property level operations. Prior to the consummation of the SIR Merger, SIR had similar business and property management agreements with RMR LLC on substantially similar terms, which agreements were terminated in connection with the SIR Merger. See Notes 1 and 5 for more information regarding our relationship, agreements and transactions with SIR and RMR LLC.

Management Agreements with RMR LLC. Our management agreements with RMR LLC provide for an annual base management fee, an annual incentive management fee and property management and construction supervision fees, payable in cash, among other terms:

- *Base Management Fee.* The annual base management fee payable to RMR LLC by us for each applicable period is equal to the lesser of:
  - the sum of (a) 0.5% of the average aggregate historical cost of the real estate assets acquired from a REIT to which RMR LLC provided business management or property management services, or the Transferred Assets, plus (b) 0.7% of the average aggregate historical cost of our real estate investments excluding the Transferred Assets up to $250,000, plus (c) 0.5% of the average aggregate historical cost of our real estate investments excluding the Transferred Assets exceeding $250,000; and
  - the sum of (a) 0.7% of the average closing price per share of our common shares on the stock exchange on which such shares are principally traded during such period, multiplied by the average number of our common shares outstanding during such period, plus the daily weighted average of the aggregate liquidation preference of each class of our preferred shares outstanding during such period, plus the daily weighted average of the aggregate principal amount of our consolidated indebtedness during such period, or, together, our Average Market Capitalization, up to $250,000, plus (b) 0.5% of our Average Market Capitalization exceeding $250,000.

  The average aggregate historical cost of our real estate investments includes our consolidated assets invested, directly or indirectly, in equity interests in or loans secured by real estate and personal property owned in connection with such real estate (including acquisition related costs and costs which may be allocated to intangibles or are unallocated), all before reserves for depreciation, amortization, impairment charges or bad debts or other similar non-cash reserves; provided, however, our prior ownership of SIR common shares was not included as part of our real estate investments for purposes of calculating our base management fee due to RMR LLC since SIR paid separate business management fees to RMR LLC.

Note 4. Business and Property Management Agreements with RMR LLC (Continued)

- *Incentive Management Fee.* The incentive management fee which may be earned by RMR LLC for an annual period is calculated as follows:
  - An amount, subject to a cap based on the value of our common shares outstanding, equal to 12% of the product of:
    - our equity market capitalization on the last trading day of the year immediately prior to the relevant three year measurement period, and
    - the amount (expressed as a percentage) by which the total return per share, as defined in the business management agreement and further described below, of our common shareholders (i.e., share price appreciation plus dividends) exceeds the total shareholder return of the applicable index, or the benchmark return per share, for the relevant measurement period. Effective as of January 1, 2019, we amended our business management agreement with RMR LLC so that the SNL U.S. Office REIT Index will be used for periods beginning on and after January 1, 2019, with the SNL U.S. REIT Equity Index for periods ending on or prior to December 31, 2018.

  For purposes of the total return per share of our common shareholders, share price appreciation for a measurement period is determined by subtracting (1) the closing price of our common shares on The Nasdaq Stock Market LLC, or Nasdaq, on the last trading day of the year immediately before the first year of the applicable measurement period, or the initial share price, from (2) the average closing price of our common shares on the 10 consecutive trading days having the highest average closing prices during the final 30 trading days in the last year of the measurement period.

  - The calculation of the incentive management fee (including the determinations of our equity market capitalization, initial share price and the total return per share of our common shareholders) is subject to adjustments if additional common shares are issued or if we repurchase our common shares during the measurement period.
  - No incentive management fee is payable by us unless our total return per share during the measurement period is positive.
  - The measurement periods are three year periods ending with the year for which the incentive management fee is being calculated.
  - If our total return per share exceeds 12% per year in any measurement period, the benchmark return per share is adjusted to be the lesser of the total shareholder return of the applicable index for such measurement period and 12% per year, or the adjusted benchmark return per share. In instances where the adjusted benchmark return per share applies, the incentive management fee will be reduced if our total return per share is between 200 basis points and 500 basis points below the applicable index by a low return factor, as defined in the business management agreement, and there will be no incentive management fee paid if, in these instances, our total return per share is more than 500 basis points below the applicable index.

Note 4. Business and Property Management Agreements with RMR LLC (Continued)

- The incentive management fee is subject to a cap. The cap is equal to the value of the number of our common shares which would, after issuance, represent 1.5% of the number of our common shares then outstanding multiplied by the average closing price of our common shares during the 10 consecutive trading days having the highest average closing prices during the final 30 trading days of the relevant measurement period.
- Incentive management fees we paid to RMR LLC for any period may be subject to "clawback" if our financial statements for that period are restated due to material non-compliance with any financial reporting requirements under the securities laws as a result of the bad faith, fraud, willful misconduct or gross negligence of RMR LLC and the amount of the incentive management fee we paid was greater than the amount we would have paid based on the restated financial statements.

Pursuant to our business management agreement with RMR LLC, we recognized net business management fees of $21,320, $16,381 and $12,464 for the years ended December 31, 2019, 2018 and 2017, respectively. The net business management fees we recognized are included in general and administrative expenses in our consolidated statements of comprehensive income (loss) for these periods. The net business management fees we recognized for each of the years ended December 31, 2019, 2018 and 2017 reflect a reduction of $603, for the amortization of the liability we recorded in connection with our investment in RMR Inc., as further described in Note 2. No incentive management fee was payable to RMR LLC under our business management agreement for the years ended December 31, 2019, 2018 or 2017.

- *Property Management and Construction Supervision Fees.* The property management fees payable to RMR LLC by us for each applicable period are equal to 3.0% of gross collected rents and the construction supervision fees payable to RMR LLC by us for each applicable period are equal to 5.0% of construction costs.

Pursuant to our property management agreement with RMR LLC, we recognized aggregate net property management and construction supervision fees of $21,911, $13,989 and $11,566 for each of the years ended December 31, 2019, 2018 and 2017, respectively. The net property management and construction supervision fees we recognized for the years ended December 31, 2019, 2018 and 2017 reflect a reduction of $484 for each of those years for the amortization of the liability we recorded in connection with our investment in RMR Inc., as further described in Note 2. These amounts are included in other operating expenses or have been capitalized, as appropriate, in our consolidated financial statements.

In January 2019, we paid RMR LLC $2,185 for SIR's 2018 business management, property management and construction supervision fees that it had accrued, but not paid, as of December 31, 2018. We also paid RMR LLC a business management incentive fee of $25,817, which represented the incentive fee incurred, but not paid, by SIR for the year ended December 31, 2018. We had assumed the obligation to pay these amounts as a result of the SIR Merger.

- *Expense Reimbursement.* We are generally responsible for all of our operating expenses, including certain expenses incurred or arranged by RMR LLC on our behalf. We are generally not responsible for payment of RMR LLC's employment, office or administrative expenses incurred

Note 4. Business and Property Management Agreements with RMR LLC (Continued)

to provide management services to us, except for the employment and related expenses of RMR LLC's employees assigned to work exclusively or partly at our properties, our share of the wages, benefits and other related costs of RMR LLC's centralized accounting personnel, our share of RMR LLC's costs for providing our internal audit function and as otherwise agreed. Our Audit Committee appoints our Director of Internal Audit and our Compensation Committee approves the costs of our internal audit function. Our property level operating expenses are generally incorporated into rents charged to our tenants, including certain payroll and related costs incurred by RMR LLC. We reimbursed RMR LLC $26,442, $21,279 and $15,321 for these expenses and costs for each of the years ended December 31, 2019, 2018 and 2017, respectively. We included these amounts in other operating expenses and general and administrative expense, as applicable, for these periods. We assumed the obligation to reimburse RMR LLC for similar expenses and costs that RMR LLC had incurred on behalf of SIR in the ordinary course but which SIR had not paid as of December 31, 2018. We reimbursed RMR LLC $462 in January 2019 for these SIR expenses and costs.

- *Term.* Our management agreements with RMR LLC have terms that end on December 31, 2039, and automatically extend on December 31st of each year for an additional year, so that the terms of our management agreements thereafter end on the 20th anniversary of the date of the extension.
- *Termination Rights.* We have the right to terminate one or both of our management agreements with RMR LLC: (i) at any time on 60 days' written notice for convenience, (ii) immediately on written notice for cause, as defined therein, (iii) on written notice given within 60 days after the end of an applicable calendar year for a performance reason, as defined therein, and (iv) by written notice during the 12 months following a change of control of RMR LLC, as defined therein. RMR LLC has the right to terminate the management agreements for good reason, as defined therein.
- *Termination Fee.* If we terminate one or both of our management agreements with RMR LLC for convenience, or if RMR LLC terminates one or both of our management agreements for good reason, we have agreed to pay RMR LLC a termination fee in an amount equal to the sum of the present values of the monthly future fees, as defined therein, for the terminated management agreement(s) for the term that was remaining prior to such termination, which, depending on the time of termination, would be between 19 and 20 years. If we terminate one or both of our management agreements with RMR LLC for a performance reason, we have agreed to pay RMR LLC the termination fee calculated as described above, but assuming a 10 year term was remaining prior to the termination. We are not required to pay any termination fee if we terminate our management agreements with RMR LLC for cause or as a result of a change of control of RMR LLC.
- *Transition Services.* RMR LLC has agreed to provide certain transition services to us for 120 days following an applicable termination by us or notice of termination by RMR LLC, including cooperating with us and using commercially reasonable efforts to facilitate the orderly transfer of the management and real estate investment services provided under our business management agreement and to facilitate the orderly transfer of the management of the managed properties under our property management agreement, as applicable.

Note 4. Business and Property Management Agreements with RMR LLC (Continued)

- *Vendors.* Pursuant to our management agreements with RMR LLC, RMR LLC may from time to time negotiate on our behalf with certain third party vendors and suppliers for the procurement of goods and services to us. As part of this arrangement, we may enter agreements with RMR LLC and other companies to which RMR LLC or its subsidiaries provide management services for the purpose of obtaining more favorable terms from such vendors and suppliers.
- *Investment Opportunities.* Under our business management agreement with RMR LLC, we acknowledge that RMR LLC may engage in other activities or businesses and act as the manager to any other person or entity (including other REITs) even though such person or entity has investment policies and objectives similar to ours and we are not entitled to preferential treatment in receiving information, recommendations and other services from RMR LLC.

Note 5. Related Person Transactions

We have relationships and historical and continuing transactions with SIR (prior to the SIR Merger), RMR LLC, RMR Inc. and others related to them, including other companies to which RMR LLC or its subsidiaries provide management services and some of which have trustees, directors or officers who are also our Trustees or officers. RMR Inc. is the managing member of RMR LLC. The Chair of our Board of Trustees and one of our Managing Trustees, Adam D. Portnoy, as the sole trustee of ABP Trust, is the controlling shareholder of RMR Inc. and is a managing director and the president and chief executive officer of RMR Inc. and an officer and employee of RMR LLC. David M. Blackman, our other Managing Trustee and our President and Chief Executive Officer, also serves as an officer and employee of RMR LLC, and each of our other officers, is also an officer and employee of RMR LLC. Some of our Independent Trustees also serve as independent directors or independent trustees of other public companies to which RMR LLC or its subsidiaries provide management services, including SIR (until it ceased to exist). Adam Portnoy serves as chair of the boards of trustees or boards of directors of several of these public companies and as a managing director or managing trustee of these companies and other officers of RMR LLC serve as managing trustees or managing directors of certain of these companies. In addition, officers of RMR LLC and RMR Inc. serve as our officers and officers of other companies to which RMR LLC or its subsidiaries provide management services.

Our Manager, RMR LLC. We have two agreements with RMR LLC to provide management services to us. See Note 4 for more information regarding our management agreements with RMR LLC.

Leases with RMR LLC. We lease office space to RMR LLC in certain of our properties for RMR LLC's property management offices. Pursuant to our lease agreements with RMR LLC, we recognized rental income from RMR LLC for leased office space of $1,142, $1,026 and $303 for the years ended December 31, 2019, 2018 and 2017, respectively. Our office space leases with RMR LLC are terminable by RMR LLC if our management agreements with RMR LLC are terminated.

Share Awards to RMR LLC Employees. As described further in Note 9, we award shares to our officers and other employees of RMR LLC annually. Generally, one fifth of these awards vest on the

Note 5. Related Person Transactions (Continued)

grant date and one fifth vests on each of the next four anniversaries of the grant dates. In certain instances, we may accelerate the vesting of an award, such as in connection with the award holder's retirement as an officer of us or an officer or employee of RMR LLC. These awards to RMR LLC employees are in addition to the share awards to our Managing Trustees, as Trustee compensation, and the fees we paid to RMR LLC. See Note 9 for more information regarding our share awards and activity as well as certain share purchases we made in connection with share award recipients satisfying tax withholding obligations on vesting share awards.

RMR Inc. On July 1, 2019, we sold all of the 2,801,060 shares of class A common stock of RMR Inc. that we owned in an underwritten public offering at a price to the public of $40.00 per share pursuant to an underwriting agreement among us, RMR Inc., certain other REITs managed by RMR LLC that also sold their class A common stock of RMR Inc. in the offering and the underwriters named therein. We received net proceeds of $104,674 from this sale, after deducting underwriting discounts and commissions and other offering expenses.

SIR. As described further in Note 1, we completed the SIR Merger effective December 31, 2018. See Notes 3, 10 and 11 for more information regarding the SIR Merger and our former equity method investment in SIR.

AIC. Until its dissolution on February 13, 2020, we, ABP Trust and five other companies to which RMR LLC provides management services owned AIC in equal amounts. We and the other AIC shareholders historically participated in a combined property insurance program arranged and insured or reinsured in part by AIC. The policies under that program expired on June 30, 2019, and we and the other AIC shareholders elected not to renew the AIC property insurance program; we have instead purchased standalone property insurance coverage with unrelated third party insurance providers.

We paid aggregate annual premiums, including taxes and fees, of $1,211, $757 and $1,032 in connection with this insurance program for the policy years ended June 30, 2019, 2018 and 2017, respectively. Properties we acquired as a result of the SIR Merger were already previously included in this insurance program because SIR was a participant in the program. SIR paid an annual premium, including taxes and fees, of $1,666 in connection with this insurance program for the policy year ended June 30, 2019.

As of December 31, 2019, 2018 and 2017, our investment in AIC had a carrying value of $298, $8,751 and $8,304, respectively. These amounts are included in other assets in our consolidated balance sheets. We recognized income of $281, $516 and $608 related to our investment in AIC for the years ended December 31, 2019, 2018 and 2017, respectively. These amounts are presented as equity in net earnings (losses) of investees in our consolidated statements of comprehensive income (loss). Our other comprehensive income (loss) includes our proportionate share of unrealized gains and (losses) on securities which are owned and held for sale by AIC of $90, $(69) and $461 related to our investment in AIC for the years ended December 31, 2019, 2018 and 2017, respectively.

On February 13, 2020, AIC was dissolved and in connection with its dissolution, we and each other AIC shareholder received an initial liquidating distribution of $9,000 from AIC in December 2019.

RMR LLC historically provided management and administrative services to AIC for a fee equal to 3.0% of the total premiums paid for insurance arranged by AIC. As a result of the property insurance

Note 5. Related Person Transactions (Continued)

program having been discontinued as of June 30, 2019, AIC has not incurred fees payable to RMR LLC since that time.

Directors' and Officers' Liability Insurance. We, RMR Inc., RMR LLC and certain other companies to which RMR LLC or its subsidiaries provide management services, including SIR (until it ceased to exist), participate in a combined directors' and officers' liability insurance policy. The current combined policy expires in September 2020. We paid aggregate premiums of $190, $198 and $91 in 2019, 2018 and 2017, respectively, for these policies.

Note 6. Concentration

Tenant and Credit Concentration

We define annualized rental income as the annualized contractual base rents from our tenants pursuant to our lease agreements as of the measurement date, plus straight line rent adjustments and estimated recurring expense reimbursements to be paid to us, and excluding lease value amortization. As of December 31, 2019, the U.S. Government, 11 state governments, and two other government tenants combined were responsible for approximately 35.5% of our annualized rental income. As of December 31, 2018 and 2017, the U.S. Government, 13 state governments and three other government tenants combined were responsible for 35.4% and 62.6% of our annualized rental income, respectively. The U.S. Government is our largest tenant by annualized rental income and represented approximately 25.0%, 25.6% and 43.5% of our annualized rental income as of December 31, 2019, 2018 and 2017, respectively.

Geographic Concentration

At December 31, 2019, our 189 wholly owned properties were located in 35 states and the District of Columbia. Properties located in Virginia, California, the District of Columbia, Texas and Maryland were responsible for approximately 15.6%, 11.9%, 10.4%, 7.9%, and 6.6% of our annualized rental income as of December 31, 2019, respectively. Properties located in the metropolitan Washington, D.C. market area were responsible for approximately 24.1% of our annualized rental income as of December 31, 2019.

(dollars in thousands, except per share amounts)

Note 7. Indebtedness

At December 31, 2019 and 2018, our outstanding indebtedness consisted of the following:

	December 31,	
	2019	2018
Revolving credit facility, due in 2023	$ —	$ 175,000
Unsecured term loan, due in 2020	—	300,000
Unsecured term loan, due in 2022	—	88,000
Senior unsecured notes, 3.750% interest rate, due in 2019	—	350,000
Senior unsecured notes, 3.600% interest rate, due in 2020[(1)(2)]	400,000	400,000
Senior unsecured notes, 4.000% interest rate, due in 2022	300,000	300,000
Senior unsecured notes, 4.150% interest rate, due in 2022[(1)]	300,000	300,000
Senior unsecured notes, 4.250% interest rate, due in 2024[(1)]	350,000	350,000
Senior unsecured notes, 4.500% interest rate, due in 2025[(1)]	400,000	400,000
Senior unsecured notes, 5.875% interest rate, due in 2046	310,000	310,000
Mortgage note payable, 7.000% interest rate, due in 2019	—	7,939
Mortgage note payable, 5.720% interest rate, due in 2020	32,888	33,703
Mortgage note payable, 4.160% interest rate, due in 2020[(1)]	40,062	40,772
Mortgage note payable, 8.150% interest rate, due in 2021	1,683	2,912
Mortgage note payable, 5.877% interest rate, due in 2021[(3)]	13,166	13,437
Mortgage note payable, 4.220% interest rate, due in 2022	26,522	27,210
Mortgage note payable, 3.550% interest rate, due in 2023[(1)]	71,000	71,000
Mortgage note payable, 3.700% interest rate, due in 2023[(1)]	50,000	50,000
Mortgage note payable, 4.800% interest rate, due in 2023	24,108	24,509
Mortgage note payable, 4.050% interest rate, due in 2030	66,780	66,780
	2,386,209	3,311,262
Unamortized debt premiums, discounts and issuance costs	(45,756)	(56,372)
	$2,340,453	$3,254,890

(1) We assumed these senior unsecured notes and mortgage notes in connection with the SIR Merger.

(2) In January 2020, we redeemed, at par plus accrued interest, all $400,000 of our 3.60% senior unsecured notes due 2020 using cash on hand, proceeds from property sales and borrowings under our revolving credit facility.

(3) The carrying value of this mortgage note of $13,128 is net of unamortized issuance costs of $38 and is included in liabilities of properties held for sale in our consolidated balance sheet as of December 31, 2019.

Our $750,000 revolving credit facility is governed by a credit agreement, or our credit agreement, with a syndicate of institutional lenders that includes a feature under which the maximum aggregate borrowing availability may be increased to up to $1,950,000 in certain circumstances.

Our $750,000 revolving credit facility is available for general business purposes, including acquisitions. The maturity date of our revolving credit facility is January 31, 2023 and, subject to our payment of an extension fee and meeting certain other conditions, we have the option to extend the stated maturity date of our revolving credit facility by two additional six month periods. We can borrow, repay and reborrow funds available under our revolving credit facility until maturity and no principal

Note 7. Indebtedness (Continued)

repayment is due until maturity. We are required to pay interest at a rate of LIBOR plus a premium, which was 110 basis points per annum at December 31, 2019, on the amount outstanding under our revolving credit facility. We also pay a facility fee on the total amount of lending commitments under our revolving credit facility, which was 25 basis points per annum at December 31, 2019. Both the interest rate premium and facility fee are subject to adjustment based upon changes to our credit ratings. As of December 31, 2019 and 2018, the annual interest rate payable on borrowings under our revolving credit facility was 2.7% and 3.6%, respectively. The weighted average annual interest rate for borrowings under our revolving credit facility was 3.3%, 3.0% and 2.4%, for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, we had no amounts outstanding under our revolving credit facility and $750,000 available for borrowing. As of February 19, 2020, we had $335,000 outstanding under our revolving credit facility and $415,000 available for borrowing under our revolving credit facility.

During the year ended December 31, 2019, we repaid in full our $300,000 term loan, which was scheduled to mature on March 31, 2020, without penalty. The weighted average annual interest rate under this term loan was 3.9% for the period from January 1, 2019 to August 23, 2019, and 3.4% and 2.5%, for the years ended December 31, 2018 and 2017, respectively.

On February 11, 2019, we repaid the remaining $88,000 outstanding on our $250,000 term loan, which was scheduled to mature on March 31, 2022, without penalty. The weighted average annual interest rate under this term loan was 4.3% for the period from January 1, 2019 to February 11, 2019, and 3.8% and 2.9% for the years ended December 31, 2018 and 2017, respectively.

As a result of the principal payments of our term loans, we recognized a loss on early extinguishment of debt of $643 during the year ended December 31, 2019, to write off unamortized debt issuance costs.

In July 2019, we redeemed, at par plus accrued interest, all $350,000 of our 3.75% senior unsecured notes due 2019. As a result of the redemption of our 3.75% senior unsecured notes due 2019, we recognized a loss on early extinguishment of debt of $126 during the year ended December 31, 2019 to write off unamortized debt issuance costs and discounts.

In January 2020, we redeemed, at par plus accrued interest, all $400,000 of our 3.60% senior unsecured notes due 2020.

Our credit agreement and senior unsecured notes indentures and their supplements provide for acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default, such as, in the case of our credit agreement, a change of control of us, which includes RMR LLC ceasing to act as our business and property manager. Our credit agreement and our senior unsecured notes indentures and their supplements also contain covenants, including covenants that restrict our ability to incur debts, require us to comply with certain financial and other covenants and, in the case of our credit agreement, restrict our ability to make distributions under certain circumstances. We believe we were in compliance with the terms and conditions of the respective covenants under our credit agreement and senior unsecured notes indentures and their supplements at December 31, 2019.

(dollars in thousands, except per share amounts)

Note 7. Indebtedness (Continued)

On March 1, 2019, we repaid at maturity, at par plus accrued interest, a mortgage note secured by one property with an outstanding principal balance of $7,890 using cash on hand.

At December 31, 2019, 11 of our consolidated properties with an aggregate net book value of $597,619 were encumbered by mortgage notes with an aggregate principal amount of $326,209, including one mortgage note with an outstanding principal balance of $13,166 classified in liabilities of properties held for sale in our consolidated balance sheet. Our mortgage notes are non-recourse, subject to certain limited exceptions and do not contain any material financial covenants.

None of our unsecured debt obligations require sinking fund payments prior to their maturity dates.

The required principal payments due during the next five years and thereafter under all our outstanding consolidated debt as of December 31, 2019 are as follows:

Year	Principal Payment
2020	$ 475,707
2021	14,420
2022	625,518
2023	143,784
2024	350,000
Thereafter	776,780
	$2,386,209[1]

(1) Total consolidated debt outstanding as of December 31, 2019, net of unamortized premiums, discounts and issuance costs totaling $45,756, was $2,340,453.

Note 8. Fair Value of Assets and Liabilities

The following table presents certain of our assets measured at fair value at December 31, 2019, categorized by the level of inputs, as defined in the fair value hierarchy under GAAP, used in the valuation of each asset:

		Fair Value at Reporting Date Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-Recurring Fair Value Measurements				
Assets:				
Assets of properties held for sale[1]	$30,100	$—	$30,100	$—

(1) We recorded impairment charges of $9,454 to reduce the carrying value of one property that is classified as held for sale in our consolidated balance sheet to its estimated fair value, less costs to sell of $682, based upon a negotiated sale price with a third party buyer (a Level 2 input as defined in the fair value hierarchy under GAAP). See Note 3 for more information.

(dollars in thousands, except per share amounts)

Note 8. Fair Value of Assets and Liabilities (Continued)

In addition to the assets described in the table above, our financial instruments include our cash and cash equivalents, restricted cash, rents receivable, a mortgage note receivable, accounts payable, a revolving credit facility, senior unsecured notes, mortgage notes payable, amounts due to related persons, other accrued expenses and security deposits. At December 31, 2019 and 2018, the fair values of our financial instruments approximated their carrying values in our consolidated financial statements, due to their short term nature or floating interest rates, except as follows:

	As of December 31, 2019		As of December 31, 2018	
Financial Instrument	Carrying Value(1)	Fair Value	Carrying Value(1)	Fair Value
Senior unsecured notes, 3.750% interest rate, due in 2019	$ —	$ —	$ 349,239	$ 348,903
Senior unsecured notes, 3.60% interest rate, due in 2020(1)	399,934	400,048	399,146	399,146
Senior unsecured notes, 4.00% interest rate, due in 2022	297,657	306,096	296,735	295,047
Senior unsecured notes, 4.15% interest rate, due in 2022	297,795	307,221	296,736	296,736
Senior unsecured notes, 4.25% interest rate, due in 2024	340,018	364,602	337,736	337,736
Senior unsecured notes, 4.50% interest rate, due in 2025	381,055	419,578	377,329	377,329
Senior unsecured notes, 5.875% interest rate, due in 2046	300,920	322,028	300,576	274,288
Mortgage notes payable(1)	323,074	331,675	335,241	336,365
Total	$2,340,453	$2,451,248	$2,692,738	$2,665,550

(1) Includes unamortized debt premiums, discounts and issuance costs totaling $45,756 and $55,524 as of December 31, 2019 and 2018, respectively.

(2) In January 2020, we redeemed, at par plus accrued interest, all $400,000 of our 3.60% senior unsecured notes due 2020 using cash on hand, proceeds from property sales and borrowings under our revolving credit facility.

(3) Includes one mortgage note with a carrying value of $13,128 net of unamortized issuance costs totaling $38 which is classified in liabilities of properties held for sale in our consolidated balance sheet as of December 31, 2019.

We estimated the fair value of our senior unsecured notes (except for our senior unsecured notes due 2046) using an average of the bid and ask price of the notes as of the measurement date (Level 2 inputs as defined in the fair value hierarchy under GAAP). We estimated the fair value of our senior unsecured notes due 2046 based on the closing price on Nasdaq (Level 1 inputs as defined in the fair value hierarchy under GAAP) as of the measurement date. We estimated the fair values of our mortgage notes payable using discounted cash flow analyses and currently prevailing market rates as of the measurement date (Level 3 inputs as defined in the fair value hierarchy under GAAP). Because Level 3 inputs are unobservable, our estimated fair value may differ materially from the actual fair value.

(dollars in thousands, except per share amounts)

Note 9. Shareholders' Equity

Share Awards

We have common shares available for issuance under the terms of the 2009 Incentive Share Award Plan, or the 2009 Plan. During the years ended December 31, 2019, 2018 and 2017, we granted to our officers and other employees of RMR LLC annual share awards of 103,100, 14,675 and 14,337 of our common shares, respectively, valued at $3,080, $995 and $1,067, in aggregate, respectively. We also granted each of our eight Trustees 3,000 of our common shares in 2019 with an aggregate value of $575 ($72 per Trustee), each of our then six Trustees 750 common shares in 2018 with an aggregate value of $254 ($42 per Trustee) and each of our then six Trustees 750 common shares in 2017 with an aggregate value of $392 ($65 per Trustee) as part of their annual compensation. In addition, we granted 3,000 of our common shares, with a value of $270 ($90 per Trustee) in connection with the election of three of our Trustees in 2019 and 750 of our common shares, with a value of $41 in connection with the election of one of our Trustees in 2018. The values of the share grants were based upon the closing price of our common shares trading on Nasdaq on the date of grant. The common shares awarded to our Trustees vested immediately. The common shares granted to our officers and certain other employees of RMR LLC vest in five equal annual installments beginning on the date of grant. We include the value of granted shares in general and administrative expenses ratably over the vesting period.

A summary of shares granted, forfeited, vested and unvested under the terms of the 2009 Plan for the years ended December 31, 2019, 2018 and 2017, is as follows:

	2019		2018		2017	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of year	55,321	$73.25	26,062	$78.24	24,743	$82.36
Granted	136,100	$28.84	19,925	$64.73	18,837	$77.44
Forfeited	(1,474)	$49.10	(255)	$52.96	—	$ —
Vested	(83,267)	$27.78	(18,634)	$63.80	(17,518)	$83.20
Unvested acquired in the SIR Merger(1)	—	$ —	28,223	$27.48	—	$ —
Unvested at end of year	106,680	$40.16	55,321	$73.25	26,062	$78.24

(1) Represents unvested shares granted under SIR's equity compensation plan that were converted into shares under the 2009 Plan, and which will have similar vesting requirements as shares granted under the 2009 Plan.

The 106,680 unvested shares as of December 31, 2019 are scheduled to vest as follows: 32,677 shares in 2020, 28,875 shares in 2021, 24,808 shares in 2022 and 20,320 shares in 2023. As of December 31, 2019, the estimated future compensation expense for the unvested shares was $3,672. The weighted average period over which the compensation expense will be recorded is approximately 25 months. During the years ended December 31, 2019, 2018 and 2017, we recorded $3,088, $1,337 and $1,377, respectively, of compensation expense related to the 2009 Plan. At December 31, 2019, 211,334 of our common shares remained available for issuance under the 2009 Plan.

(dollars in thousands, except per share amounts)

Note 9. Shareholders' Equity (Continued)

Share Purchases

During the years ended December 31, 2019, 2018 and 2017 we purchased 15,588, 4,984 and 3,590 of our common shares, respectively, at weighted average prices of $29.76, $46.54, $73.63 per common share, respectively, from our Trustees and current and former officers and employees of RMR LLC in satisfaction of tax withholding and payment obligations in connection with the vesting of awards of our common shares.

Distributions

During the years ended December 31, 2019, 2018 and 2017, we paid distributions on our common shares as follows:

Year	Annual Per Share Distribution	Total Distribution	Characterization of Distribution		
			Return of Capital	Ordinary Income	Qualified Dividend
2019	$2.20	$105,868	—%	100.00%	—%
2018	$6.88	$170,566	68.60%	31.40%	—%
2017	$6.88	$145,209	49.35%	50.65%	—%

On January 16, 2020, we declared a dividend payable to common shareholders of record on January 27, 2020 in the amount of $0.55 per share, or $26,511. We expect to pay this distribution on or about February 20, 2020.

2017 Sale of Shares

On July 5, 2017, we sold 6,250,000 of our common shares at a price of $74.00 per share in an underwritten public offering. On August 3, 2017, we sold 726,757 of our common shares at a price of $74.00 per share pursuant to an overallotment option granted to the underwriters for the July offering. The aggregate net proceeds from these sales of $493,866, after payment of the underwriters' discount and other offering expenses, were used to finance, in part, the FPO Transaction.

Cumulative Other Comprehensive Income (Loss)

Cumulative other comprehensive income (loss) represents our share of the comprehensive income (loss) of our equity method investees, and prior to December 31, 2017, the unrealized gain (loss) on our former investment in RMR Inc.

(dollars in thousands, except per share amounts)

Note 9. Shareholders' Equity (Continued)

The following table presents changes in the amounts we recognized in cumulative other comprehensive income (loss) by component for the years ended December 31, 2019, 2018 and 2017:

	Unrealized Gain on Investment in Equity Securities	Equity in Unrealized Gains (Losses) of Investees[(1)]	Unrealized Loss on Financial Instrument[(2)]	Total
Balance at December 31, 2016	$ 21,074	$ 5,883	$ —	$ 26,957
Other comprehensive income before reclassifications	24,042	9,462	—	33,504
Amounts reclassified from cumulative other comprehensive income to net income	—	(34)	—	(34)
Net current period other comprehensive income	24,042	9,428	—	33,470
Balance at December 31, 2017	45,116	15,311	—	60,427
Amounts reclassified from cumulative other comprehensive income to retained earnings	(45,116)	(15,165)	—	(60,281)
Balance at January 1, 2018	—	146	—	146
Other comprehensive loss before reclassifications	—	(3)	—	(3)
Amounts reclassified from cumulative other comprehensive income to net loss	—	(37)	—	(37)
Net current period other comprehensive loss	—	(40)	—	(40)
Balance at December 31, 2018	—	106	—	106
Other comprehensive loss before reclassifications	—	90	(200)	(110)
Amounts reclassified from cumulative other comprehensive income to net income	—	(196)	—	(196)
Net current period other comprehensive loss	—	(106)	(200)	(306)
Balance at December 31, 2019	$ —	$ —	$(200)	$ (200)

(1) Amounts reclassified from cumulative other comprehensive income (loss) to net income (loss) is included in equity in net losses of investees in our consolidated statements of comprehensive income (loss).

(2) Amounts reclassified from cumulative other comprehensive income (loss) to net income (loss) is included in interest expense in our consolidated statements of comprehensive income (loss).

Preferred Units of Limited Partnership

On May 1, 2018, one of our subsidiaries redeemed all 1,813,504 of its outstanding 5.5% Series A Cumulative Preferred Units for $11.15 per unit plus accrued and unpaid distributions (an aggregate of $20,310).

Note 10. Equity Investment in Select Income REIT

Until October 9, 2018, we owned 24,918,421, or approximately 27.8%, of the then outstanding SIR common shares. As described in Note 1, we completed the Secondary Sale on that date. As a result of the Secondary Sale, we recorded a loss of $18,665 during the year ended December 31, 2018.

We accounted for our investment in SIR under the equity method and had previously reported our investment in SIR as a reportable segment. As a result of the Secondary Sale and the elimination of a reportable segment, our former equity method investment in SIR is classified as discontinued operations in our consolidated statements of comprehensive income (loss). See Note 11 for more information regarding discontinued operations.

Under the equity method, we recorded our proportionate share of SIR's net income as equity in earnings of SIR in our consolidated statements of comprehensive income (loss). During the period from January 1, 2018 to October 9, 2018 and the year ended December 31, 2017, we recorded $24,358 and $21,584 of equity in earnings of SIR, respectively. Our other comprehensive income (loss) includes our proportionate share of SIR's unrealized gains of $28 and $8,967 for the period from January 1, 2018 to October 9, 2018 and the year ended December 31, 2017, respectively.

The adjusted GAAP cost basis of our investment in SIR was less than our proportionate share of SIR's total shareholders' equity book value on the dates we acquired the shares. Prior to the Secondary Sale, we were accreting a basis difference to earnings over the estimated remaining useful lives of certain real estate assets and intangible assets and liabilities owned by SIR. This accretion increased our equity in the earnings of SIR by $3,233 and $2,944 for the period from January 1, 2018 to October 9, 2018 and the year ended December 31, 2017, respectively.

During the period from January 1, 2018 to October 9, 2018 and the year ended December 31, 2017, we received cash distributions from SIR totaling $38,124 and $50,832, respectively.

During the period from January 1, 2018 to October 9, 2018 and the year ended December 31, 2017, SIR issued 63,157 and 59,502 common shares, respectively. We recognized a gain on issuance of shares by SIR of $29 and $72 during the period from January 1, 2018 to October 9, 2018, and the year ended December 31, 2017, respectively, as a result of the per share issuance price of these SIR common shares being above the then average per share carrying value of our SIR common shares.

(dollars in thousands, except per share amounts)

Note 10. Equity Investment in Select Income REIT (Continued)

The following table presents summarized income statement data of SIR:

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Revenues:		
Rental income	$298,003	$392,285
Tenant reimbursements and other income	60,514	75,818
Total revenues	358,517	468,103
Expenses:		
Real estate taxes	36,748	44,131
Other operating expenses	43,714	55,567
Depreciation and amortization	105,326	137,672
Acquisition and transaction related costs	3,796	1,075
General and administrative	47,353	54,909
Write-off of straight line rent receivable, net	10,626	12,517
Loss on asset impairment	—	4,047
Loss on impairment of real estate assets	9,706	229
Total expenses	257,269	310,147
Gain on sale of real estate	4,075	—
Dividend income	1,190	1,587
Unrealized gain on equity securities	53,159	—
Interest income	753	91
Interest expense	(69,446)	(92,870)
Loss on early extinguishment of debt	(1,192)	—
Income before income tax expense and equity in earnings of an investee	89,787	66,764
Income tax expense	(446)	(466)
Equity in earnings of an investee	882	608
Net income	90,223	66,906
Net income allocated to noncontrolling interest	(15,841)	—
Net income attributed to SIR	$ 74,382	$ 66,906
Weighted average common shares outstanding (basic)	89,395	89,351
Weighted average common shares outstanding (diluted)	89,411	89,370
Net income attributed to SIR per common share (basic and diluted)	$ 0.83	$ 0.75

(dollars in thousands, except per share amounts)

Note 11. Discontinued Operations

As described in Note 1, on October 9, 2018, we sold all 24,918,421 SIR common shares that we then owned in the Secondary Sale. We recorded a loss of $18,665 during the year ended December 31, 2018 related to this sale. The sale of our SIR common shares qualifies as discontinued operations; accordingly, our former equity method investment in SIR is classified as discontinued operations in our consolidated statements of comprehensive income (loss).

As described in Note 3, in August 2017, we sold one vacant office property in Falls Church, VA with 164,746 rentable square feet and a net book value of $12,901 as of the date of sale for $13,523, excluding closing costs. Results of operations for this property, which qualified as held for sale prior to our adoption in 2014 of ASU No. 2014-8, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, are classified as discontinued operations in our consolidated statements of comprehensive income (loss).

The following table presents the components of income from discontinued operations for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,		
	2019	2018	2017
Equity in earnings of Select Income REIT	$—	$ 24,358	$21,584
Net gain on issuance of shares by Select Income REIT	—	29	72
Loss on sale of Select Income REIT shares	—	(18,665)	—
Income from property discontinued operations	—	—	173
Income from discontinued operations	$—	$ 5,722	$21,829

Note 12. Selected Quarterly Financial Data (Unaudited)

The following is a summary of our unaudited quarterly results of operations for 2019 and 2018.

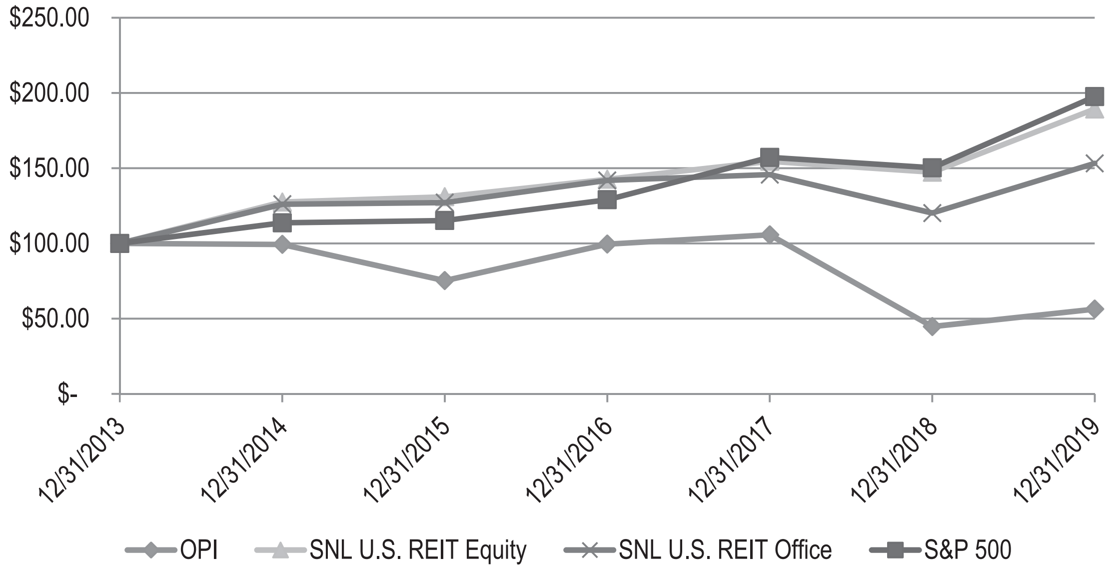
	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Rental income	$174,777	$176,032	$167,411	$160,184
Net income (loss) available for common shareholders	$ 34,019	$ (64,774)	$ (3,939)	$ 65,029
Net income (loss) available for common shareholders per common share (basic and diluted)	$ 0.71	$ (1.35)	$ (0.08)	$ 1.35
Common distributions declared	$ 0.55	$ 0.55	$ 0.55	$ 0.55

	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Rental income	$108,717	$108,085	$106,102	$103,656
Net income (loss) available for common shareholders	$ 6,287	$ 29,602	$ (449)	$ (57,695)
Net income (loss) available for common shareholders per common share (basic and diluted)	$ 0.25	$ 1.20	$ (0.02)	$ (2.31)
Common distributions declared	$ 1.72	$ 1.72	$ 1.72	$ 1.72

OPI Performance Chart

The graph below shows the cumulative total shareholder returns on our common shares (assuming a $100 investment on December 31, 2014) for the past five years as compared with (a) the SNL U.S. REIT Equity Index, or the Equity Index, of all publicly traded (NYSE, NYSE American, Nasdaq, OTC) equity REITs in SNL Financial's coverage universe, (b) the SNL U.S. Office REIT Index, or the Office Index, and, with the Equity Index, the SNL REIT Indices of all publicly traded (NYSE, NYSE American, Nasdaq, OTC) office REITs in SNL Financial's coverage universe, and (c) the Standard & Poor's 500 Index, or the S&P 500. The graph assumes reinvestment of all cash distributions.

Note: Bloomberg is the data source for OPI and the S&P 500. S&P Global Market Intelligence is the data source for the SNL REIT Indices.



CORPORATE INFORMATION

EXECUTIVE OFFICES
Office Properties Income Trust
Two Newton Place
255 Washington Street, Suite 300
Newton, Massachusetts 02458-1634
(617) 219-1440
www.opireit.com

OFFICERS
David M. Blackman
President and Chief Executive Officer
Matthew C. Brown
Chief Financial Officer and Treasurer
Christopher J. Bilotto
Vice President
Jennifer B. Clark
Secretary

INTERNAL AUDIT
Vern D. Larkin
Director of Internal Audit

INVESTOR RELATIONS
Olivia Snyder
Manager, Investor Relations

MANAGER
The RMR Group LLC
Two Newton Place
255 Washington Street, Suite 300
Newton, Massachusetts 02458-1634

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Ernst & Young LLP
200 Clarendon Street
Boston, Massachusetts 02116

COUNSEL
Sullivan & Worcester LLP
One Post Office Square
Boston, Massachusetts 02109

STOCK TRANSFER AGENT AND REGISTRAR
Equiniti Trust Company
EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights,
Minnesota 55120-4100
(855) 235-0844
www.shareowneronline.com

SENIOR NOTES TRUSTEE AND REGISTRAR
U.S. Bank, National Association
Corporate Trust Services
One Federal Street
Boston, Massachusetts 02110

ANNUAL MEETING
Our annual meeting of stockholers will be held on Wednesday, May 27, 2020 at 9:30 a.m. at Two Newton Place, 255 Washington Street, Newton, Massachusetts.

As part of our precautions regarding the coronavirus or COVID-19, we are planning for the possibility that the annual meeting may be held virtually solely by means of remote communication or via a live webcast. If we take this step, we will announce the decision to do so in advance, and we will provide details on how to participate in a press release and on our website at www.opireit.com.

AVAILABLE INFORMATION
A copy of our 2019 Annual Report on Form 10-K, including the financial statements and schedule (excluding exhibits), as filed with the Securities and Exchange Commission, can be obtained without charge through our website at www.opireit.com.

* *Member of Audit Committee*

\+ *Member of Compensation Committee*

△ *Member of Nominating and Governance Committee*

Office Properties Income Trust

Two Newton Place

255 Washington Street, Suite 300

Newton, Massachusetts 02458-1634

(617) 219-1440

www.opireit.com